



RICHARD P. MIDDLETON
Attorney
(313) 235-3647

May 25, 2006

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909-7721

Re: In the Matter of the Application of Michigan Consolidated Gas Company
for approval of a Gas Cost Recovery Plan, 5-year Forecast and Monthly
GCR Factor for the 12 months ending March 31, 2007
MPSC Case No. U-14717

Dear Ms. Kunkle:

Attached for electronic filing is Michigan Consolidated Gas Company's Rebuttal
Testimony and Exhibits of George H. Chapel and Jennifer C. Schmidt. Also attached is a Proof
of Service.

Very truly yours,

**Richard P.
Middleton**

Digitally signed by Richard P. Middleton
DN: cn=Richard P. Middleton, c=US,
o=DTE Energy, ou=Regulatory Affairs,
email=middletonr@dteenergy.com
Date: 2006.05.25 17:13:42 -04'00'

Richard P. Middleton

RPM/kbt
Enclosures
cc: Service List

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In The Matter Of The Application Of)
MICHIGAN CONSOLIDATED GAS COMPANY)
For Approval Of Gas Cost Recovery Plan)
5-Year Forecast And Monthly GCR Factor)
For The Period Of April 2006 – March 2007)

Case No. U-14717

REBUTTAL TESTIMONY
OF
GEORGE H. CHAPEL

MICHIGAN CONSOLIDATED GAS COMPANY
REBUTTAL TESTIMONY OF GEORGE H. CHAPEL

Line
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1 **Q. Are you the same George H. Chapel who earlier provided direct**
2 **testimony in this case?**

3 A. Yes.

4

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. This rebuttal testimony will address issues raised by RRC's witness Mr.
7 Hollewa, AG's witness Mr. Miller, Staff's witness Mr. Ozar and MCAAA's
8 witness Mr. Mendl concerning MichCon's fixed price program proposal.
9 Specifically, I will address the following issues:

10 1. **Proposed Modifications to the Methodology of the Long Term**
11 **Fixed Price Program:** Each of these witnesses generally agrees
12 with MichCon's Long Term Fixed Price Program. Nonetheless,
13 each of the witnesses recommends certain modifications to the
14 overall methodology. It is MichCon's position that no modifications
15 to the methodology should be implemented in the current GCR
16 period because the Long Term Fixed Price program presented by
17 MichCon is both reasonable and prudent.

18 2. **Proposed Definitions to Include in the Fixed Price Purchase**
19 **Guidelines:** Mr. Miller has proposed several wording changes and
20 or additions to the Fixed Price Purchase Guidelines for the purpose
21 clarity and providing more precise definitions. MichCon generally
22 agrees with these points of clarification.

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- 1 3. **Other Recommendations for the Long Term Fixed Price**
2 **Program:** Mr. Miller and Mr. Mendl have presented some other
3 recommendations for the Long Term Fixed Price Program
4 specifically relating to the following: (a) elimination of Paragraph 5
5 of the Fixed Price Purchase Guidelines that allows MichCon to
6 lock-in fixed prices on additional volumes of gas if NYMEX futures
7 prices fall below the 0th percentile, (b) elimination of swaps and call
8 options as a means to achieve fixed prices under the guidelines
9 and (c) conducting a real time study and analysis of the Long Term
10 Fixed Price Program. MichCon does not object to eliminating any
11 references to the use of call options but none of the other changes
12 suggested by Mr. Mendl or Mr. Miller should be implemented in the
13 current GCR period because the long term fixed price program as
14 presented by MichCon is both reasonable and prudent.
- 15 4. **Proposal to Reject the 21-Day Moving Average Method and**
16 **Revert Back to the Dollar Cost Averaging Method:** Mr. Hollewa
17 and Mr. Miller oppose MichCon's replacement of the Dollar Cost
18 Averaging method with the 21-Day Moving Average method. Their
19 opposition principally relies upon the absence of proof through
20 historical analysis that the 21-Day Moving Average is a reasonable
21 and prudent approach. The merits and risks of the 21-Day Moving
22 Average method are independent of the results that would have
23 been achieved under such a program in past years because past

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1 performance is not a guarantee or proof that future performance will
2 yield the same or similar results. Nonetheless, an analysis of
3 historical data included with this testimony shows that the 21-Day
4 Moving Average method is reasonable and prudent.

5 5. **Proposed Modifications to Methodology for the Short Term**
6 **Fixed Price Program:** Mr. Ozar and Mr. Mendl recommend
7 approval of MichCon's Short Term Fixed Price Program subject to
8 their recommended changes. Mr. Ozar wants to assure certain
9 volumes are locked-in at fixed prices by certain dates and Mr.
10 Mendl wants MichCon to establish a default mechanism to ensure
11 that gas is locked-in at fixed prices in the event that the 21 day
12 moving average approach doesn't result in sufficient buy signals. It
13 is MichCon's position that no modifications to the methodology
14 should be implemented in the current GCR period.

15 6. **Other Recommendations for the Short Term Fixed Price**
16 **Program:** Mr. Hollewa, Mr. Mendl and Mr. Miller have presented
17 some other recommendations for the Short Term Fixed Price
18 Program specifically relating to the following: (a) using 2006-07 as
19 a test year for data analysis on the 21-Day Moving Average, (b)
20 conduct a parallel real time evaluation of the comparative
21 performance of several alternative strategies and (c) a Commission
22 warning to MichCon that costs related to the 21-Day Moving
23 Average may not be recovered if it increases costs and it is

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1 implemented prior to MPSC approval. MichCon opposes each of
2 these recommendations because the testimony presented in this
3 case supports the reasonableness of the 21-Day Moving Average
4 method.

5

6 **Q. Are you sponsoring any exhibits in this proceeding?**

7 A. Yes. I am sponsoring the following exhibits, which were prepared by me
8 or under my supervision:

9 A-27 (GHC-22) 5-Year Analysis of 21-Day Moving Average
10 Method

11 A-28 (GHC-23) 5-Year History of 21-Day Moving Average
12 Charts

13

14 **1. PROPOSED MODIFICATIONS TO THE METHODOLOGY OF THE**
15 **LONG TERM FIXED PRICE PROGRAM**

16

17 **Q. Did any of the witnesses oppose MichCon's Quartile Index Method**
18 **for its long-term fixed price program?**

19 A. No. All of the witnesses generally agreed with the concept of MichCon's
20 long-term fixed price program. However, most of the witnesses
21 recommended changes to individual elements of the methodology.

22

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1 **Q. What changes did the witnesses recommend?**

2 A. Staff's witness Ozar recommends target levels for fixed price volumes of
3 15-20% by December 1st preceding the GCR period and 25-30% prior to
4 the commencement of the GCR annual period, which is April 1st. AG's
5 witness Miller recommends limits to fixed price volumes restricting Year 1
6 to 25% volume lock-in at each of the quartile range prices, including those
7 volumes locked-in previously at those price levels, Year 2 to 20% at each
8 quartile range price, and Year 3 to 15% at each quartile range price. RRC
9 witness Hollewa recommends additional "buy" signals to those currently in
10 the plan but only for Year 1 volumes. The "buy" signals for Year 1 are
11 currently established at the 50th percentile, 25th percentile and 0th
12 percentile.

13

14 Mr. Hollewa recommends additional "buy" signals for an additional 5%
15 volume at prices 5% below the 50th percentile and an additional 5%
16 volume at prices 10% below the 50th percentile.

17

18 Mr. Mendl does not recommend any changes to MichCon's filed long-term
19 fixed price program for the current period. However, he does condition
20 approval of the proposal on the development of additional trigger
21 mechanisms for the 3-year, 4-year and 5-year period.

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1 **Q. Do you agree with any of these recommendations?**

2 A. Yes. I agree with Mr. Mendl's recommendation that MichCon should
3 consider future modifications of the Quartile Index Method for its long-term
4 fixed price program. None of the other recommendations provide any
5 improvement to MichCon's current proposal and the witnesses have not
6 identified anything unreasonable or imprudent in MichCon's current
7 method. Their suggestions for change are "fine tuning" adjustments that
8 make the fixed price methodology more complicated, elaborate, and error
9 prone without any material improvement or benefit.

10

11 **Q. Why do you disagree with Mr. Ozar's recommendation to add volume**
12 **target levels?**

13 A. Mr. Ozar recommends target levels for fixed price volumes of 15-20% by
14 December 1st preceding the GCR period and 25-30% prior to the
15 commencement of the GCR annual period, which is April 1. His
16 recommendation is similar to dollar cost averaging because both methods
17 are structured to lock-in prices on certain volumes at certain times without
18 regard to the price level or market conditions. I do not agree with Mr.
19 Ozar's recommendation because it does not support the second objective
20 of the fixed price program that emphasizes the purchase of fixed-price gas
21 at prices in the range of historically low price levels.

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1 **Q. What change to the long-term fixed price program does Mr. Miller**
2 **recommend?**

3 A. Mr. Miller recommends a complex set of rules that would place further
4 limits to fixed price volumes such that Year 1 could not exceed 25%
5 volume lock-in at each of the quartile range prices, including those
6 volumes locked-in previously at those quartiles, Year 2 could not exceed
7 20% at each quartile range price, including those volumes locked-in
8 previously at those quartiles, and Year 3 could not exceed 15% at each
9 quartile range price, including volumes locked-in previously at those
10 quartiles. Without these changes, Mr. Miller believes that MichCon could
11 accumulate almost unlimited quantities of fixed price purchase
12 commitments, even if prices remain only marginally favorable in
13 comparison to historical price levels.

14

15 **Q. Why do you disagree with Mr. Miller's recommendation to create**
16 **such price and volume linkage from one year to the next?**

17 A. Buying 5% at the 50th percentile, for any one strip, in one year, is
18 reasonable. The 50th percentile represents a historical median and if less
19 than 15% is locked in for that strip, it is reasonable to lock in 5% at that
20 historical median, regardless of what historical "buy" signal volumes for
21 that strip were locked in at in prior years.

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1 **Q. Why do you disagree with Mr. Hollewa’s recommendation for**
2 **additional “buy” signals?**

3 A. Mr. Hollewa recommends “buy” signals in addition to those currently in the
4 plan but only for Year 1 volumes. The “buy” signals for Year 1 are
5 currently established at the 50th percentile, 25th percentile and 0th
6 percentile. Mr. Hollewa recommends “buy” signals for an additional 5%
7 volume at prices 5% below the 50th percentile and an additional 5%
8 volume at prices 10% below the 50th percentile. Mr. Hollewa provides no
9 reason these additional “buy” signals are an improvement to MichCon’s
10 proposal. His proposal adds complexity while providing no improvement
11 to MichCon’s proposal. The volume levels and “buy” signals in MichCon’s
12 proposal are reasonable and prudent and should not be changed. This
13 recommendation provides no material benefit or improvement from
14 MichCon’s original proposal.

15

16 **Q. Why do you disagree with Mr. Mendl’s recommendation to approve**
17 **MichCon’s quartile indices approach with the condition that MichCon**
18 **develop additional trigger mechanisms for the 3-year, 4-year and 5-**
19 **year periods?**

20 A. Mr. Mendl wants MichCon to accelerate locking-in fixed prices in the 3 to 5
21 year time frame based on the following assumptions: (1) NYMEX is
22 currently in an increasing price trend, (2) the older price data used to
23 establish the 36-60-month “buy” signals are too low and no longer relevant

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1 and (3) given those first two assumptions few if any buy signals will occur
2 in the 36-60-month. These assumptions are too speculative and adoption
3 of Mr. Mendl's proposal will result in speculative buying behavior. While
4 implementation of quicker "buy" signals would reduce price volatility, such
5 accelerated buying contradicts the second objective of the fixed price
6 program that emphasizes the purchase of fixed-price gas at prices in the
7 range of historically low price levels. Modifying MichCon's quartile indices
8 approach to make it more speculative would not be reasonable or prudent.

9

10 **Q. Is MichCon supportive of any of Mr. Mendl's other alternative**
11 **approaches to the long-term fixed price program?**

12 A. No. While Mr. Mendl is correct that different methods will yield different
13 trigger points and that there is no single "right" method none of his
14 proposals offer material improvements or more reasonable or prudent
15 approaches than MichCon's proposal. His proposals do provide
16 potentially useful alternatives for MichCon to consider as it develops
17 purchase plans for future GCR filings and gains more experience with the
18 existing program. However, no changes to the current fixed price program
19 are warranted at this time for the current GCR period.

20

21 **2. PROPOSED DEFINITIONS TO INCLUDE IN THE FIXED PRICE**
22 **PURCHASE GUIDELINES**

23

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1 **Q. Did any of the witnesses provide specific wording changes and or**
2 **interpretations that should be incorporated in the Fixed Price**
3 **Purchase Guidelines for the purpose clarity and precision?**

4 A. Yes. Mr. Miller identified five items to add for clarity and interpretation. I
5 have reviewed all of them have no objection.

6

7 **Q. What are the five items that you do not object to be included for**
8 **clarity and interpretation?**

9 A. 1. On lines 7 and 8, page R E Miller – 17, Mr. Miller recommends that
10 MichCon responses to discovery questions AGMC 1.14 and 1.15
11 be included in MichCon's plan for long-term fixed price purchases.
12 These responses clarify the NYMEX strip prices that MichCon will
13 compare to historical benchmarks to decide whether to make fixed
14 prices purchases. 2. On lines 12 through 14, page R E Miller
15 – 17, Mr. Miller recommends clarifying the quartile indices or
16 historical benchmarks. This change would make clear that the
17 quartile indices are based on the "histories of the NYMEX strip for
18 historical periods of 12, 24, 36, 48, and 60 months. But the
19 individual data points in each history are all 12-month NYMEX
20 strips."

21 3. On lines 5 through 9, page R E Miller – 18, Mr. Miller recommends
22 clarifying that the 12-month NYMEX strips used for the historical
23 data are the settlement price for the prompt month on the last day it

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1 is traded and the settlement prices on that date for the next 11
2 months. This more precise description of which months are
3 included in the “the 12-month NYMEX future strip” should be added
4 after the first sentence at lines 13-14 on page 2 of Exhibit A-8.

5 4. Starting on line 15, page R E Miller – 18, and continuing through
6 line 2, page R E Miller – 19, Mr. Miller would like to make explicit
7 that the 50 percentile is calculated as the average of the highest
8 second quartile price and the lowest third quartile price.

9 5. On lines 8 and 9, page R E Miller – 20, Mr. Miller requested that the
10 substance of AGMC 1.18 be included in the statement of the plan
11 to clarify MichCon’s intent on the issue of fixed price quantity levels
12 within each quartile range price cumulatively from year to year.

13

14 **3. OTHER RECOMMENDATIONS FOR THE LONG TERM FIXED PRICE**
15 **PROGRAM**

16

17 **Q. What other changes did the witnesses recommend for MichCon’s**
18 **long term fixed price program?**

19 A. Mr. Miller recommends elimination of Paragraph 5 on page 2 of Exhibit A-
20 8, Fixed Price Purchase Guidelines, that allows MichCon to lock-in fixed
21 prices on additional volumes of gas if NYMEX futures prices fall below the
22 0th percentile, and elimination of swaps and call options, Paragraph 11 of
23 the Fixed Price Purchase Guidelines, as a means to achieve fixed prices

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1 under the guidelines. Mr. Mendl recommends that MichCon conduct
2 parallel real time evaluations of the comparative performance of several
3 alternative procurement strategies to be able to continue to enhance and
4 fine-tune its procurement strategies.

5

6 **Q. Do you agree with these changes?**

7 A. MichCon does not object to eliminating any references to the use of call
8 options or swaps. However, none of the other changes should be
9 implemented in the current GCR period.

10

11 **Q. Why do you oppose Mr. Miller's recommendation to eliminate**
12 **paragraph 5 in the Fixed Price Purchase Guidelines?**

13 A. Paragraph 5 on page 2 of Exhibit A-8, Fixed Price Purchase Guidelines
14 allows MichCon to lock-in fixed prices on additional volumes of gas if
15 NYMEX futures prices fall below the 0th percentile. Mr. Miller believes the
16 volume limits provided in the guidelines are ample and that no further
17 allowance is justified. However, he has not proven paragraph 5 to be
18 either unreasonable or imprudent. Without paragraph 5, MichCon would
19 not be allowed to lock-in prices beyond Year 5 even if those prices were at
20 10 year or 20 year historical lows. MichCon would not be allowed to lock-
21 in more than 15% of supplies for Year 5 even if they were 50 cents per
22 Mcf. Elimination of paragraph 5 would be to the detriment of the GCR

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1 customers and contrary to the second objective of the fixed price program
2 to contract for gas supply in the range of historically low price levels.

3

4 **Q. Why do you agree with Mr. Miller's recommendation to eliminate the**
5 **reference to call options and swap contracts from paragraph 11 of**
6 **the Fixed Price Purchase Guidelines?**

7 A. Call options should be eliminated because their structure of a strike price
8 and call premium does not conform to the structure of the fixed price
9 program. However, while swap contracts clearly fall within the structure of
10 the fixed price program because they are structured to create fixed price
11 position for the buyer, MichCon has no current plans to use swap
12 contracts. MichCon does not have corporate approval to execute a
13 financial hedging program for GCR gas supplies, does not have any plans
14 to develop a financial hedging program and does not plan to use financial
15 swap contracts at this time. The swap contract is simply a financial
16 contract where the buyer pays a fixed price and the sell pays an index
17 price. This type of financial contract is used extensively in the
18 commodities markets, including as natural gas, as a hedging tool to
19 establish fixed price positions on physical index priced gas.

20

21 **Q. Why do you oppose Mr. Mendl's recommendation that MichCon**
22 **conduct parallel real time evaluations of the comparative**

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1 **performance of several alternative procurement strategies to be able**
2 **to continue to enhance and fine-tune its procurement strategies?**

3 A. MichCon opposes this recommendation because the testimony presented
4 in this case supports the reasonableness of the fixed price program. Mr.
5 Mendl's descriptions of alternative fixed priced strategies are too vague to
6 model for evaluation and comparison. Furthermore, his testimony does
7 not correlate to his exhibit. For example, on page 11, beginning on line 1,
8 Mr. Mendle states "the dark solid line superimposed on the futures strip
9 graph shows the 25th month of each rolling two-year trend together with its
10 corresponding standard deviation." However, the legend box on the graph
11 identifies the dark solid line as the trend of the last 24 months, not the 25th
12 month. MichCon is unclear on the specifics of the alternatives to be
13 analyzed.

14

15 **4. PROPOSAL TO REJECT THE 21-DAY MOVING AVERAGE METHOD**
16 **AND REVERT BACK TO THE DOLLAR COST AVERAGING METHOD**

17

18 **Q. Did any of the witnesses oppose MichCon's 21-Day Moving Average**
19 **Method for its short-term fixed price program?**

20 A. Yes. Mr. Miller and Mr. Hollewa both opposed the 21-Day Moving
21 Average Method and recommended continue use of the Dollar Cost
22 Averaging method implemented by MichCon in previous years. Their
23 opposition was principally based on the lack of empirical evidence to

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1 support the change in methodology. Additionally, Mr. Miller believes that
2 moving averages don't work in upward trending markets but dollar cost
3 averaging does work. Further, Mr. Miller compares MichCon's proposal to
4 Aquila's fixed price program in Case No. U-13900-R and U-13990-R,
5 which he believes was a failure, and expects the same for MichCon's
6 method because they are similar methods.

7

8 **Q. Do you agree with Mr. Miller's and Mr. Hollewa's analysis and**
9 **recommendations to suspend the 21-Day Moving Average method**
10 **and reinstate the Dollar Cost Averaging Method of locking-in fixed**
11 **prices?**

12 A. No. MichCon believes that its 21- Day Moving Average method is
13 superior to the Dollar Cost Averaging Method because the "buy" signals
14 under the DCA method depend solely upon time intervals without any
15 consideration of fundamental market conditions or price levels. MichCon's
16 analysis of the 21-Day Moving Average shows that it is a reasonable and
17 prudent method to achieve fixed prices for the purposes of mitigating price
18 volatility and capturing locally low prices.

19

20 **Q. The second objective of the fixed price program is to emphasize the**
21 **purchase of fixed-price forward contracts having prices in the range**
22 **of historically low price levels. Why are price levels an important**
23 **factor to consider when locking-in fixed prices?**

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1 A. Historical prices are one of the best indicators of reasonableness. The 21-
2 Day Moving Average uses the past 21 days of prices and price
3 movements to identify price dips. These price dips are fundamental
4 indicators that the market price has reached a local low and signals a
5 prudent time to lock-in fixed prices. This second objective was included to
6 assure that the first objective to mitigate price volatility was implemented
7 at reasonable prices, not just at any cost. The Dollar Cost Averaging
8 method ignores all fundamental supply and demand factors and forces the
9 locking-in of prices at any cost, reasonable or not.

10

11 **Q. Why are fundamental market conditions, which are reflected in 21-**
12 **Day Moving Average, an important factor to consider when locking-**
13 **in fixed prices?**

14 A. It is important to consider fundamental market conditions when locking-in
15 fixed prices because there may be underlying forces driving prices traded
16 by buyers and sellers with different motives than MichCon at the time of
17 price execution. For example, the threat of a hurricane can drive prices
18 up. However, this type of price movement is caused by speculators
19 gambling on the probability and extent of production damage the may be
20 caused by the hurricane. If the hurricane causes extensive damage then
21 the price run-up is fundamentally sound but if the hurricane causes no
22 damage then the price run-up was purely speculation. It is MichCon's
23 position that fixed prices should not be driven by speculation but sound

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1 fundamental economic drivers of supply and demand. The 21-Day
2 Moving Average sufficiently identifies fundamental movements in the
3 market and should capture price dips while avoiding speculative price run-
4 ups caused by rumor or threat of hurricane damage. The Dollar Cost
5 Averaging method completely ignores the fundamentals of supply and
6 demand and would require locking-in fixed prices even during speculative
7 price run-ups caused by rumor or threat of hurricane damage.

8

9 **Q. What information did MichCon rely upon to develop the 21-Day**
10 **Moving Average method for locking-in fixed prices?**

11 A. Generally, MichCon relied upon the concept of using historical price data
12 to establish reasonable price levels for future purchases. This concept of
13 longer periods of historical price data for longer future periods to be
14 locked-in and shorter periods of historical price data for shorter future
15 periods to be locked-in is clearly outlined in the long-term Quartile Range
16 method. Additionally, MichCon's experience with the Dollar Cost
17 Averaging method over the past two years clearly indicated the need for
18 two changes: (1) expansion of the short-term fixed price program to
19 secure additional fixed price supplies delivered during the hurricane
20 season of June through November, and (2) pricing signals that avoid
21 hurricane and other speculation but reflect fundamental supply and
22 demand factors to identify "buy" signals. Conceptually, the 21-Day Moving
23 Average should create "buy" signals every 21 days, or a monthly

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1 replication of the Dollar Cost Averaging schedule with the addition of
2 market signals.

3

4 **Q. Does MichCon have other empirical evidence to support the 21-Day**
5 **Moving Average?**

6 A. Page 1 of Exhibit A-27 (GHC-22) provides a summary of the results that
7 would have been achieved over the past five years using three different
8 pricing methods: (1) 21-Day Moving Average, (2) No fixed price program,
9 and (3) Dollar Cost Averaging. Pages 2 through 6 of Exhibit A-27 (GHC-
10 22) provide supporting analysis of the five individual years and the related
11 costs and volumes for each of the three comparative pricing methods.
12 Exhibit A-28 (GHC-23) provides the supporting 21-Day Moving Average
13 charts upon which the “buy” signals were derived.

14

15 **Q. Does this historical analysis support the 21-Day Moving Average as**
16 **a reasonable method to manage price volatility at reasonable price**
17 **levels??**

18 A. Yes. The analysis shows that the 21-Day Moving Average generated from
19 3 to 5 “buy” signals each year with an annual average cost of gas that
20 would have been \$10 million less than no fixed price program (page 1 of
21 Exhibit A-27 (GHC-22)). Additionally, the 21-Day Moving Average method
22 reduced volatility of gas supply prices through the locking-in of fixed prices
23 of approximately 33% of the annual average purchases.

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1 **Q. Do you agree with Mr. Hollewa, on page 11 of his testimony, that**
2 **there is no basis that the 21-Day Moving Average is superior to**
3 **Dollar Cost Averaging?**

4 A. No. The empirical evidence presented in Exhibit A-27 (GHC-22) and
5 Exhibit A-28 (GHC-23) clearly demonstrates that the 21-Day Moving
6 Average is superior to Dollar Cost Averaging in two key areas: (1) the 21-
7 Day Moving Average reduces price volatility through the hurricane season
8 by locking-in fixed prices on nearly 50% more volumes than Dollar Cost
9 Averaging, and (2) the 21-Day Moving Average meets the second
10 objective of the fixed price program that emphasizes the purchase of
11 fixed-price forward contracts having prices in the range of historically low
12 price levels. The Dollar Cost Averaging method completely ignores the
13 concept of reasonable pricing.

14

15 **Q. Do you agree with Mr. Mendl's analysis, on page 13 of his testimony**
16 **that the 21-Day Moving Average would have resulted in higher prices**
17 **than Dollar Cost Averaging over the past 5 years?**

18 A. Yes. However, average price comparison is not the correct measure for
19 success of this fixed price program. Success should be measured by the
20 program's ability to achieve the objects of reduced volatility and
21 reasonable prices. The data shows that the 21-Day Moving Average is
22 superior to Dollar Cost Averaging in both of these objectives. First, the
23 21-Day Moving Average had lower volatility than Dollar Cost Averaging as

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1 measured by the standard deviation shown on page 1 of Exhibit A-27
2 (GHC-22). Second, the highest total purchase value shown on page 1 of
3 Exhibit A-27 (GHC-22), was the No Fixed Price Program in Apr05-Mar06
4 at a total cost of \$589 million. The second highest was Dollar Cost
5 Averaging in Apr05-Mar06 at a total cost of \$576 million. The third highest
6 was the 21-Day Moving Average in Apr05-Mar06 at a total cost of \$541
7 million. Clearly the 21-Day Moving Average method resulted in lower
8 price volatility because it avoided these extremely high prices that would
9 have been paid under the other two methods.

10

11 **Q. Do you agree with Mr. Miller's statement on page 35 of his testimony**
12 **that moving averages don't work in upward trending markets but**
13 **DCA does work?**

14 A. No. Moving averages identify fundamental price dips in the market and
15 identify reasonable and prudent price levels based on historical data.
16 There are two fundamental flaws in Mr. Miller's statement: (1) upward
17 trends cannot be identified until after they happen, and (2) his definition of
18 "moving averages don't work" is a hindsight comparison to determine if the
19 moving average beat the market or not. MichCon's fixed price program is
20 not designed to beat the market and it would be unreasonable to set such
21 an expectation.

22

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1 **Q. Do you agree with Mr. Miller's conclusion, referenced on page 35 of**
2 **his testimony that he expects MichCon's 21-Day Moving Average**
3 **method will be a failure because his analysis of Aquila's fixed price**
4 **program in Case Nos. U-13900-R and U-13990-R, which used moving**
5 **averages, showed that it was a failure?**

6 A. No. Mr. Miller's conclusions are flawed for three primary reasons: (1) His
7 analysis of Aquila's stochastic method can not be compared to MichCon's
8 21 day moving average because the two methods are totally different.
9 Although both use moving averages, the Stochastic method is based on a
10 relationship between closing prices and a total price range for a selected
11 number of days; the 21 Day Moving Average is based on a simple moving
12 average of prices. (2) The data used in the Aquila analysis is much too
13 limited to draw reasonable conclusions. His analysis is based solely on
14 NYMEX prices during seven summer months of April through October
15 2003 and 2004. (3) Aquila's stochastic method is not comparable
16 because it limits the locking-in of fixed prices for gas to be delivered over
17 the five month period of November through March while the MichCon
18 method basis its fixed price purchases on gas delivered over the balance
19 of the GCR period, which covers up to eleven months from June through
20 March, including the hurricane season.

21

22 **5. PROPOSED MODIFICATIONS TO METHODOLOGY FOR THE SHORT**
23 **TERM FIXED PRICE PROGRAM**

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1 **Q. Did any of the witnesses recommend changes to the short-term fixed**
2 **price program?**

3 A. Yes. Mr. Ozar and Mr. Mendl each recommend approval of MichCon's
4 Short Term Fixed Price Program subject to their recommended changes.
5 Mr. Ozar recommended setting volume target levels of 40% winter
6 purchases locked-in at fixed prices by July 1st and 50% of winter
7 purchases locked in at fixed prices by November 1st. Mr. Mendl wants
8 MichCon to establish a default mechanism to ensure that gas is
9 purchased under what he refers to as "a well defined and disciplined
10 strategy" in the event that the 21 day moving average approach doesn't
11 result in sufficient buy signals. MichCon believes that these
12 recommendations are unnecessary. Based on the design of the 21-Day
13 Moving Average, it should result in enough volumes being locked in.
14 Although past performance is no guarantee of future results, the analysis
15 above comparing the 21 Day Moving Average and the Dollar Cost
16 Averaging showed that the 21 Day Moving Average resulted in volumes of
17 fixed prices being locked in that meet the above requirements.

18

19 **Q. Why do you disagree with Mr. Ozar's recommendation to add volume**
20 **target levels?**

21 A. MichCon opposes Mr. Ozar's recommended changes to the short-term
22 fixed price program for the same reason it opposes his recommended
23 changes to the long-term fixed price program. His recommendation is

Line
No.

1 similar to dollar cost averaging because both methods are structured to
2 lock-in prices on certain volumes at certain times without regard to the
3 price level or market conditions.

4

5 **Q. Why do you disagree with Mr. Mendl's recommendation for a more**
6 **elaborate default mechanism?**

7 A. Mr. Mendl bases his recommendation on the premise that the 21-Day
8 Moving Average method would not protect the customer against extremely
9 high prices in the event that prices rise at such an extreme rate that a
10 "buy" signal never occurs throughout the seven summer months of April
11 through October. The data contained on page 1 of Exhibit A-27 (GHC-22)
12 shows that "buy" signals occurred three to five times over each summer
13 period for the last five years under the 21-Day Moving Average method.
14 Also, MichCon disagrees with his logic for the same reason it disagrees
15 with Mr. Miller's argument that moving averages don't work in upward
16 trending markets. Mr. Mendl has placed an impossible task on MichCon.
17 His recommendation is that MichCon fabricate a program that uses
18 moving averages in a downward trending market and dollar cost
19 averaging in an upward trending market. It is impossible to design this
20 type of program. If that type of program could be developed, MichCon
21 would always "beat the market" and lock-in fixed prices that are always the
22 lowest. MichCon's fixed price program is not designed to beat the market
23 and it would be unreasonable to set such an expectation.

Line
No.

1 **Q. Is Mr. Hollewa correct on page 11 of his testimony that the existing**
2 **November default mechanism for the short-term fixed price program**
3 **would have been very detrimental to GCR customers in 2005?**

4 A. No. The attached analysis clearly shows that the 21-Day Moving Average
5 method would have been \$27.9 million less expensive than spot pricing
6 and \$35.8 million less expensive than Dollar Cost Averaging, see page 1
7 of Exhibit A-27 (GHC-22).

8

9 **6. OTHER RECOMMENDATIONS FOR THE SHORT TERM FIXED PRICE**
10 **PROGRAM**

11

12 **Q. What other recommendations did the witnesses present for**
13 **MichCon's short-term fixed price program?**

14 A. Mr. Hollewa recommends using 2006-07 as a test year for data analysis
15 on the 21-Day Moving Average. Mr. Mendl recommends that MichCon
16 conduct a parallel real time evaluation of the comparative performance of
17 several alternative strategies. Mr. Miller recommends a Commission
18 warning to MichCon that costs related to the 21-Day Moving Average may
19 not be recovered if it increases costs and it is implemented prior to MPSC
20 approval.

21

22

23

Line
No.

1 **Q. Do you agree with these other recommendations?**

2 A. No. MichCon opposes these other recommendations as well because
3 they do not represent a material improvement over the reasonable and
4 prudent fixed price program MichCon has proposed in this case.

5

6 **Q. Why do you oppose Mr. Miller's recommendation on page 36 of his**
7 **testimony that the Commission should issue a warning to MichCon**
8 **that gas costs resulting from the 21-Day Moving Average may not be**
9 **recovered if it increases costs and it is implemented prior to MPSC**
10 **approval?**

11 A. The fixed price program presented by MichCon in the Plan case is
12 reasonable and prudent. and therefore Mr. Miller's recommendation
13 should be rejected as well because it seeks to eliminate MichCon's ability
14 to self-implement its GCR plan prior to MPSC approval. His
15 recommendation would also incorrectly define reasonable and prudent as
16 only those costs that are lower than those that would have otherwise
17 occurred using methodology approved in prior GCR cases.

18

19 **Q. Does this conclude your rebuttal testimony?**

20 A. Yes.

In The Matter Of The Application Of)
MICHIGAN CONSOLIDATED GAS COMPANY)
For Approval Of Gas Cost Recovery Plan)
5-Year Forecast And Monthly GCR Factor)
For The Period Of April 2006 – March 2007)

EXHIBITS
OF
GEORGE H. CHAPEL

Summary of 21 DMA vs DCA

21 DMA					
<u>Period</u>	<u>Spot Volume Mdth</u>	<u>Fixed Volume Mdth</u>	<u>Total Volume Mdth</u>	<u>Total Purchase Value</u>	<u>Number of "Buy Signal"</u>
April 05 - Mar 06	1,518	56,874	58,392	\$541,308,807	4
April 04 - Mar 05	1,404	55,505	56,909	\$371,549,152	4
April 03 - Mar 04	1,503	44,038	45,541	\$236,060,804	3
April 02 - Mar 03	1,386	57,565	58,951	\$222,204,231	5
April 01 - Mar 02	1,911	75,485	77,396	\$317,633,572	4
5 Yrs Ave =	1,544	57,893	59,438	\$337,751,313	4.0
STD Dev. =				\$129,107,280	

NYMEX LTD					
<u>Period</u>	<u>Spot Volume Mdth</u>	<u>Fixed Volume Mdth</u>	<u>Total Volume Mdth</u>	<u>Total Purchase Value</u>	<u>\$ Variance between 21DMA vs NYMEX LTD</u>
April 05 - Mar 06	58,392	0	58,392	\$589,633,805	(\$48,324,998)
April 04 - Mar 05	56,909	0	56,909	\$367,456,424	\$4,092,728
April 03 - Mar 04	45,541	0	45,541	\$238,659,817	(\$2,599,013)
April 02 - Mar 03	58,951	0	58,951	\$277,710,787	(\$55,506,556)
April 01 - Mar 02	77,396	0	77,396	\$265,355,281	\$52,278,291
5 Yrs Ave =	59,438	0	59,438	\$347,763,223	(\$10,011,909.60)
STD Dev. =				\$143,606,377	

DCA					
<u>Period</u>	<u>Spot Volume Mdth</u>	<u>Fixed Volume Mdth</u>	<u>Total Volume Mdth</u>	<u>Total Purchase Value</u>	<u>\$ Variance between 21DMA vs DCA</u>
April 05 - Mar 06	20,189	38,203	58,392	\$576,518,553	(\$35,209,746)
April 04 - Mar 05	21,528	35,380	56,909	\$352,502,771	\$19,046,381
April 03 - Mar 04	7,665	37,876	45,541	\$246,554,555	(\$10,493,751)
April 02 - Mar 03	22,638	38,313	58,951	\$217,358,861	\$4,845,370
April 01 - Mar 02	31,213	46,183	77,396	\$265,468,453	\$52,167,029
5 Yrs Ave =	20,647	39,191	59,438	\$331,680,639	\$6,071,057
STD Dev. =				\$145,841,642	

21 - DMA Section

21 - DMA Section												Total		
Date	Strip	Start Date LTD	End Date	Cross Date	Cross Last	Cross 21 MA	Trade Date	Trade Date Last - Price	Volume Fix MDth/d	Volume Rem # of Day Fix	Fix Volume - Mdth		Purchase Value	
Apr-05	May05 thru Mar06	3/29/2005	4/26/2005	4/8/2005	\$7.8721	\$7.8926	4/11/2005	\$7.9288	50.6	335	16,951	\$	134,401,089	
May-05	Jun05 thru Mar06	4/27/2005	5/26/2005	No "Buy" Signal for May 2005										
Jun-05	Jul05 thru Mar06	5/27/2005	6/28/2005	6/1/2005	\$7.5283	\$7.2491	6/2/2005	\$7.5497	50.6	274	13,864	\$	104,672,061	
Jul-05	Aug05 thru Mar06	6/28/2005	7/26/2005	7/4/2005	\$8.0524	\$8.0557	7/5/2005	\$8.3099	50.6	243	12,296	\$	102,176,868	
Aug-05	Sept05 thru Mar06	7/27/2005	8/26/2005	No "Buy" Signal for Aug 2005										
Sep-05	Oct05 thru Mar06	8/29/2005	9/26/2005	No "Buy" Signal for Sept 2005										
Oct-05	Nov05 thru Mar06	9/27/2005	10/25/2005	10/13/2005	\$13.6936	\$13.7650	10/14/2005	\$13.7740	50.6	151	7,641	\$	105,241,624	
Nov-05	Dec05 thru Mar06	10/26/2005	11/25/2005	"Defant Purchase"			Avg. Months	\$12.0570	50.6	121	6,123	\$	73,820,188	
SubTotal =											56,874	\$	520,311,831	
Oct-06	Nov-05							LTD	\$13.8320	50.6	30	1,518	\$	20,996,976
Total =												58,392	\$	541,308,807

NYMEX LTD Section

NYMEX LTD Section													
Apr-05	May05 thru Mar06				\$9.4720	50.6	335	16,951	\$	160,559,872			
May-05	Jun05 thru Mar06												
Jun-05	Jul05 thru Mar06				\$10.1470	50.6	274	13,864	\$	140,682,067			
Jul-05	Aug05 thru Mar06				\$10.5440	50.6	243	12,296	\$	129,646,915			
Aug-05	Sept05 thru Mar06							0					
Sep-05	Oct05 thru Mar06							0					
Oct-05	Nov05 thru Mar06				\$10.3910	50.6	151	7,641	\$	79,393,475			
Nov-05	Dec05 thru Mar06				\$9.5310	50.6	121	6,123	\$	58,354,501			
								SubTotal =	56,874	\$	568,636,829		
Oct-06	Nov-05			LTD	\$13.8320	50.6	30	1,518	\$	20,996,976			
Total =									58,392	\$	589,633,805		

Dollar Variance - NYMEX LTD vs 21 DMA =**\$ 48,324,999****DCA Section**

Apr-05	Nov05 thru Mar06	Ave Winter Strip Traded in April 2005 =	\$8.2748	36.2	151	5,457.6	\$	45,160,494
May-05	Nov05 thru Mar06	Ave Winter Strip Traded in May 2005 =	\$7.7377	36.2	151	5,457.6	\$	42,229,272
Jun-05	Nov05 thru Mar06	Ave Winter Strip Traded in June 2005 =	\$8.4165	36.2	151	5,457.6	\$	45,933,890
Jul-05	Nov05 thru Mar06	Ave Winter Strip Traded in July 2005 =	\$8.7887	36.2	151	5,457.6	\$	47,965,209
Aug-05	Nov05 thru Mar06	Ave Winter Strip Traded in August 2005 =	\$10.2860	36.2	151	5,457.6	\$	56,136,874
Sep-05	Nov05 thru Mar06	Ave Winter Strip Traded in September 2005 =	\$12.9146	36.2	151	5,457.6	\$	70,482,721
Oct-05	Nov05 thru Mar06	Ave Winter Strip Traded in October 2005 =	\$13.9286	36.2	151	5,457.6	\$	76,016,727
SubTotal =							38,203	\$ 383,925,187
Apr-05	May05 thru Oct05	NYMEX LTD May05 thru Oct05 =	\$8.7070	50.6	184	9,310.4	\$	81,065,653
Jun-05	Jul05 thru Oct05	NYMEX LTD Jul05 thru Oct05 =	\$9.8430	50.6	123	6,223.8	\$	61,260,863
Jul-05	Aug05 thru Oct05	NYMEX LTD Aug05 thru Oct05 =	\$10.7980	50.6	92	4,655.2	\$	50,266,850
SubTotal =							20,189	\$ 192,593,366
Total =							58,392	\$ 576,518,553

Dollars Variance - DCA vs 21 DMA =**\$ 35,209,746**

21 - DMA

21 - DMA													
Date	Strip	Start Date LTD	End Date	Cross Date	Cross Last	Cross 21 MA	Trade Date	Trade Date Last - Price	Volume Fix MDth/d	Volume Rem # of Day Fix	Fix Volume - Mdth		Total Purchase Value
Apr-04	May04 thru Mar04	3/29/2004	4/27/2005	4/16/2004	\$5.9245	\$5.9844	4/19/2004	\$5.8317	46.8	335	15,678	\$	91,429,863
May-04	Jun04 thru Mar05	4/28/2004	5/25/2004	No "Buy" Signal for May 2004									
Jun-04	Jul04 thru Mar05	5/26/2004	6/25/2004	6/3/2004	\$6.6213	\$6.6871	6/4/2004	\$6.5418	46.8	274	12,823	\$	83,886,810
Jul-04	Aug04 thru Mar05	6/26/2004	7/27/2004	7/8/2004	\$6.5645	\$6.6450	7/9/2004	\$6.5563	46.8	243	11,372	\$	74,560,866
Aug-04	Sept04 thru Mar05	7/28/2004	8/26/2004	8/23/2004	\$6.3668	\$6.4376	8/24/2004	\$6.3480	46.8	213	9,968	\$	63,279,403
Sep-04	Oct04 thru Mar05	8/27/2004	9/27/2004	No "Buy" Signal for Sept 2004									
Oct-04	Nov04 thru Mar05	9/28/2004	10/26/2004	No "Buy" Signal for Oct 2004									
Nov-04	Dec04 thru Mar05	10/27/2004	11/25/2004	"Defant Purchase"			Avg. Months	\$8.4208	46.8	121	5,663	\$	47,685,306
											55,505	\$	360,842,248
Oct-04	Nov-04						LTD	\$7.6260	46.8	30	1,404	\$	10,706,904
Total =											56,909	\$	371,549,152

NYMEX LTD Section

Apr-04	May04 thru Mar05	LTD	\$6.3650	46.8	335	15,678	\$	99,790,470	
May-04	Jun04 thru Mar05								
Jun-04	Jul04 thru Mar05	LTD	\$6.3780	46.8	274	12,823	\$	81,786,370	
Jul-04	Aug04 thru Mar05	LTD	\$6.4080	46.8	243	11,372	\$	72,874,339	
Aug-04	Sept04 thru Mar05	LTD	\$6.4590	46.8	213	9,968	\$	64,385,896	
Sep-04	Oct04 thru Mar05								
Oct-04	Nov04 thru Mar05								
Nov-04	Dec04 thru Mar05	LTD	\$6.6950	46.8	121	5,663	\$	37,912,446	
			\$6.4610	234	SubTotal=	55,505	\$	356,749,520	
Oct-04	Nov-04	LTD	\$7.6260	46.8	30	1,404	\$	10,706,904	
Total =							56,909	\$	367,456,424

Dollar Variance - Index vs 21 DMA **\$ (4,092,728)**

DCA Section

		Strip											
Apr-04	Nov04 thru Mar05	Ave Winter Strip Traded in April 2004 =				\$6.2488	33.4	152	5,054.4	\$	31,583,935		
May-04	Nov04 thru Mar05	Ave Winter Strip Traded in April 2004 =				\$6.7919	33.4	152	5,054.4	\$	34,328,979		
Jun-04	Nov04 thru Mar05	Ave Winter Strip Traded in April 2004 =				\$6.8100	33.4	152	5,054.4	\$	34,420,464		
Jul-04	Nov04 thru Mar06	Ave Winter Strip Traded in April 2004 =				\$6.7116	33.4	152	5,054.4	\$	33,923,111		
Aug-04	Nov04 thru Mar06	Ave Winter Strip Traded in April 2004 =				\$6.6559	33.4	152	5,054.4	\$	33,641,581		
Sep-04	Nov04 thru Mar06	Ave Winter Strip Traded in April 2004 =				\$6.5883	33.4	152	5,054.4	\$	33,299,904		
Oct-04	Nov04 thru Mar06	Ave Winter Strip Traded in April 2004 =				\$8.2756	33.4	152	5,054.4	\$	41,828,193		
									SubTotal =	35,380.8	\$	243,026,166	
Apr-04	May04 thru Oct04	NYMEX LTD May04 thru Oct04 =				\$5.9350	46.8	184	8,611.2	\$	51,107,472		
Jun-04	Jul04 thru Oct04	NYMEX LTD Jul04 thru Oct04 =				\$5.9350	46.8	123	5,756.4	\$	34,164,234		
Jul-04	Aug04 thru Oct04	NYMEX LTD Aug04 thru Oct04 =				\$5.6180	46.8	92	4,305.6	\$	24,188,861		
Aug-04	Sept04 thru Oct04	NYMEX LTD Sept04 thru Oct04 =				\$5.6180	46.8	61	2,854.8		\$16,038.27		
									SubTotal =	21,528.0	\$	109,476,605	
Total =										56,909	\$	352,502,771	

Dollars Variance - DCA vs 21 DMA **\$ (19,046,381)**

21 - DMA Section

21 - DMA Section										Volume		Total	
Date	Strip	Start Date		Cross	Cross	Cross	Trade	Trade Date	Volume	Rem # of	Fix	Purchase	
		LTD	End Date	Date	Last	21 MA	Date	Last - Price	Fix MDth/d	Day Fix	Volume - Mdth	Value	
Apr-03	May03 thru Mar04	3/29/2003	4/25/2003	No "Buy" Signal for April 2003									\$ -
May-03	Jun03 thru Mar04	4/26/2003	5/27/2003	4/28/2003	\$5.3910	\$5.4837	4/29/2003	\$5.4175	50.1	304	15,230	\$ 82,510,692	
Jun-03	Jul03 thru Mar04	5/28/2003	6/25/2003	No "Buy" Signal for June 2003									
Jul-03	Aug03 thru Mar04	6/26/2003	7/28/2003	No "Buy" Signal for July 2003									
Aug-03	Sept03 thru Mar04	7/2/2003	8/27/2003	No "Buy" Signal for Aug 2003									
Sep-03	Oct03 thru Mar04	8/28/2003	9/25/2003	9/11/2003	\$5.1743	\$5.3002	9/12/2003	\$5.2152	50.1	182	9,118	\$ 47,552,781	
Oct-03	Nov03 thru Mar04	9/26/2003	10/27/2003	10/20/2003	\$5.1560	\$5.3167	10/21/2003	\$5.2212	50.1	151	7,565	\$ 39,498,900	
Nov-03	Dec03 thru Mar04	10/28/2003	11/25/2003	"Defant Purchase"			Avg. Month	\$4.9320	100.2	121	12,124	\$ 59,796,554	
SubTotal =											44,038	\$ 229,358,927	
Oct-03	Nov-03						LTD	\$4.4590	50.1	30	1,503	\$ 6,701,877	
Total =											45,541	\$ 236,060,804	

NYMEX LTD Section

Apr-03	May03 thru Mar04												
May-03	Jun03 thru Mar04						LTD	\$5.1680	50.1	304	15,230	\$	78,710,707
Jun-03	Jul03 thru Mar04												
Jul-03	Aug03 thru Mar04												
Aug-03	Sept03 thru Mar04												
Sep-03	Oct03 thru Mar04						LTD	\$5.1350	50.1	182	9,118	\$	46,821,957
Oct-03	Nov03 thru Mar04						LTD	\$5.2790	50.1	151	7,565	\$	39,936,163
Nov-03	Dec03 thru Mar04						LTD	\$5.4840	100.2	121	12,124	\$	66,489,113
SubTotal =											44,038	\$	231,957,940
Oct-03	Nov-03						LTD	\$4.4590	50.1	30	1,503	\$	6,701,877
Total =											45,541	\$	238,659,817

Dollar Variance - NYMEX LTD vs 21 DMA = **\$ (4,102,864)**

DCA Section

Apr-03	Nov03 thru Mar04	Ave Winter Strip Traded in April 2003 =	\$5.5412	35.8	151	5410.8	\$	29,982,325
May-03	Nov03 thru Mar04	Ave Winter Strip Traded in May 2003 =	\$6.1428	35.8	151	5410.8	\$	33,237,462
Jun-03	Nov03 thru Mar04	Ave Winter Strip Traded in June 2003 =	\$6.2624	35.8	151	5410.8	\$	29,627,376
Jul-03	Nov03 thru Mar04	Ave Winter Strip Traded in July 2003 =	\$5.4756	35.8	151	5410.8	\$	29,461,265
Aug-03	Nov03 thru Mar04	Ave Winter Strip Traded in August 2003 =	\$5.4449	35.8	151	5410.8	\$	29,461,265
Sep-03	Nov03 thru Mar04	Ave Winter Strip Traded in September 2003 =	\$5.1615	35.8	151	5410.8	\$	27,927,844
Oct-03	Nov03 thru Mar04	Ave Winter Strip Traded in October 2003 =	\$5.3663	35.8	151	5410.8	\$	29,035,976
SubTotal =							37,876	\$ 208,733,514
May-03	Jun03 thru Oct03	NYMEX LTD Jun03 thru Oct03 =	\$5.0570	50.1	123	6,162.3	\$	31,162,751
Sep-03	Oct-03	NYMEX LTD Oct03 =	\$4.4300	50.1	30	1,503.0	\$	6,658,290
SubTotal =							7,665	\$ 37,821,041
Total =							45,541	\$ 246,554,555

Dollars Variance - DCA vs 21 DMA = **\$ 10,493,751**

21 - DMA Section

21 - DMA Section										Volume	Total	
Date	Strip	Start Date LTD	End Date	Cross Date	Cross Last	Cross 21 MA	Trade Date	Trade Date Last - Price	Volume Fix MDth/d	Rem # of Day Fix	Fix Volume - Mdt	Purchase Value
Apr-02	May02 thru Mar03	3/27/2002	4/25/2002	4/16/2002	\$3.5632	\$3.5930	4/17/2002	\$3.7236	46.2	335	15,477	\$ 57,630,776
May-02	Jun02 thru Mar03	4/26/2002	5/28/2002	5/20/2002	\$3.8669	\$3.9151	5/21/2002	\$3.7709	46.2	304	14,045	\$ 52,961,536
Jun-02	Jul02 thru Mar03	5/29/2002	6/25/2002	6/20/2002	\$3.6136	\$3.6469	6/21/2002	\$3.6331	46.2	274	12,659	\$ 45,990,813
Jul-02	Aug02 thru Mar03	6/26/2002	7/26/2002	No "Buy" Signal for July 2002								
Aug-02	Sept02 thru Mar03	7/27/2002	8/27/2002	No "Buy" Signal for Aug 2002								
Sep-02	Oct02 thru Mar03	8/28/2002	9/25/2002	9/3/2002	\$3.6620	\$3.6672	9/4/2002	\$3.7173	46.2	182	8,408	\$ 31,256,798
Oct-02	Nov02 thru Mar03	9/26/2002	10/28/2002	10/8/2002	\$4.0802	\$4.0891	10/9/2002	\$4.1062	46.2	151	6,976	\$ 28,645,672
Nov-02	Dec02 thru Mar03	10/29/2002	11/26/2002	"Defant Purchase" - None								
SubTotal =											57,565	\$ 216,485,595
Oct-02	Nov-02	LTD						\$4.1260	46.2	30	1,386	\$ 5,718,636
Total =											58,951	\$ 222,204,231

NYMEX LTD Section

Apr-02	May02 thru Mar03	LTD	\$4.3650	46.2	335	15,477	\$ 67,557,105
May-02	Jun02 thru Mar03	LTD	\$4.4700	46.2	304	14,045	\$ 62,780,256
Jun-02	Jul02 thru Mar03	LTD	\$4.5860	46.2	274	12,659	\$ 58,053,257
Jul-02	Aug02 thru Mar03						
Aug-02	Sept02 thru Mar03						
Sep-02	Oct02 thru Mar03	LTD	\$5.2890	46.2	182	8,408	\$ 44,472,028
Oct-02	Nov02 thru Mar03	LTD	\$5.6090	46.2	151	6,976	\$ 39,129,506
Nov-02	Dec02 thru Mar03						
SubTotal =						57,565	\$ 271,992,151
Oct-03	Nov-03	LTD	\$4.1260	46.2	30	1,386	\$ 5,718,636
Total =						58,951	\$ 277,710,787

Dollar Variance - NYMEX LTD vs 21 DMA = \$ 55,506,556

DCA Section

Apr-02	Nov02 thru Mar03	Ave Winter Strip Traded in April 2002 =	\$3.8740	33	151	5187.5	\$ 20,096,375
May-02	Nov02 thru Mar03	Ave Winter Strip Traded in May 2002 =	\$4.1280	33	151	5187.5	\$ 21,414,000
Jun-02	Nov02 thru Mar03	Ave Winter Strip Traded in June 2002 =	\$3.8622	33	151	5187.5	\$ 18,820,250
Jul-02	Nov02 thru Mar03	Ave Winter Strip Traded in July 2002 =	\$3.6280	33	151	5187.5	\$ 19,266,375
Aug-02	Nov02 thru Mar03	Ave Winter Strip Traded in August 2002 =	\$3.7140	33	151	5187.5	\$ 19,266,375
Sep-02	Nov02 thru Mar03	Ave Winter Strip Traded in September 2002 =	\$4.0369	33	151	5187.5	\$ 20,941,419
Oct-02	Nov02 thru Mar03	Ave Winter Strip Traded in October 2002 =	\$4.2070	33	151	5187.5	\$ 21,823,813
SubTotal =						36,313	\$ 141,628,606
Apr-02	May02 thru Oct02	NYMEX LTD May02 thru Oct02 =	\$3.3280	46.2	184	8,500.8	\$ 28,290,662
May-02	Jun02 thru Oct02	NYMEX LTD Jun02 thru Oct02 =	\$3.3300	46.2	153	7,068.6	\$ 23,538,438
Jun-02	Jul02 thru Oct02	NYMEX LTD Jul02 thru Oct02 =	\$3.3070	46.2	123	5,682.6	\$ 18,792,358
Sep-02	Oct-02	NYMEX LTD Oct02 =	\$3.6860	46.2	30	1,386.0	\$ 5,108,796
SubTotal =						22,638	\$ 75,730,255
Total =						58,951	\$ 217,358,861

Dollars Variance - DCA vs 21 DMA = \$ (4,845,371)

21 - DMA Section

21 - DMA Section												
Date	Strip	Start Date LTD	End Date	Cross Date	Cross Last	Cross 21 MA	Trade Date	Trade Date Last - Price	Volume Fix MDth/d	Volume Rem # of Day Fix	Fix Volume - Mdt	Total Purchase Value
Apr-01	May01 thru Mar02	3/27/2001	4/25/2001	4/4/2001	\$5.3000	\$5.3207	4/15/2001	\$5.5521	63.7	335	21,340	\$ 118,479,038
May-01	Jun01 thru Mar02	4/26/2001	5/28/2001	No "Buy" Signal for May 2001								
Jun-01	Jul01 thru Mar02	5/29/2001	6/25/2001	6/15/2001	\$4.2824	\$4.3286	6/18/2001	\$4.2346	63.7	274	17,454	\$ 73,909,861
Jul-01	Aug01 thru Mar02	6/27/2001	7/26/2001	7/26/2001	\$3.4860	\$3.5723	7/27/2001	\$3.5288	63.7	243	15,479	\$ 54,622,648
Aug-01	Sept01 thru Mar02	7/27/2001	8/28/2001	7/31/2001	\$3.6610	\$3.6320	8/11/2001	\$3.4580	63.7	212	13,504	\$ 46,698,215
Sep-01	Oct01 thru Mar02	8/29/2001	9/25/2001	No "Buy" Signal for Sept 2001								
Oct-01	Nov01 thru Mar02	9/26/2001	10/26/2001	No "Buy" Signal for Oct 2001								
Nov-01	Dec01 thru Mar02	10/27/2001	11/27/2001	"Defant Purchase"			Avg Month	\$2.3100	63.7	121	7,708	\$ 17,804,787
SubTotal =											75,485	\$ 311,514,550
Oct-01	Nov-01	LTD						\$3.2020	63.7	30	1,911	\$ 6,119,022
Total =											77,396	\$ 317,633,572

NYMEX LTD Section

NYMEX LTD Section								
Apr-01	May01 thru Mar02		LTD	\$2.8700	63.7	335	21,340	\$ 61,244,365
May-01	Jun01 thru Mar02							
Jun-01	Jul01 thru Mar02		LTD	\$2.5490	63.7	274	17,454	\$ 44,489,736
Jul-01	Aug01 thru Mar02		LTD	\$2.4700	63.7	243	15,479	\$ 38,233,377
Aug-01	Sept01 thru Mar02							
Sep-01	Oct01 thru Mar02		LTD	\$5.2890	63.7	182	11,593	\$ 61,317,493
Oct-01	Nov01 thru Mar02		LTD	\$5.6090	63.7	151	9,619	\$ 53,951,288
Nov-01	Dec01 thru Mar02							
SubTotal =							75,485	\$ 259,236,259
Oct-03	Nov-03		Avg. Month	\$3.2020	63.7	30	1,911	\$ 6,119,022
Total =							77,396	\$ 265,355,281

Dollar Variance - NYMEX LTD vs 21 DMA = **\$ (52,278,291)**

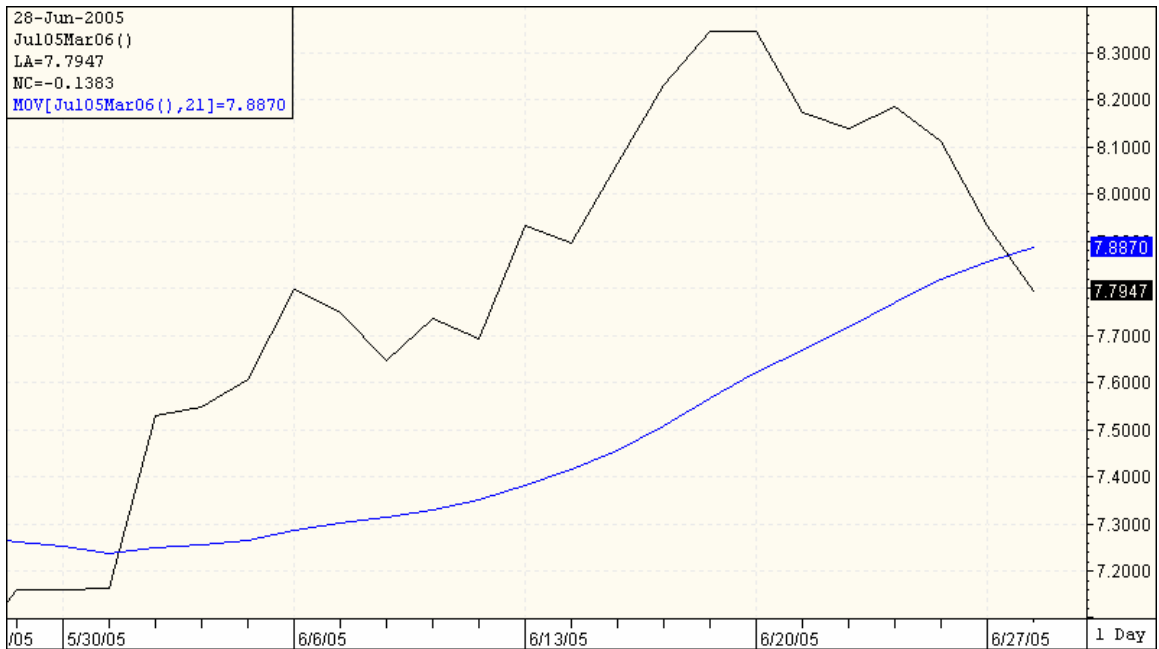
DCA Section

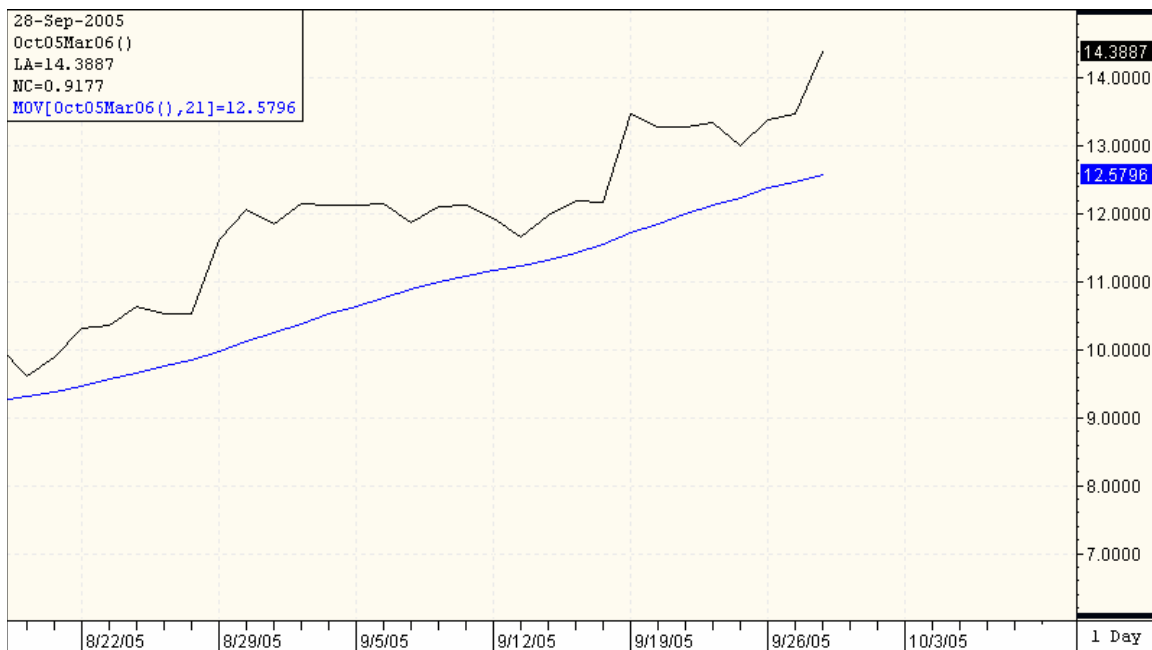
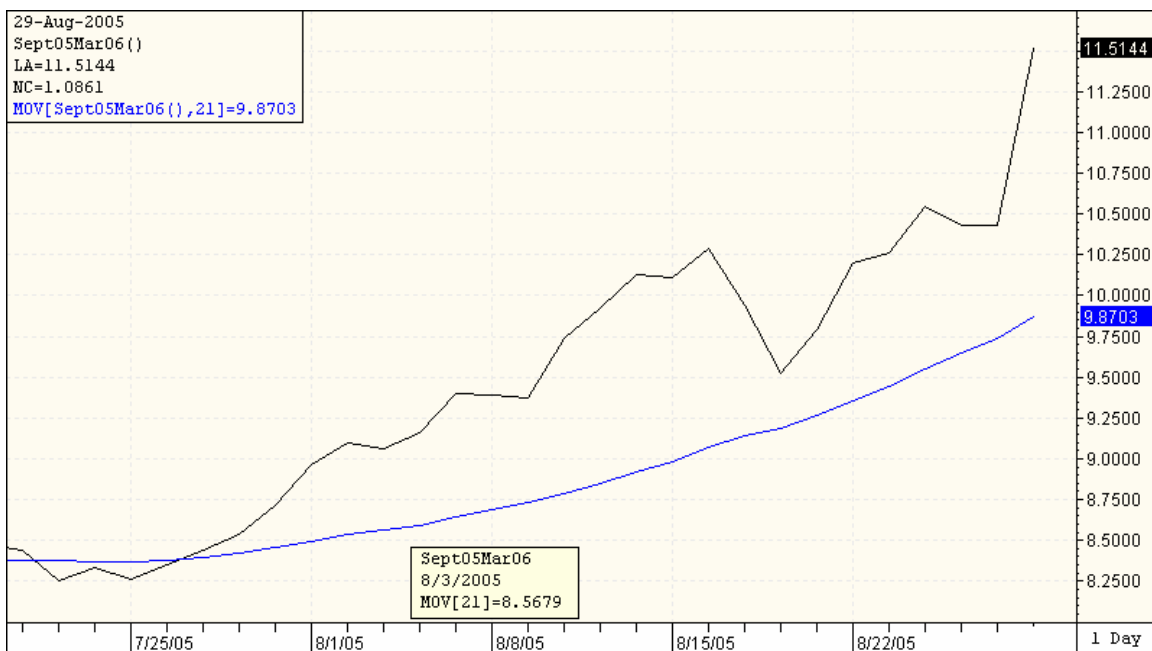
DCA Section								
Apr-01	Nov01 thru Mar02	Ave Winter Strip Traded in April 2001 =	\$3.8740	33	151	6597.6	\$	25,559,102
May-01	Nov01 thru Mar02	Ave Winter Strip Traded in May 2001 =	\$4.1280	33	151	6597.6	\$	27,234,893
Jun-01	Nov01 thru Mar02	Ave Winter Strip Traded in June 2001 =	\$3.8622	33	151	6597.6	\$	23,936,093
Jul-01	Nov01 thru Mar02	Ave Winter Strip Traded in July 2001 =	\$3.6280	33	151	6597.6	\$	24,503,486
Aug-01	Nov01 thru Mar02	Ave Winter Strip Traded in August 2001 =	\$3.7140	33	151	6597.6	\$	24,503,486
Sep-01	Nov01 thru Mar02	Ave Winter Strip Traded in September 2001 =	\$4.0369	33	151	6597.6	\$	26,633,851
Oct-01	Nov01 thru Mar02	Ave Winter Strip Traded in October 2001 =	\$4.2070	33	151	6597.6	\$	27,756,103
SubTotal =						46,183	\$	180,127,015
Apr-01	May01 thru Oct01	NYMEX LTD May01 thru Oct01 =	\$3.1800	63.7	184	11,720.8	\$	37,272,144
Jun-01	Jul01 thru Oct01	NYMEX LTD Jul01 thru Oct01 =	\$2.6190	63.7	153	9,746.1	\$	25,525,036
Jul-02	Aug01 thru Oct01	NYMEX LTD Aug01 thru Oct01 =	\$2.4310	63.7	123	7,835.1	\$	19,047,128
Sep-02	Oct-01	NYMEX LTD Oct01 =	\$1.8300	63.7	30	1,911.0	\$	3,497,130
SubTotal =						31,213	\$	85,341,438
Total =						77,396	\$	265,468,453

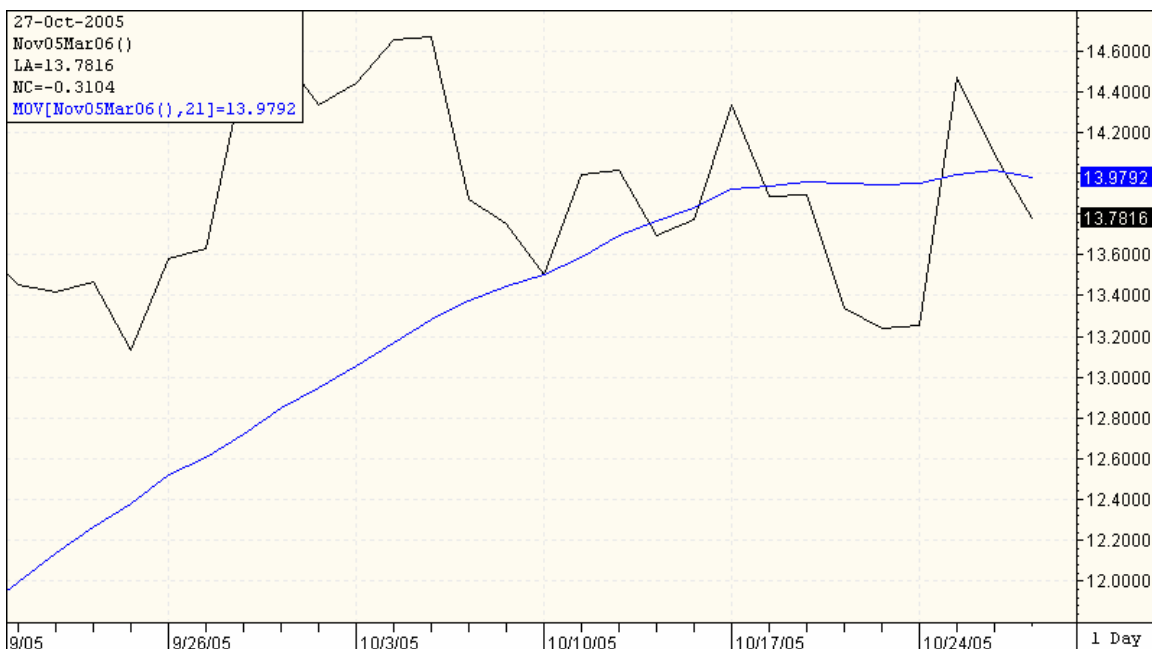
Dollars Variance - DCA vs 21 DMA = **\$ (52,165,118)**

April 2005 – March 06 Period 21 DMA Charts



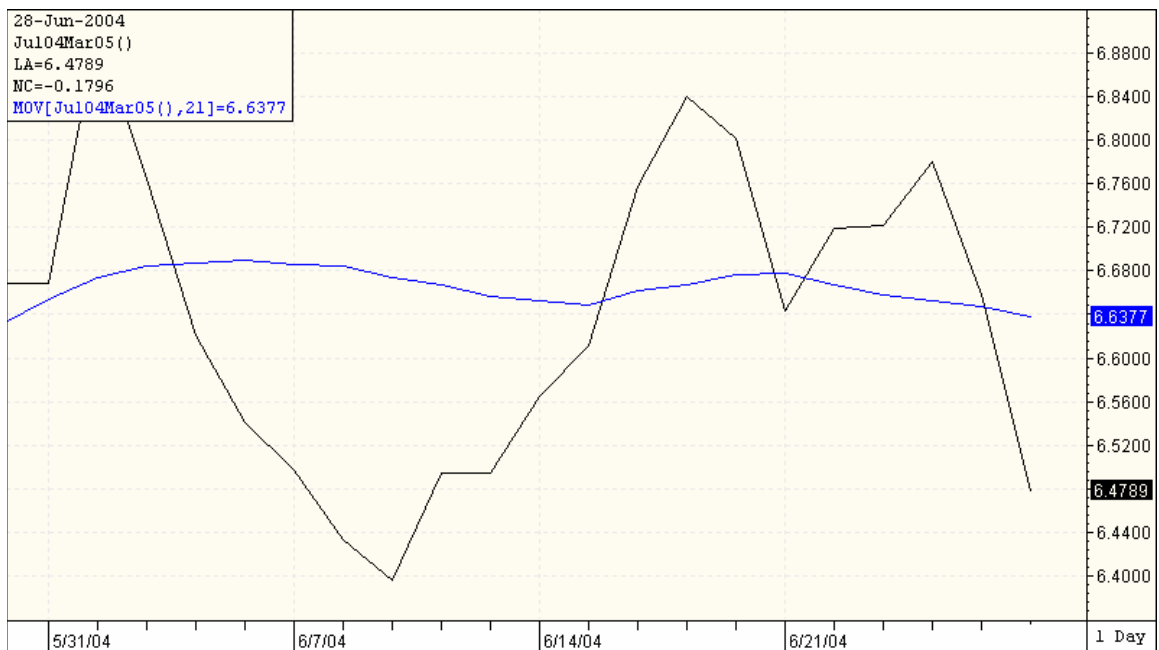






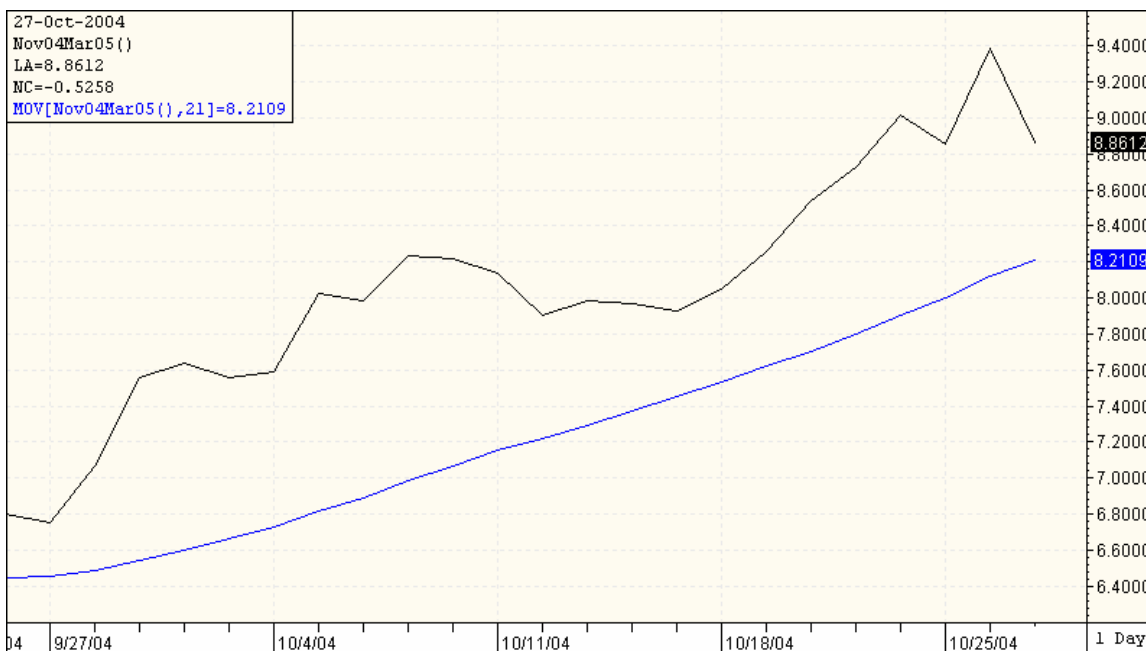
April 2004 – March 05 Period 21 DMA Charts



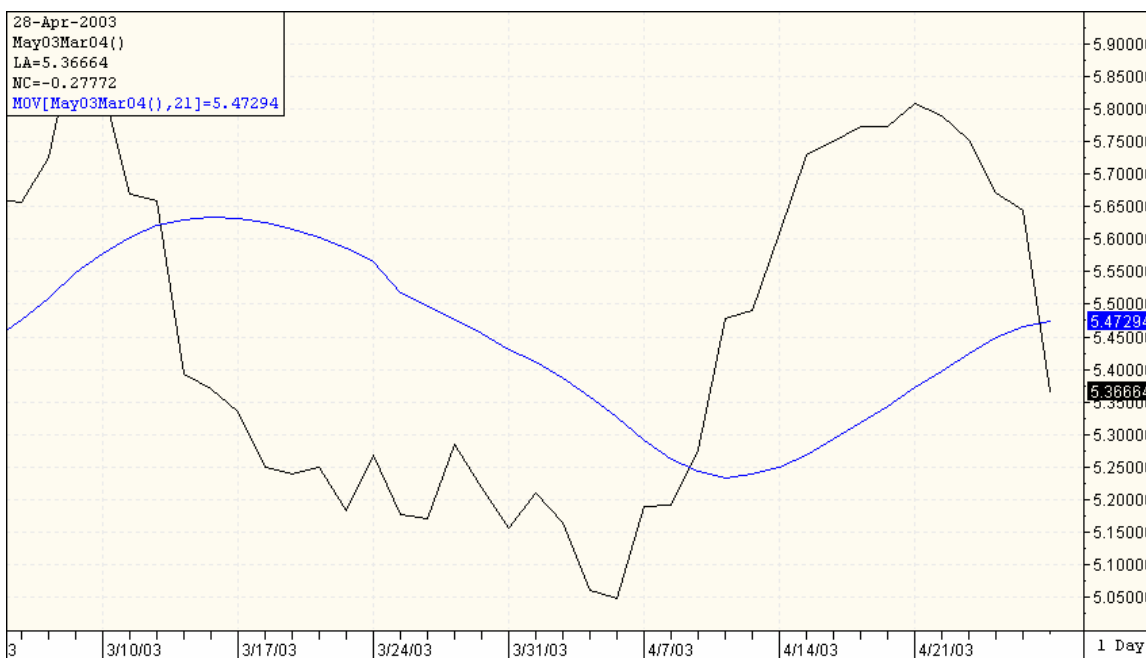


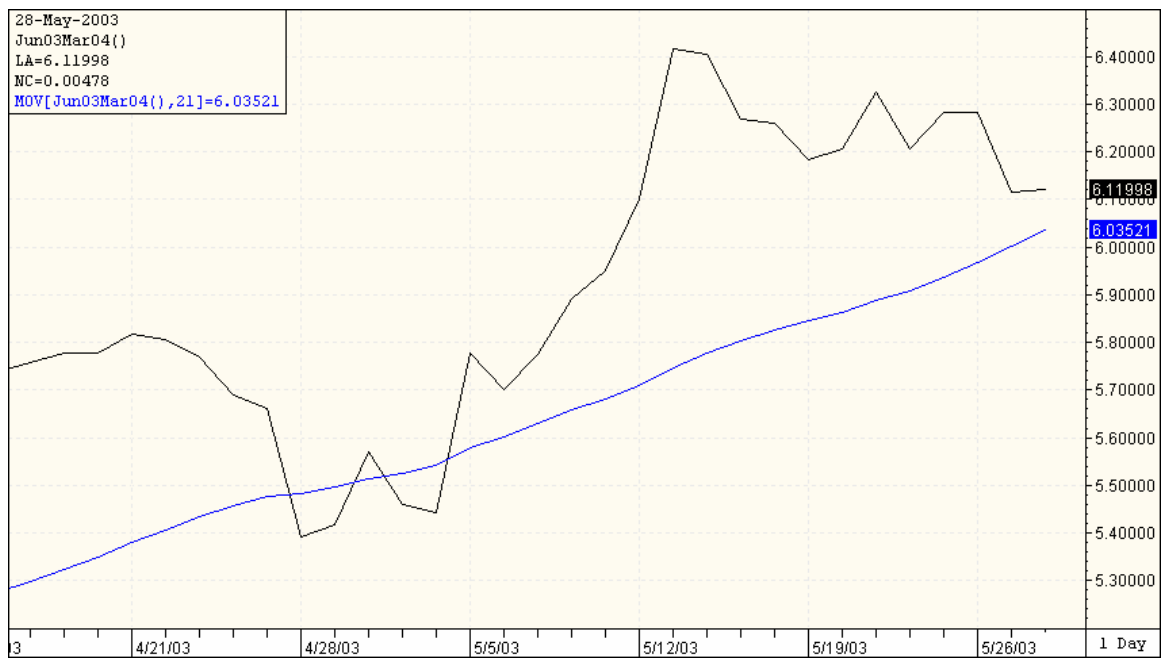




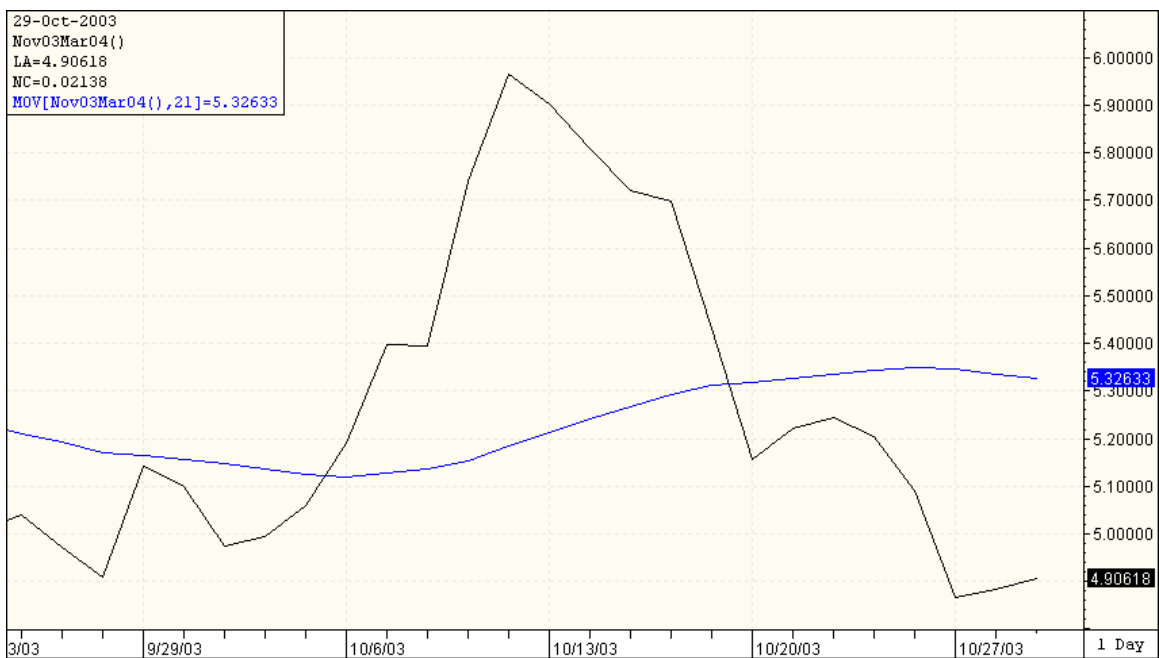


April 2003 – March 04 Period 21 DMA Charts

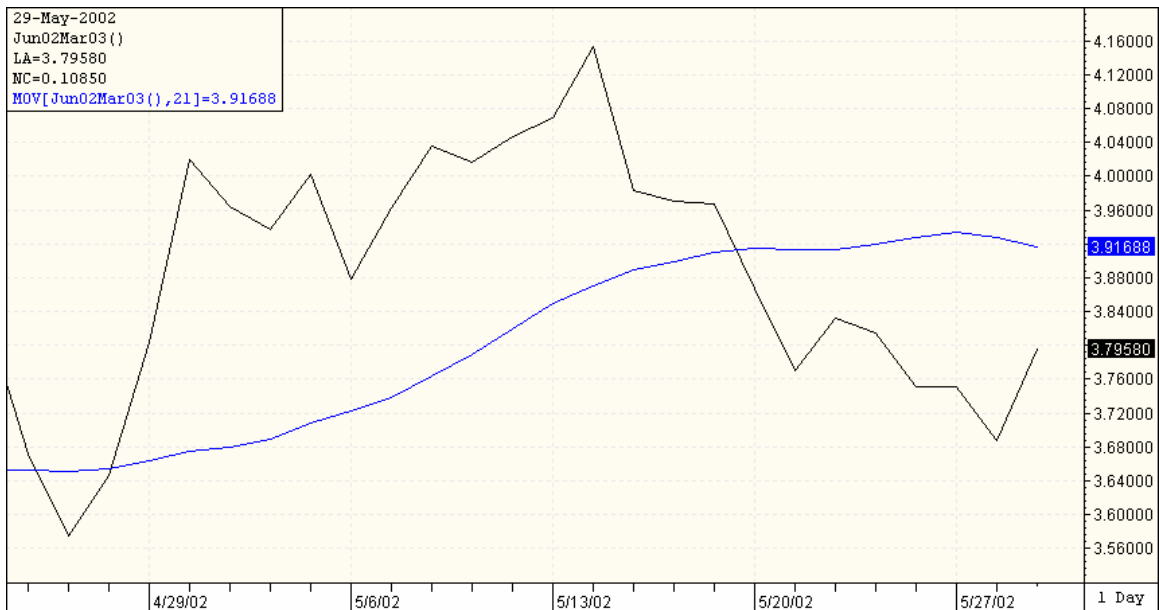






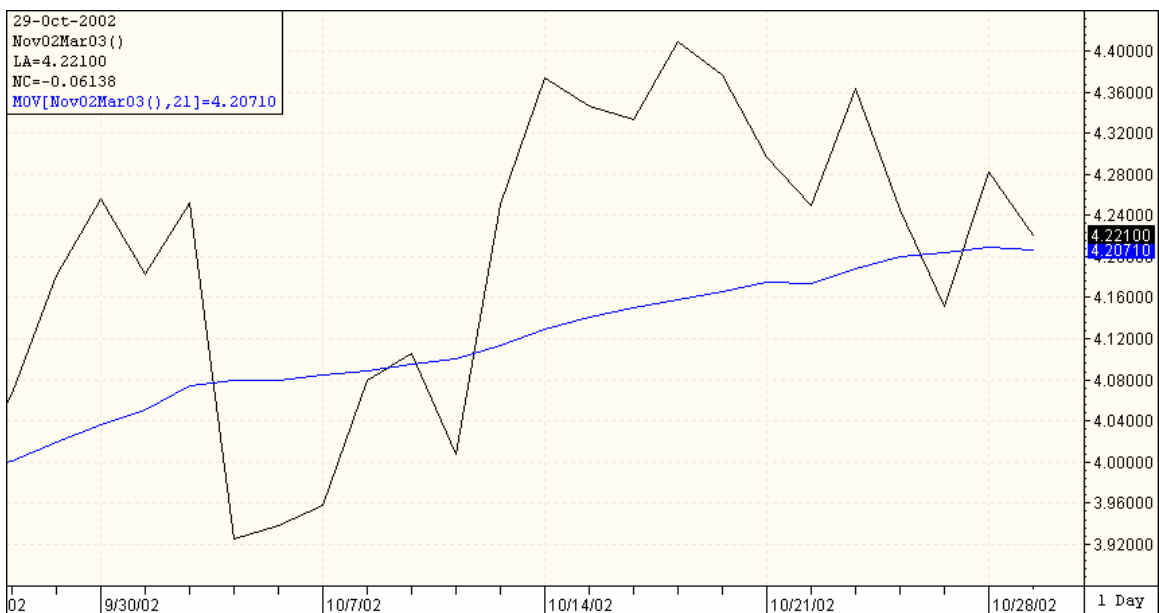


April 2002 – March 03 Period 21 DMA Charts

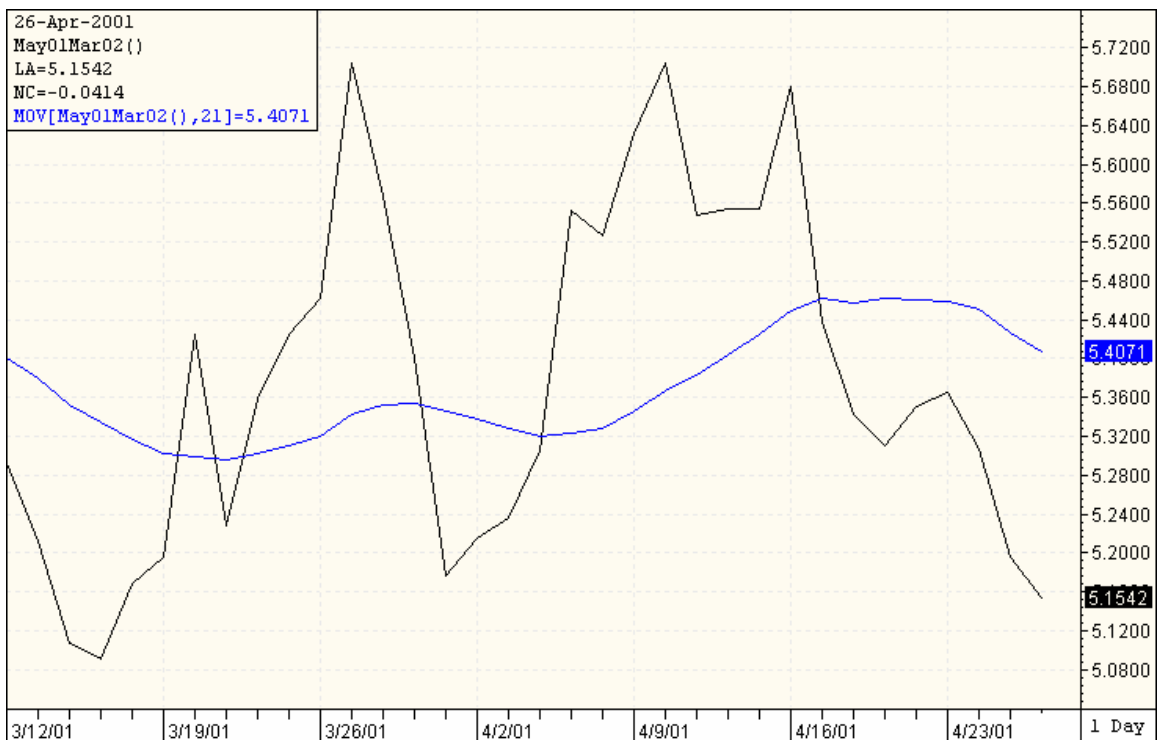


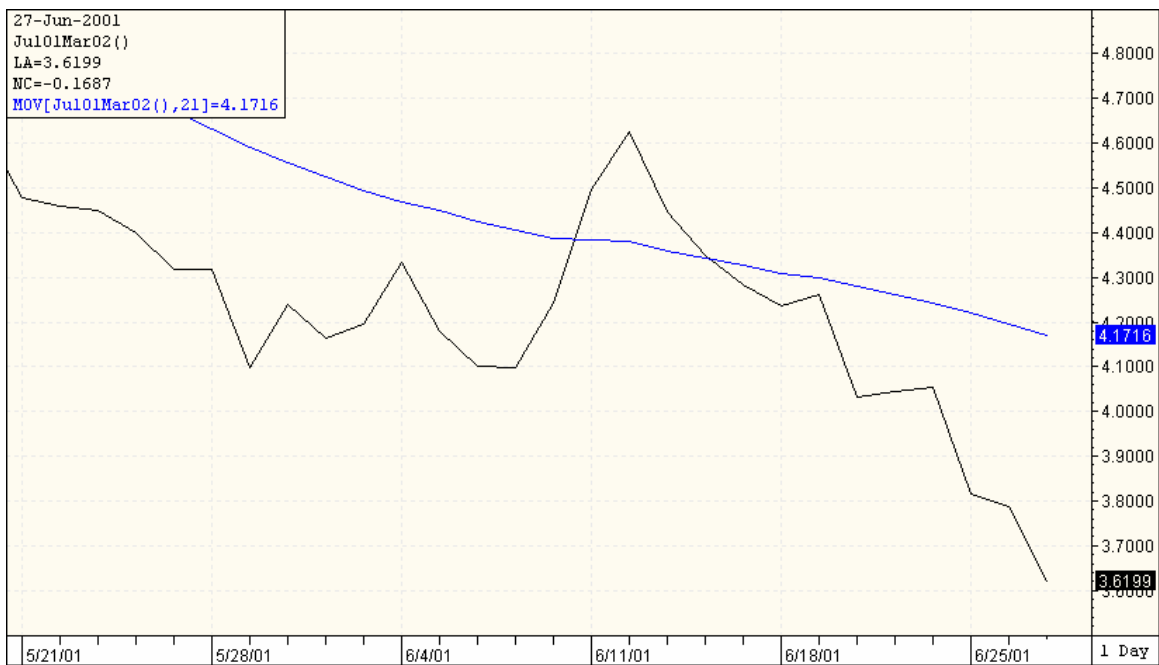




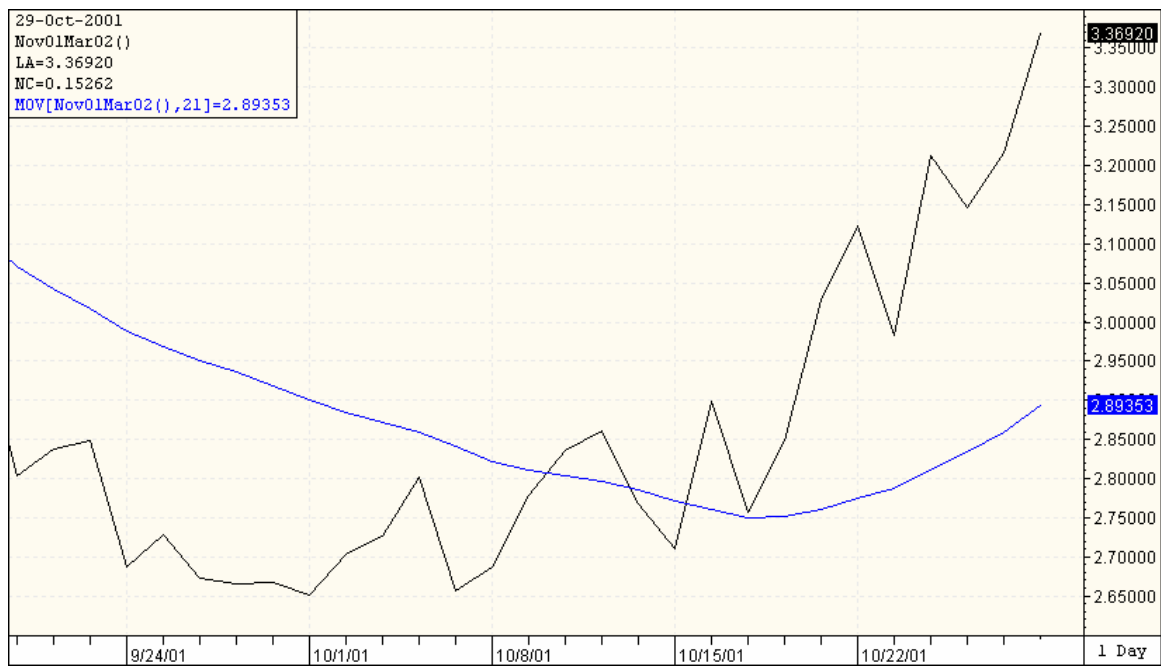


April 2001 – March 02 Period 21 DMA Charts









STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
MICHIGAN CONSOLIDATED GAS COMPANY)
for Approval Of Gas Cost Recovery Plan)
5-Year Forecast And Monthly GCR Factor)
For The Period Of April 2006 - March 2007)

MPSC Case No. U-14717

REBUTTAL TESTIMONY
OF
JENNIFER C. SCHMIDT

MICHIGAN CONSOLIDATED GAS COMPANY
REBUTTAL TESTIMONY OF JENNIFER C. SCHMIDT

Line
No.

1 **Q. Are you the same Jennifer C. Schmidt who testified earlier in this**
2 **proceeding?**

3 A. Yes, I am.

4

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

6 A. My testimony will address issues concerning MichCon's proposed base
7 maximum GCR factor and contingent factor mechanism in response to the
8 direct testimony of the witnesses for the Michigan Public Service
9 Commission Staff (Staff), the Attorney General (AG), Residential Ratepayer
10 Consortium (RRC), and Michigan Community Area Action Agencies
11 (MCAAA). I will also address issues related to MichCon's storage
12 accounting raised by MCAAA's witness.

13

14 **Q. Are you sponsoring any exhibits in your rebuttal testimony?**

15 A. I am sponsoring the following exhibits:

16 A-29 (JCS-8): Gas Customer Choice Alternative Gas Supplier Web
17 Marketing Materials

18 A-30 (JCS-9): Other Gas Customer Choice Alternative Gas Supplier
19 Marketing Materials

20 A-31 (JCS-10): Comparison of Current Contingent Factor Mechanism
21 Proposals (U-14717)

22 A-32 (JCS-11): Revised Proposed Contingent Factor Matrix Tariff Sheet

23 A-33 (JCS-12): Historical Comparison of Staff and MichCon Contingent
24 Factor Mechanism Proposals (U-13902)

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1 **Q. Is it necessary for the Commission to establish a new base GCR factor**
2 **reflecting recent gas market activity, as the intervenors and Staff have**
3 **recommended?**

4 A. No. It is not necessary for the Commission to establish a new base GCR
5 factor in this case. As most of the intervenors and Staff have noted,
6 MichCon has implemented a GCR factor of \$8.95 per Mcf beginning in April
7 2006 that reflects MichCon's current projections regarding the GCR cost of
8 gas for the 2006 – 2007 GCR period. MichCon has demonstrated that it will
9 reduce its GCR factor to the appropriate level to recover its projected costs.
10 When prices, and MichCon's gas costs, began to fall in the first quarter of
11 2006, MichCon reduced its GCR factor in February 2006 to reflect
12 correspondingly lower projected costs. As prices continued to decline,
13 MichCon reduced its GCR factor again in March 2006.

14

15 **Impact of Base maximum GCR on GCC**

16 **Q. Would a lower base GCR factor address the concerns of the AG and**
17 **RRC that Gas Customer Choice (GCC) suppliers could use MichCon's**
18 **filed \$12.15 per Mcf base GCR factor as a benchmark when marketing**
19 **their gas supply?**

20 A. No. Establishing a lower GCR base maximum factor is unlikely to change
21 GCC Marketers' marketing. One aspect of my job duties involves the GCC
22 program. I have reviewed some GCC suppliers' marketing materials for
23 accuracy regarding MichCon's rates. While MichCon cannot dictate what a
24 marketer may say in such materials, MichCon will, as a courtesy, review
25 documents to ensure that its rates and policies are reflected accurately. In

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1 the materials I have reviewed, marketers are careful to be truthful in their
2 statements regarding MichCon's rates. Marketers have said things like
3 "MichCon filed for a base maximum GCR factor of up to \$1.215 per Ccf,
4 which can go up or down depending on market prices". This statement is
5 truthful. If the marketer continued to use this statement after the
6 Commission issued an order lowering the base maximum GCR factor, it
7 would still be truthful.

8

9 **Q. Will downward market prices create market distortions and send**
10 **incorrect price signals in the same way that a GCR factor set below**
11 **market prices creates a market distortion, as theorized by Mr. Hollewa**
12 **on page 5 of his testimony?**

13 A. No. The two situations are not comparable. In the second case, where the
14 maximum base GCR factor is too low, customers see a GCR rate on their
15 bills that does not reflect expected GCR costs. In the case where the
16 maximum base GCR factor is higher than current market prices, the
17 company has the flexibility to charge a GCR factor below the base
18 maximum factor and customers would see a GCR rate on their bills that
19 reflected the expected GCR costs for the year. In both cases, the base
20 maximum GCR factor does not reflect current expected GCR costs.
21 However, only in the second case, when the maximum base GCR factor is
22 too low, is this distortion reflected on the customers' bills as well.

23

24 **Q. How often does MichCon send GCR rate information to its customers?**

25 A. MichCon bills its customers every month. GCR customers' bills list the GCR

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1 rate for the current month. If that rate is higher or lower than the prior
2 month, MichCon includes a bill message stating that fact. Other than the
3 notice that MichCon causes to be published for the annual GCR plan case,
4 MichCon does not send out information regarding the maximum base GCR
5 factor to its GCR customers. MichCon is required to report all of its rates to
6 its customers at least once every year. In this communication, MichCon
7 uses the most recent GCR factor charged and notes the month the GCR
8 factor is from and the fact that it is subject to change on a monthly basis.
9 The maximum base GCR factor is not included in this direct mail piece.

10

11 **Q. Is it appropriate to use the GCR factor to control the GCC market as**
12 **described by Mr. Hollewa on page 5 of his testimony?**

13 A. No, it is inappropriate to attempt to control the unregulated GCC market
14 using the regulated GCR factor. When possible, the current GCR factor
15 should reflect the rate necessary to recover the expected GCR costs for that
16 year, including any over or underrecoveries from a prior period.

17

18 **Q. Are GCC marketers currently using MichCon's base maximum GCR**
19 **rate or base maximum contingent factor in their web-based**
20 **marketing?**

21 A. No, to the best of my knowledge, marketers are not using any rates charged
22 by MichCon in their web-based marketing. On May 24, 2006, I reviewed all
23 of the GCC suppliers' web-sites for those suppliers offering service in
24 MichCon's service territory and did not find one site that listed any of
25 MichCon's GCR factors as a comparison. The pages I reviewed can be

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1 found in Exhibit No. A-29 (JCS-8). If a rate was listed, it was the rate the
2 GCC supplier was offering. Most of the GCC suppliers did not list a price.
3 Instead, they had forms for potential customers to indicate interest that
4 would allow the supplier to contact them.

5

6 **Q. Have you reviewed any other GCC supplier marketing materials?**

7 A. I reviewed a direct mail marketing piece from IGS and a phone script and
8 direct mail welcome letter from MXenergy. These items are included in
9 Exhibit No. A-30 (JCS-9). The IGS letter was effective through March 31,
10 2006, and did list MichCon's \$12.15 per Mcf rate in the body of the letter for
11 comparison, noting that MichCon's GCR factor could increase or decrease
12 with market prices. MXenergy's marketing materials do not address
13 MichCon's GCR factor at all but do note the increase in MichCon's factor
14 over a three year period. Neither IGS nor MXenergy's marketing materials
15 focus on MichCon's GCR factor directly in making a marketing solicitation.
16 Instead, both GCC suppliers point to price stability as their major advantage
17 over MichCon's potential price variability. Based these materials, the
18 maximum base GCR factor is not an issue.

19

20 **Impact of the 2005 – 2006 GCR Under / Overrecovery**

21 **Q. Is it necessary to make the adjustments to the maximum GCR factor**
22 **recommended by Staff and intervenors based on the difference**
23 **between MichCon's projected 2005 – 2006 GCR underrecovery and its**
24 **current estimates for that GCR over / underrecovery.**

25 A. No, it is unnecessary to make adjustments to the maximum GCR factor to

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1 reflect the difference between the 2005 – 2006 underrecovery projected in
2 the filing and the current estimates of the 2005 – 2006 over / underrecovery.
3 Such an adjustment is unnecessary for the same reasons it is unnecessary
4 to adjust the maximum factor to reflect lower NYMEX rates.

5

6 **Q. Does MichCon object to the adjustment to reflect the change in the**
7 **projected 2005 – 2006 GCR over / underrecovery?**

8 A. No. While MichCon does not believe such an adjustment is necessary, it
9 does not object to the adjustment. Removal of the projected underrecovery
10 and inclusion of the estimated overrecovery result in a \$0.71 per Mcf
11 reduction in the GCR factor. The resulting base maximum GCR factor
12 would be \$11.44 per Mcf. At the time MichCon made its filing in December
13 2005, the 2005 – 2006 over / underrecovery was an estimate, like the entire
14 plan, and was appropriately included. It was expected MichCon would incur
15 a \$96 million underrecovery that would be prospectively rolled into the 2006
16 – 2007 GCR.

17

18 **Q. Why does MichCon not object to the over / underrecovery adjustment**
19 **but continue to support its original costs based on the December**
20 **NYMEX?**

21 A. Unlike market prices, which will continue to fluctuate, the 2005 – 2006 GCR
22 over / underrecovery is now known with relative certainty and subject to little
23 or no further change. Market prices could increase to December 2005
24 levels. The variations we have seen in market prices, resulting in an \$11.44
25 per Mcf factor estimate for one month, an \$8.74 per Mcf factor estimate

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1 based on prices 3 months later and a \$9.97 per Mcf factor proposal based
2 on prices 45 days after that, illustrate the relatively large fluctuations that
3 can occur over a short period of time. Additionally, unlike the large
4 fluctuations this fall, driven by the hurricanes, there were no hurricanes or
5 similar major events to trigger such fluctuations from January through April
6 2006. I believe that, based on the ongoing nature of such market variability,
7 both up and down, MichCon's original base maximum GCR factor proposal,
8 less an adjustment for the 2005 – 2006 under recovery, is reasonable.

9

10 **Staff and Intervenors Proposed Revised Base maximum GCR Factors**

11 **Q. How are the Staff's and intervenors' proposed revised base maximum**
12 **GCR factors calculated?**

13 A. All of the revised base maximum GCR factors are calculated slightly
14 different. Each party adjusts for the projected 2005 – 2006 GCR under /
15 over recovery and then uses some variation of a contingent factor method to
16 arrive at a proposed rate. These rates vary from \$8.00 per Mcf levels to
17 \$10.00 per Mcf levels.

18

19 **Q. Why do the proposed base maximum GCR factors vary so widely?**

20 A. The main reason the rates vary so widely is the NYMEX dates that are used
21 to calculate the factors are different. MCAA, AG, and RRC all use NYMEX
22 prices from the first five trading days of March, the days that would have
23 been used to calculate the first quarter contingent factor. Staff uses
24 NYMEX prices from the five most recent trading days before their testimony
25 was due, April 12 through April 19.

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1 The AG and MCAAA used MichCon's contingent factor to calculate their
2 proposed factors, \$8.74 per Mcf and \$8.070 per Mcf respectively. Staff
3 uses its multi-input method to arrive at its factor, \$9.986 per Mcf (as
4 corrected, filed factor was \$10.0106 per Mcf). RRC uses an average price
5 change methodology to develop its proposed GCR factor.
6 Finally, the parties used two different amounts to calculate the 2005 – 2006
7 over / underrecovery.

8

9 **Q. Why are MCAAA's and AG's proposed factors different even though**
10 **they use the same methodology and NYMEX prices?**

11 A. While Mr. Miller and Mr. Mendl both use my proposed contingent factor
12 mechanism to calculate their proposed factors, Mr. Miller uses the correct
13 methodology to calculate the results. Mr. Miller uses the updated weighted
14 average NYMEX prices for January 2006 through December 2007
15 compared to the weighted average NYMEX prices for the same months, as
16 set forth in the plan filing, to calculate his proposed \$8.74 per Mcf base
17 maximum factor. Mr. Mendl uses a simple average of April 2006 through
18 March 2007 compared to the corresponding simple average from MichCon's
19 plan to calculate a new factor of \$8.07 per Mcf.

20 The proposed contingent factor methodology is designed specifically to
21 utilize the weighted average, as calculated by Mr. Miller. The simple
22 average utilized by Mr. Mendl does not include all relevant data and results
23 in an incorrect factor. Additionally, as discussed later in my testimony, Mr.
24 Miller relies on his corrected multiplier to calculate his factor.

25

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1 **Q. Is Mr. Hollewa's proposed GCR factor reflective of the impact of the**
2 **change in NYMEX prices on the GCR cost of gas from December 2005**
3 **to March 2006?**

4 A. Mr. Hollewa's calculation of his proposed \$9.15 per Mcf base maximum
5 factor provides a rough approximation of the impact of changes in NYMEX
6 on April 2006 – through March 2007 GCR purchase costs but does not
7 include the impact of price changes on purchases made in January through
8 March 2006 and April through December 2007. Both of these time periods
9 impact GCR costs for the April 2006 through March 2007 GCR period
10 because they are used to calculate the LIFO rates used to price storage
11 withdrawals. In this case, omitting these periods' results in an
12 understatement of the impact of price changes from December 2005 to
13 March 2006.

14

15 **Q. Can the results of the methodology used by Mr. Miller and the**
16 **methodology used by Staff be compared using the same dates?**

17 A. The table below summarizes the contingent factors resulting from the
18 methodology used by Mr. Miller, MichCon's contingent factor proposal, and
19 the methodology used by Staff, the multi-input method, using both March 1
20 – 7 and April 12 – 17 NYMEX closing data. These factors are calculated in
21 Exhibit No. A-31(JCS-10).

	<u>March 1 – 7</u>	<u>April 12 – 17</u>	<u>Difference by date</u>	
22				
23	MichCon's method	\$8.74 per Mcf	\$9.85 per Mcf	\$1.11 per Mcf
24	Staff's method*	<u>\$8.82 per Mcf</u>	<u>\$9.91 per Mcf</u>	\$1.09 per Mcf
25	Difference by method	\$0.09 per Mcf	\$0.07 per Mcf	

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1 *Staff's method was corrected for a minor transcription error and, for
2 comparison purposes, is calculated using a \$0.71 per Mcf adjustment
3 (reflecting both the \$96 million underrecovery and preliminary \$10 million
4 overrecovery), rather than \$0.64 per Mcf (reflecting only the \$96 million
5 underrecovery), for the 2005 – 2006 over / underrecovery.

6 Using the same data, Mr. Miller's proposal and Staff's proposal are within
7 \$0.10 per Mcf of each other.

8

9 **Q. How does the magnitude of the change in the calculated contingent**
10 **GCR factor from the first week of December 2005 through the first**
11 **week of March 2006 compare to the change in contingent factor**
12 **calculations from the first week in March 2006 through the second**
13 **week in April 2006?**

14 A. In the five weeks between the first week of March 2006 and the second
15 week of April 2006, NYMEX prices changed enough to result in a \$1.10 per
16 Mcf reduction in calculated contingent factors, over \$0.20 per week,
17 regardless of the method used. In the twelve weeks between the first five
18 trading days of December and the first five trading days of March, NYMEX
19 prices changed enough to result in a \$2.70 per Mcf change, again over
20 \$0.20 per Mcf per week.

21

22 **Q. What would be the result of \$0.20 per Mcf per week increase in NYMEX**
23 **prices over sixteen weeks if MichCon's base maximum GCR factor**
24 **were \$8.74 per Mcf.**

25 A. In that case, NYMEX prices would have exceeded the \$3.00 per Mcf

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1 increase the contingent factor is designed to accommodate and MichCon
2 would be in a potential underrecovered position. In this case, if MichCon
3 wanted to fully recover its costs in the current GCR case, it would be
4 required to file for a re-opener to request a GCR factor that reflected its
5 current expected costs. Thus, even though MichCon's original filing had
6 anticipated such price levels and would have allowed for full recovery of its
7 costs, it would still be at risk for an underrecovery.

8
9 **Contingent Factor Mechanisms**

10 **Precision**

11 **Q. Have you created a new contingent factor table for this GCR plan**
12 **year?**

13 A. Yes. My Exhibit No. A-32 (JCS-11) is MichCon's revised proposed
14 contingent factor matrix tariff sheet that reflects the base GCR factor of
15 \$11.44 per Mcf and adjusts the factors contained in the table accordingly.

16
17 **Q. Is it reasonable to use three decimal places in the fractional multiplier,**
18 **as Mr. Miller does in his calculation in Exhibit No. AG-2 and Mr. Ozar**
19 **does in his Exhibit No. S-3 (RGO-3)?**

20 A. Yes, it is reasonable to use three decimal places in the fractional multiplier.
21 However, I do not believe the use of 3 decimal places is necessary. I
22 believe the use of such detail in GCR Plan calculations, particularly in the
23 contingent factor calculations, is a type of false and unnecessary precision.
24 The GCR plan is MichCon's best estimate of GCR costs at the time of the
25 filing. However, they are just that, estimates. In calculating the GCR factor,

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1 costs are rounded to the nearest \$1,000. All of the costs and volumes that
2 the plan uses will change. Using extra decimal points may seem logical and
3 appealing because the desire for the best estimate possible. However, this
4 precision is unnecessary in determining the contingent factor or the base
5 GCR factor.

6

7 The purpose of the contingent factor is to provide a reasonable estimate of
8 the impact of changing market prices on MichCon's purchase prices and the
9 resulting GCR factor that would be necessary to minimize any
10 underrecovery. As long as the contingent factor provides a reasonable
11 reflection of the impact of these price changes, it is effective. Mr. Miller's
12 correction to MichCon's proposed multiplier, from 1.2 to 1.134, resulted in
13 an increase of \$0.16 per Mcf in the calculated GCR factor. While \$0.16 per
14 Mcf is not inconsequential, a \$0.16 per Mcf increase in the factor at the
15 beginning of the year is equal to approximately \$25 million in underrecovery
16 for the entire year, it is nominal compared to the over \$425 million total
17 change that would occur from the resulting contingent factor.

18

19 **Q. Does MichCon object to the use of more precision in the contingent**
20 **factor?**

21 A. No. While MichCon does not object to the use of more precision in the
22 contingent factor, I believe a less complex approach that still adequately
23 addresses the issues of changing market prices on GCR purchase costs is
24 preferable. A less complex approach with less precision, that is still
25 effective, is easier to understand and subject to less confusion and error. In

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1 calculating the revised proposed contingent factor matrix, I have used the
2 original, less precise multipliers.

3

4 **Staff's Factor**

5 **Q. Does Staff's proposed contingent factor adequately adjust the GCR**
6 **factor in response to increases in market prices?**

7 A. Yes. Staff's proposal is very similar to their proposed contingent factor last
8 year. Staff's proposal should provide a contingent factor that will minimize
9 underrecoveries in the face of increasing gas prices. I have identified ways
10 it can be simplified based on prior years' experience and simple
11 mathematical adjustments.

12

13 **Q. Are Staff's multi-input methodology and MichCon's weighted average**
14 **input methodology similar?**

15 A. Yes. Both Staff's proposal and MichCon's proposal use the same price
16 data, weighted to account for the differing impact of increases in prices over
17 the relevant period. Mr. Ozar mistakenly characterizes MichCon's proposal
18 as using only a "single price strip" that does not account for any impact of
19 price changes on LIFO gas storage injections and withdrawals. As
20 explained and shown in my direct testimony and exhibits, MichCon's
21 contingent factor proposal includes the impacts on LIFO of all the months in
22 both 2006 and 2007. The major difference between Mr. Ozar's proposal and
23 mine is that Mr. Ozar calculates weightings and impacts in one number and
24 my methodology calculates a weighted average in conjunction with a
25 calculated multiplier. Both require calculation of averages and comparison

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1 of these averages to a table. My proposal consolidates the further addition
2 of the individual multiplier outcomes, unlike Staff's proposal.

3

4 Another major difference between MichCon's and Staff's proposal is the
5 assumptions regarding the volume of fixed price purchases throughout the
6 year.

7

8 **Q. Can MichCon's contingent factor be used symmetrically, like Staff's**
9 **proposal?**

10 A. Yes. MichCon's contingent factor will work both in calculating the impact of
11 increased market prices and decreased market prices. Contrary to Mr.
12 Ozar's statement on page six of his testimony, MichCon's methodology
13 does incorporate the impact of certain future price changes on storage
14 costs.

15

16 **Q. Do you have any other recommendations regarding Mr. Ozar's**
17 **mechanism?**

18 A. Yes. It is possible to simplify the fractional multiplier calculation by using
19 remaining requirements rather than remaining deliveries and thereby
20 eliminating the need for percentages for fuel and system average heating
21 value. The difference between receipts and delivered purchases is heating
22 value and fuel. Mr. Ozar's calculation takes delivered purchases and then
23 grosses them up for fuel and heating value, resulting in an estimate of
24 requirements. Using the requirements, from MichCon's filing, A-11 (GHC-
25 11), instead of delivered purchases adjusted by fuel and heating value,

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1 eliminates one step from the fractional multiplier calculation.

2

3 **Q. Has MichCon performed any analysis comparing MichCon's**
4 **contingent factor calculation to Staff's contingent factor proposal?**

5 A. Yes. MichCon has performed analysis comparing both this year's
6 contingent factor proposals and last year's contingent factor proposals. Last
7 year, I expected Staff's factor to perform better than MichCon's factor
8 because it reflected NYMEX impacts on LIFO storage rates and weighted
9 various prices while MichCon's did not. The table below summarizes the
10 results of the analysis. The full details of the analysis can be found in
11 Exhibit No. A-33 (JCS-12). The base factor in each case was \$7.99 per
12 Mcf. All factors are per Mcf.

13		Q1	Q2	Q3*	Q4*
14	MichCon	\$8.210	\$8.540	\$11.350	\$12.190
15	Staff:	<u>\$8.267</u>	<u>\$8.638</u>	<u>\$11.354</u>	<u>\$12.508</u>
16	Difference	\$0.057	\$0.098	\$0.004	\$0.318

17 *In 2005 – 2006, NYMEX prices exceeded the \$3.00 per Mcf price limit of
18 the contingent factors. For this analysis, I have calculated what the factors
19 would have been if the contingent factors had no upper limit.

20

21 Surprisingly, MichCon's simple average contingent factor method performed
22 almost the same as Staff's multi-input method for the first three quarters.
23 Even when prices increased by over \$4.00 per Mcf, the two methods
24 resulted in factors that are within 2% of each other and 10% of the total
25 change. This 10% divergence is logical because it occurs in the fourth

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1 quarter when the impact of the 2006 LIFO, which is not entirely accounted
2 for in MichCon's 2005 – 2006 model, would have been the greatest.

3

4 The results for this year's contingent factor models are used above on page
5 20 in the comparison of the resulting GCR factors for Staff's and AG's
6 calculations for common dates. Once again, the current models perform
7 similarly, resulting in factors within \$0.10 per Mcf, or 10% of the total
8 change, of each other.

9

10 **Q. Do you expect Staff's and MichCon's mechanisms to continue to**
11 **perform similarly as the year progresses?**

12 A. No. I would expect to see divergence between the two models because Mr.
13 Ozar's assumptions regarding fixed prices, and his treatment of fixed price
14 volumes, differs from mine. My mechanism assumes that the minimum
15 volumes will be fixed price and that those prices will not be fixed until they
16 must be fixed, rather than throughout the year. Mr. Ozar assumes prices
17 will be fixed on volumes throughout the year based on his gas purchase
18 proposal, resulting in larger fixed price volumes.

19

20 Because of the timing of this case, an order is not expected in this case until
21 after the fixed price program for this GCR year has ended, Mr. Ozar's fixed
22 price purchase proposal will not be adopted in time to affect the current
23 GCR year. Therefore, it is more appropriate to use my assumptions
24 regarding fixed price volumes for the current year in designing a contingent
25 factor. If different fixed price purchase plans are implemented, assumptions

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1 used in developing the contingent factor mechanism should reflect them.

2

3 **Q. How should intra-year fixed price volumes be reflected in the**
4 **contingent factor mechanism?**

5 A. Reflecting the impact of prices that are fixed throughout the year is complex
6 and this impact will vary based upon the fixed price program. Both Staff and
7 Mr. Hollewa recommend different methods of reflecting prices fixed
8 throughout the GCR year.

9

10 Mr. Hollewa uses MichCon's fixed price plan and assumes that MichCon will
11 lock in the price for the base maximum amount of gas possible. He does
12 not reflect the price level of these fixed price volumes in the contingent
13 factor, should that level vary from plan levels. MichCon's contingent factor
14 proposal last year used a very similar assumption. As shown above,
15 MichCon's prior contingent factor method performed very similarly to Staff's
16 proposal, even though Staff's proposal included an adjustment for the
17 variation in the level prices were fixed at throughout the year while
18 MichCon's did not.

19

20 At this time, given MichCon's experience with the contingent factor
21 mechanism and fixed prices, it is unclear what is the optimal method for
22 reflecting fixed price volumes in the contingent factor. All parties recognize
23 that these volumes should be reflected in the contingent factor, if only to
24 assume their prices will not change from plan levels. In the current year, I
25 believe it is unnecessary to attempt to adjust for the difference between plan

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1 levels for fixed prices and actual fixed prices. The differences between
2 Staff's, Mr. Hollewa's, and MichCon's fixed price volume assumptions this
3 year are considerable and monitoring the performance of each of these
4 mechanisms throughout the year should provide insight on appropriate
5 treatment of these volumes.

6

7 **Storage Accounting**

8 **Q. Is changing the LIFO year a "relatively smaller change" than changing**
9 **the GCR plan year?**

10 A. No. Changing the GCR plan year did not require any major changes in
11 MichCon's book accounting. Purchase costs and GCR revenues were
12 recorded the same in a calendar year as in a fiscal year. The main changes
13 were in how the GCR is calculated, the jurisdictional rate calculation and
14 when interest is compounded. Based on preliminary research, changing the
15 LIFO year would require major book accounting changes.

16

17 **Q. Is storage use optimized based on its cost using LIFO pricing, as**
18 **implied by Mr. Mendl on page 20 of his testimony, lines 14 through 15?**

19 A. No. Storage use is optimized by gas operations. LIFO pricing is the result
20 of, not an input into, gas purchase costs. If gas operations are optimized,
21 storage is optimized, regardless of the LIFO rate. If gas purchases are
22 optimized, then storage costs are optimized. It is impossible to get a LIFO
23 rate that is based on something other than gas purchases.

24

25 **Q. Why doesn't LIFO accounting follow the "physical reality" described**

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1 **by Mr. Mendl on page 20, lines 2 though 3, “that gas withdrawn form**
2 **storage during January through March 2007 was injected into storage**
3 **in April through October 2006”?**

4 A. LIFO is a cost concept, not a physical flow concept. LIFO assumes that the
5 cost of inventory sold is priced at its most recent cost. Under LIFO, the
6 current/replacement cost of storage appropriately matches the current
7 revenue being charged. LIFO accounting is based on the physical reality
8 that MichCon will be replacing the volumes it removes from storage. If
9 exactly the same amount of gas is injected and withdrawn, storage costs will
10 be zero, regardless of the LIFO rate. A LIFO rate of \$20.00 per Mcf or
11 \$0.02 per Mcf would result in zero GCR costs as long as injections and
12 withdrawals are equal. In LIFO accounting, at the beginning of the year,
13 there is a certain size pool of gas that has been injected over the years. If
14 gas is removed from that pool throughout the year, it must be replaced.
15 LIFO uses the concept that the gas that is removed throughout the year
16 should be priced at what it will cost to replace it, not what it originally cost. If
17 gas is permanently removed from the pool, it will be removed at the cost of
18 the most recent LIFO layer.

19

20 **Q. How can the Commission conduct a reasonably timely reconciliation**
21 **case for the GCR operating year if the storage costs can’t be**
22 **determined until nine months after the GCR operating year is over?**
23 **Mendl, page 12, lines 3 - 5**

24 A. This situation was discussed in detail during the settlement negotiations that
25 led to the change in the GCR year. All of the parties involved in the

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1 settlement discussions acknowledged this issue and agreed that it was an
2 acceptable complication to the GCR process to enable the switch to an
3 operational year. At that time, MichCon's proposed method of handling this
4 issue was discussed and agreed upon. In addition, further discussions were
5 held with Staff to clarify how MichCon would account for this issue.

6

7 MichCon prices January through March storage at the March booked LIFO
8 rate. This rate is the best estimate MichCon has of the LIFO rate for the
9 year at that time. In April, a line item is created that is the difference
10 between the March booked LIFO rate and the final LIFO rate multiplied by
11 the volumes withdrawn in January through March. This method finalizes the
12 GCR costs for the first GCR year at the end of that GCR year and allows a
13 prompt reconciliation of GCR costs for that year.

14

15 **Q. What difficulties would MichCon experience in switching from a**
16 **calendar year LIFO to a GCR year LIFO?**

17 A. A change in the LIFO year is an extremely complicated and technical
18 accounting and financial issue. Preliminary research by MichCon's LIFO
19 experts and accounting research group has identified numerous issues that
20 would need to be addressed.

21

22 In discussions with accounting research, they indicated that the 1984
23 American Institute of Certified Public Accountants (AICPA) LIFO paper
24 discusses this issue and states that "The LIFO calculation for financial
25 reporting (calendar year) purposes should be based on the inventory

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1 amount at the beginning and end of the financial reporting year.” (Section 9-
2 4). Based on this guidance, if MichCon’s financial reporting period
3 remained a calendar year, then accommodating a GCR financial reporting
4 period for LIFO would necessitate a separate LIFO accounting system and
5 calculation. If MichCon did not switch its fiscal year as well as its GCR LIFO
6 year, MichCon would have to reconcile and maintain two separate LIFO
7 systems, Book and GCR. Additionally, GCR costs are based on the Booked
8 Cost of Gas Sold, as defined in MichCon’s tariff, section B10. Any LIFO
9 calculation differing from MichCon’s booked LIFO would not be in
10 compliance with MichCon’s tariff.

11

12 If MichCon were to switch to a LIFO year ending March, the initial switch to
13 the operational LIFO year would create a significant income event.
14 Because the GCR is based on the booked cost of gas, MichCon’s books
15 would have to switch to an operational GCR year basis. All of MichCon’s
16 books would then operate on a financial year. Because taxes must follow
17 book accounting, MichCon’s tax year would have to switch from a calendar
18 year to an operational year. MichCon would have to receive IRS approval
19 to move to a different tax year. It has been MichCon’s experience that
20 obtaining such approval is neither assured nor timely. Because the rest of
21 DTE Energy is on a calendar year, MichCon could no longer be included in
22 DTE Energy’s consolidated books for tax purposes. As noted above, these
23 issues present a preliminary idea of the issues that would arise if MichCon
24 were to switch LIFO years. This list is not intended to be complete.

25

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1 **Q. Does this conclude your testimony?**

2 A. Yes.

STATE OF MICHIGAN

MPSC Case No. U-13549

EXHIBITS

OF

JOHN Q. WITNESS

[New Customers](#)[Current Customers](#)[About IGS](#)[Home](#) > [Michigan Choice](#) > [Enrollment Center](#)

Current Offers for MichCon / DTE

Stable Rate of \$0.889 per ccf

Enroll now and pay just \$0.889 per ccf through September 2006 and then \$1.098 per ccf through March 2007! Even better, this plan comes with IGS's new Lock & Roll guarantee. If we ever offer a lower fixed rate plan in your area, you can roll into that new lower rate plan at no additional cost or inconvenience. Just call our toll free customer service number and tell the friendly IGS associate that you want to ROLL. That's it.

[Choose This Offer](#)

Stable Rate of 1.098 per CCF Through December 2007

Pay \$1.098 per CCF through December of 2007.

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 - [Consumers Energy Enrollment](#)

Customer Choice is here in Michigan

Lock in your rate at **\$1.065** per ccf through **Marc**

Customer Choice is the freedom to select your Natural Gas supplier! Lakeshore understands the need for price certainty in these unstable economic times and provides programs that have price locks. This means that once the price is locked, it never goes UP!!!

Click here if you are a current **MichCon** customer

or here if you are a current **Consumers Energy** customer.

[Start: Select Your Utility Company](#)[Select an Offer](#)[Fill Out Form](#)[Confi](#)[Home Page](#)[Start Over](#)[Enrollment Help C](#)

Fixed Rate Plan, MichCon Gas

Rate	\$1.224 per CCF
Term	Fixed for 36 Months
Enrollment Fee	None
Monthly Admin Fee	None
Exit Fee	See Terms & Conditions
Other Fees	None

[Read MXenergy's Terms & Conditions for this program](#)[→ select this offer](#)

A 36 Month Fixed Rate Plan helps manage your budget. Utilities can charge one rate one month, and next, and who knows after that. This can take a toll on your budget. But our plan, just like a fixed rate in one rate so you can manage your finances throughout the heating season and beyond.

[Home Page](#)[Start Over](#)[Enrollment Help C](#)

Winter Fixed Rate Plan, MichCon Gas

Rate	\$1.181 per Ccf
Term	Fixed for the Winter Heating Season
Enrollment Fee	None
Monthly Admin Fee	None
Exit Fee	See Terms & Conditions
Other Fees	None

[Read MXenergy's Terms & Conditions for this program](#)[→ select this offer](#)

Price protection when you need it most. Our Winter Fixed Rate Plan has a term of 12 months that begins receiving your natural gas supply from MXenergy.

During the coldest time of the year, our Winter Fixed Rate Plan locks in your natural gas rate and is guaranteed to change. Beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle (the "Winter Period"), you will receive this offer's fixed rate.

For the other 5 months of your one year term you will receive our month-to-month variable rate.

Contact MXenergy ■ Call Toll Free 800.785.4373 ■ email: feedback@mxenergy.com



PRICING STATEMENT FOR 5/22/06 thru 5/30/06

CHOOSE YOUR CONTRACT PLAN:

Fixed Price Contract ending March 31, 2007 at \$1.214 per ccf

Fixed Price Contract ending March 31, 2008 at \$1.173 per ccf

Fixed Price Contract ending March 31, 2009 at \$1.073 per ccf

YOUR WELCOME LETTER WILL
ARRIVE IN APPROXIMATELY 7 DAYS

Thank you for considering My Choice Energy for your natural gas needs. As you can see from the Contract Plans above, we are offering three options for you to choose from. You can secure your rate one, two and three winters. You choose!!

Attached you will find a copy of the contract for your convenience. Simply enter the price and term in the Contract Plan box and the Daily Pricing Statement date on the top of your contract. Fill out the remainder of the contract, sign it and fax or mail it. You will receive a welcome letter within 7 days of signing the contract. Please note that pricing is subject to change daily and the price above is only good if you submit your contract today. If you do not have access to a fax machine, please call Customer Service to complete the contract at the toll free number below. We will sign you up over the phone and mail you a copy of the contract, which you must return within five business days of receipt.

Residential customers have a penalty-free cancellation period of 30 days after signing the contract. Thereafter, a \$150.00 cancellation fee will be charged if you decide to leave My Choice Energy. There is no penalty in the case of moving. Approximately 90 days prior to your contract expiring, you will receive a letter from us offering a new price proposal.

Your billing and service will continue to come from DTE/MichCon throughout the duration of our contract. Therefore, any billing and any other miscellaneous service questions can be directed to DTE Energy Customer Service at 1.800.477.4747 and for a gas leak or emergency service call 1.800.947.5000. The only charge My Choice Energy has any affect on your bill is the GCR rate (rate you pay per ccf of gas) and all of the other charges listed are a reflection of the current charges from DTE Energy.

Please feel free to contact My Choice Energy if you have any questions or concerns at the toll free number Monday - Friday from 9:00 a.m. 'til 5:00 p.m. (excluding holidays). Again, thank you for considering My Choice Energy.

1.888.505.9104

www.fostermchoice.com

Office: (810) 765-8903
Fax: (810) 765-5600

6034 King Road
Marine City, MI 48039

Interstate Gas Supply, Inc.
P.O. Box 9060
Dublin, OH 43017-0960
1-877-444-7427
www.igsenergy.com

Gas Prices Are Dropping. Lock Into Our Low Fixed Rate of \$1.098 Now!

Dear Natural Gas Consumer,

In just the last six weeks, unseasonably warm weather has caused the market price of natural gas to drop dramatically. Prices today are the lowest that we have seen since last year's hurricanes. We would like to give you the opportunity to take advantage of this situation by locking in your natural gas price through 2007 at today's lower market rate.

Interstate Gas Supply, Inc. (IGS) is now offering a guaranteed fixed rate of just \$1.098 per ccf for the commodity portion of your gas bill plus DTE/Michigan Consolidated Gas Company (MichCon) delivery charges and applicable taxes, through your December, 2007 billing period. Effective with your April 2006 billing period, MichCon has filed to raise your base GCR factor to \$1.215 per ccf. However, this rate can increase or decrease based on the market price of gas each month. **IGS' rate will not change and is guaranteed at only \$1.098 per ccf through December 2007!**

Would you pay \$2.00 per gallon for gasoline through 2007?

Natural gas, like all energy prices, is very volatile and can spike up during events that disrupt supply or increase demand such as hurricanes and severe weather. For example natural gas prices spiked as high as \$1.53 this winter. Likewise, gasoline at the pumps exceeded \$3.00 in many parts of the country this past fall.

If you had the opportunity today to lock in a price of \$2.00 per gallon for all your gasoline needs through 2007, I am sure you would give it great consideration. Well, unfortunately we don't sell gasoline but we can help you to control your natural gas costs. If you enroll now with IGS, we will lock in your price today at \$1.098 per ccf for all of the natural gas you consume through December 2007.

Get comfort, stability and piece of mind

IGS is a direct supplier of natural gas to MichCon and has been licensed and approved by the Michigan Public Service Commission to offer you this great low rate. IGS currently supplies natural gas to more than 500,000 satisfied homes and businesses. Many of your friends and neighbors have already enrolled with IGS.

Here's how it works: IGS will deliver your gas to MichCon and then MichCon will deliver that gas to you. MichCon will still continue to read your gas meter and will continue to send you a monthly bill which will include the IGS fixed rate. MichCon will also continue to handle all of your customer service and safety needs.

There are 4 easy ways to enroll with IGS:

- **Mail:** Complete the attached postage-paid card, tear it off, and drop it in the mail
- **Internet:** Visit our website at www.igsenergy.com and use your Promo Code, found on the reverse.
- **Fax:** Complete the attached enrollment card, tear it off, and fax to IGS at **1-800-584-4839**
- **Phone:** Call us directly 24/7 at **1-877-444-7427**

Sincerely,
IGS Energy
Your Smart Energy Choice

IGS reserves the right to withdraw this offer at anytime and limits the offer to the earlier of March 31, 2006 or the first 20,000 enrollments. This offer is intended for MichCon natural gas customers that consume less than 20,000 ccf a year. Please allow 1-2 billing cycles for service to begin once enrollment is received.

INTERSTATE GAS SUPPLY, INC. ("IGS")
RESIDENTIAL/SMALL COMMERCIAL SALES AGREEMENT - FORM SR-MC-
1.098-1207

Term: The initial term of this agreement will begin with initial gas flow after enrollment and verification with the utility, and will continue through my December, 2007 billing cycle, and month to month thereafter. Interstate Gas Supply, Inc. (IGS) shall notify Michigan Consolidated Gas Company/DTE Energy (MichCon) to transfer gas service upon receipt and acceptance of a written consent form or other verification as approved by The Michigan Public Service Commission (MPSC). Due to the volatility of gas prices, IGS reserves the exclusive right to change its terms and conditions and therefore to not accept offer # SR-MC-1.098-1207 consent forms at any time prior to enrollment. If IGS were to not accept a consent form then the rejected consent form will be sent back to me along with a new consent form and IGS' new offer. As this is intended for residential and small commercial customers, IGS reserves the right to not accept or at any time not continue to serve customers who consume more than 50,000 ccf per year.

Billing: For my convenience, I will receive only one bill, which will be issued by MichCon and will contain IGS' gas price per ccf plus all of MichCon's delivery charges and related charges, plus applicable taxes. If I pay under a budget bill payment plan or any other special program, I understand that this service is still available and will remain available under the Gas Choice program. I agree to continue to pay MichCon for the entire gas bill under

payment and usage history.

Price: My price for the initial term for the commodity portion of my monthly gas bill will be \$1.098 per ccf through my December, 2007 billing cycle ("Primary Term"). I am responsible for MichCon delivery charges and applicable taxes, which are not included in my price. After the Primary Term my fixed price will continue except that after the initial term and, from time to time, IGS may provide me with 30 days notice of any increases to my price. If I do not agree with the change, I always have the right to cancel as stated under Cancellation, below. My initial price and all subsequent prices will be for the commodity portion of my natural gas only (as a substitute for MichCon's "Gas Cost Recovery" price) and will not include (i) gas delivery charges and/or (ii) any other applicable charges, taxes or adjustments allowed by MichCon's tariff filings with the MPSC. IGS reserves the right at anytime and without notice to temporarily reduce my price for any month(s) and to return my price to the previous price at any point thereafter.

Cancellation: I have the right to cancel this agreement at anytime within the first 30 days of entering this agreement, without penalty to either party and can do so by calling IGS at 1-800-280-4474, or writing IGS at P.O. Box 9060 Dublin, OH 43017. Thereafter, through the Primary Term of this agreement, for customers that consume 20,000 ccf or less per year, I can cancel this Agreement with 30 days notice to IGS and payment of a \$150.00 early cancellation fee. For customers that consume in excess of 20,000 ccf per year, those customers may cancel this agreement with payment to IGS

Natural Gas Prices Have Dropped. Lock In Your Rate Now!

Low Fixed Rate
Inside!

Promo Code: N101993687

MC-B

Now is the time to take advantage of lower natural gas costs.

Witness: J. C. Schmidt
Exhibit No. A-30 (JCS-9)
Page No. 2 of 16

www.igsenergy.com

Interstate Gas Supply, Inc.
PO Box 9060
Dublin, OH 43017-0960

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Columbus, OH
#2443

Month's Consumption, as defined below, multiplied by nine dollars (\$9.00) multiplied by the number of months remaining in the then current term of the Agreement. For purposes of this paragraph, Highest Month's Consumption shall be defined as the highest months billing cycle consumption as reported by the NGDC in the immediately preceding 24 month period (converted to Mcf), regardless of supply source. Upon expiration of the Primary Term, either party may cancel this agreement, without penalty, at anytime by providing the other with notice of cancellation. Once notice of cancellation is provided, my account will be returned to MichCon's service according to MichCon's rules regarding de-enrollment, which may take one to two billing cycles.

Dispute Resolutions: In the event of a billing dispute I should contact MichCon at the number listed on their bill for issues regarding volume or metering. For other questions about pricing I should contact IGS at 1-800-280-4474. I understand that IGS will use the following dispute resolution procedure about my agreement with IGS: Upon contacting IGS, I will explain my issues to the IGS representative who will attempt to answer my concerns and work out a mutually satisfactory solution. Failing a resolution, the IGS representative will refer my issue(s) to an IGS supervisor who will promptly contact me to discuss/resolve the issue(s). If a dispute cannot be resolved in the above fashion then the IGS supervisor will refer me to MichCon or if appropriate, the MPSC at 1 (800) 292-9555.

Regulatory: The Gas Customer Choice Program is subject to ongoing MPSC and MichCon jurisdiction and I understand that if the program is terminated by the

will not be liable for any interruption of natural gas or natural gas service to your account, which is caused by a Force Majeure Event as defined by MichCon or any transmitting or transportation entity, acts of terrorism or sabotage, or acts of God. Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by economic hardship such as a change in the price of gas.

Assignment: This contract is assignable by IGS without my consent subject only to any regulatory approvals required under The Gas Choice program.

Moving: If I move to another address outside of the MichCon service territory this agreement will automatically terminate with no penalty to me. If I move to another address within MichCon's service territory I agree that IGS may, at its option, automatically re-enroll me under the terms of this agreement at my new address under my new MichCon account number.

I acknowledge that I am the account holder, a person legally authorized to execute a contract on behalf of the account holder, or the spouse of the account holder. I understand that by signing/entering this agreement, I am switching the gas Supplier for this account to Interstate Gas Supply. I understand that gas purchased for this account by Interstate Gas supply will be delivered through Michigan Consolidated Gas Company's delivery system. The account holder, or the person who signed this contract on behalf of the account holder, has 30 days after today to cancel this contract for any reason through written or verbal



GREETING

Hello, May I speak to [LEAD NAME] or the person responsible for your MICHCON/DTE Gas Bill?

If “Yes” LN Available/Speaking: (TO PRESENTATION)

If “No” LN Unavailable: (TO GATEKEEPER RESPONSES)

PRESENTATION

Hello, this is [AGENT NAME] on behalf of MXenergy, a licensed natural gas supplier in The Michigan Natural Gas Customer Choice Program. And today/tonight I have a special offer that will give you the best of all worlds as it relates to your natural gas bill. For quality control purposes and your protection this call will be recorded. O.K.? **(pause for a second await a response from customer and if affirmative, TURN ON RECORDING DEVICE AND continue) (IF NO ANSWER, ASK AGAIN), (IF NO TERMINATE CALL)**

Mr./Ms. _____, in the late spring, summer and early fall, natural gas consumption is at its lowest and any potential rate increases the utility makes may not be felt. And during the coldest time of the year, the Winter peak heating season of October through April, gas consumption is at its highest and any potential increases the utility makes may impact your household budget. That's why for the first time ever, MXenergy is offering to MICHCON/DTE customers one of the most flexible gas supply plans available, MXenergy's Float to Winter Fixed Rate Plan which has a term of 12 months that begins when you start receiving your natural gas supply from MxEnergy and ends 12 months later.

The best part about this plan is that for the seven months beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period, you'd be locked into our Winter Fixed Rate , of \$1.181 per Ccf which can protect your gas bill when you need it most. The Winter Fixed Rate is guaranteed not to change through the entire peak Winter heating season no matter what happens in the natural gas market. And that's important when you consider over the last three years, MICHCON/DTE has raised its rate as much as 96%. For the other 5 months of your one year term, which could be before your October billing cycle and/or after your April 2007 billing cycle, you'll be on a variable rate like you're on now with MICHCON/DTE. Your rate may change month to month, based on summer market conditions.

No one wants to pay higher gas rates than they have to. That's part of the reason why a Winter Fixed Rate Plan is so great, especially when you consider the price for natural gas in North America has more than doubled since 2000. With MXenergy's Float to Winter Fixed Rate Plan you'll be able to budget your gas usage and protect yourself from any unexpected price spikes.

Setting up your plan is fast and easy. I just need to confirm some information and we'll get you signed up right away.

If “Yes”: Continue below

Great, I'm glad to hear that! It'll only take a minute to get you signed up.

(GO TO CONFIRMATION CLOSE)

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

If Customer Interrupts or says “NO”: Go to appropriate Rebuttal or FAQ

NOT INTERESTED/2ND ATTEMPT

If Customer Responds with General Not Interested

Mr. /Ms. [CUSTOMER NAME], this is a great plan because your rate can float like the utility rate during the summer months when household gas consumption may be low and then you're protected when you need it most as our Winter Fixed Rate Plan is fixed, **beginning with your October 2006 billing cycle** and extending through your April 2007 billing cycle, the Winter Period, allowing you to take control of your household gas bill. A fixed rate protects you against rising gas prices. You've probably already noticed that MICHCON/DTE's rate gone up as much as 96% over the last three years. With that in mind, let's get you started today okay?

IF YES: Proceed to Confirmation Close

IF NO: To Non Sale Courtesy Close

IF NOT AWARE OF THE The Michigan Natural Gas Customer Choice Program

Mr. /Ms. [CUSTOMER NAME] through this program you now have the right to choose your Natural Gas supplier.

EARLY INTERRUPT

Mr./Ms. _____, I'm calling to let you know that MICHCON/DTE has raised its rates as much as 96% over the last three years. MxEnergy can protect you from price fluctuations like this during the peak Winter heating season and let you take control over your household gas bill. (RETURN TO POINT OF INTERRUPTION)

I AM NOT A MICHCON/DTE CUSTOMER/I'm A (OTHER UTILITY) CUSTOMER

Mr./ Ms. _____, while you can participate the Michigan Natural Gas Customer Choice Program,,MxEnergy currently does not have a competitive rate to offer you today. We hope to contact you in the near future when we do. (Go to Courtesy Close)

CONFIRMATION CLOSE

Great! Now, in order to enroll in this special 12 month plan that begins when you start flowing gas with MxEnergy as well as to lock in your Winter Fixed rate of \$1.181 (one dollar and eighteen point one cents) per CCF beginning with your October 2006 billing cycle that extends through your April 2007 billing cycle, the Winter Period, I need to confirm that MICHCON/DTE is both your utility and your current natural gas provider. Is that correct?

IF NO: I am sorry, in order to get you setup with MxEnergy, MICHCON/DTE must be your utility and your natural gas provider. **(GO TO NON-SALE COURTESY CLOSE)**

IF YES: Continue below

Wonderful, may I please have your 12 -digit account number. It appears on the upper RIGHT hand corner of your DTE Energy bill. I can hold while you get your bill.

[CAPTURE ACCOUNT NUMBER]

If customer does not want to give account number:

I'm sorry, Mr. /Ms. [CUSTOMER NAME] but to ensure that the proper account receives this new rate and the benefits we discussed, I will need your account number. May I have your account number please?

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

And you are the person authorized to enroll your account in The Michigan Natural Gas Customer Choice Program with MXenergy as your natural gas supplier, correct?

If customer responds with “NO” ask for authorized person, otherwise go to Non Sale Courtesy Close

To ensure we have your name correct I show it as:

Last Name [LAST NAME]
First Name [FIRST NAME]
And your middle initial [MI]

If first or last name is different (e.g. spelling errors) capture correct name.

We're almost done. And Mr. /Mrs. [CUSTOMER NAME], I show that your meter is located at:

SVC Address 1 [SVC Address 1]
SVC Address 2 [SVC Address 2]
SVC City [SVC City]
SVC State [SVC State]
SVC Zip Code [SVC Zip Code]

Is this also your correct billing address?

If different capture billing address.

And Mr./Mrs [CUSTOMER NAME}, is there an email address we can reach you at?

If customer does not have an email address or doesn't want to provide:

That's fine Mr./Mrs [Customer Name], You don't need to provide this information in order to take advantage of this exclusive offer from MXenergy.

CONFIRMATION DISCLOSURE

MXenergy will mail a welcome letter reconfirming all we have agreed to today. You will have 30 calendar days from the time you receive your welcome letter to review all the terms of our agreement. During that time, if you change your mind you can return to MICHCON/DTE. If you cancel the agreement after the 30 day rescission period and before the end of your 12 month term, you may be charged a Gas recovery Fee of \$150 for unused gas we purchased on your behalf. If you've already switched energy suppliers once in the last twelve months as part of the The Michigan Natural Gas Customer Choice Program, MICHCON/DTE will charge you a switching fee of \$10. Do you understand your right to cancel and the associated fees? **MUST ANSWER YES**

Mr./Ms.[CUSTOMER NAME], just to confirm – you're enrolling in MXenergy's Float to Winter Fixed Rate Plan and authorizing MXenergy to be your gas supplier. **MUST ANSWER YES**

Great. Please remember that **MICHCON/DTE** will still be your gas delivery Company. They will receive your gas from MXenergy and deliver it to you and if you ever have a gas emergency, they're still the ones to call, ok? **MUST ANSWER YES**

THIRD PARTY TRANSFER

Mr. /Ms. [CUSTOMER NAME] thank you for your patience, I know you're going to be pleased with your decision to protect your natural gas rate. Now, I we just need to complete your order by transferring you to an independent verifier who will confirm your order. The verifier will ask you a series of questions confirming all of the information we have discussed. You will need to answer each question with a "Yes" or "No".

The verification representative is not authorized to answer any questions regarding the plan, so before I transfer you, do you have any questions?

IF YES: Address customer concern/request

IF NO: Please hold while I transfer you. You may hear a series of clicks as I connect you so please remain on the line.

[CONNECT TO TPV AGENT]

Accepted Offer FAREWELL

Okay, you're all set. If you have any further questions simply call our Customer Service Center at **1-800-456-0565**.

Thank you and have a nice day / afternoon / evening. Goodbye.

Non-Sale Courtesy Close

Long Courtesy Close

I'm sorry we couldn't get you started today but hopefully you'll think of MXenergy for your future needs. If you have any questions about this call, please call us at **1-800-456-0565** or visit our website at www.MXenergy.com Thank you and have a nice day/afternoon/evening. Goodbye.

Short Courtesy Close:

Hello? Hello? (IF NO RESPONSE) Thank you for your time. Should you have any questions about this call, please call us at **1-800-456-0565**. Goodbye.

Impact Statements

Q: What does MXenergy do?

MXenergy supplies natural gas and natural gas to residential and commercial customers in deregulated energy markets.

Q: How long have you been in business?

MXenergy was founded in April 1999 and first started serving customers in the BALTIMORE GAS AND ELECTRIC territory in December 1999. A licensed and authorized supplier in 11 states and Ontario, MXenergy serves customers in 27 utility territories – more than any other supplier in North America and has over 300,000 customers.

Q: What is MXenergy's mission?

To help residential and small commercial customers manage the risks of energy volatility through innovative products and services that have traditionally been only available to large industrial and commercial buyers.

Q: What does MXenergy do that is different from traditional utilities?

Historically utilities have simply charged their customers for the cost of their gas supply. If the market price of gas or natural gas went up, the customer's bill went up. Few utilities offered their customers the ability to manage the cost of their gas supply for more than a month or two at a time.

MXenergy was established to offer residential and commercial customers the same benefits as large industrial and governmental purchasers: The ability to manage their supply costs for one or more years. MXenergy purchases its customers' gas supply in advance and then transports the gas to each customer's meter or burner tip when it is consumed.

Q: Are there other companies like MXenergy?

Very few marketers have the financial strength to purchase years of gas supply in advance for their customers. MXenergy offers fixed and variable price supply as well as other innovative products and services that are friendly to consumer budgets.

Q: What makes MXenergy different from other competitive marketers?

MXenergy has also dedicated itself to providing customers with complete and honest disclosure about the risks of their gas supply. MXenergy cannot promise that its customers will save money compared to their local utility; after all, nobody can predict the future. But if gas prices continue to rise, customers can control their costs and save money.

Q: What makes MXenergy the best choice for consumers?

When comparing MXenergy's offers to other suppliers and local utilities, consumers need to consider the probability of rising gas costs. They must also keep in mind that local utilities pass through gas costs, high or low. Consumers faced with these decisions can call a MXenergy Customer Care Professional and receive local market expertise Monday through Friday, 8:00 am to 6:00 pm EST at 800-456-0565.

REBUTTALS

I don't want to leave MICHCON/DTE/I don't want to change.

Mr. /Ms. [CUSTOMER NAME], one of the best things about The Michigan Natural Gas Customer Choice Program is that MICHCON will still deliver the gas to you, and in the event of any emergencies they are still the ones to call. You'll continue to receive the same service from the same people. The only difference is you'll be using MXenergy as your gas supplier for a 12 month term where you'll be protected for seven months with MXenergy's Winter Fixed rate of One dollar and eighteen point one cents per Ccf between your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period. And for the other 5 months of your one year term you will receive our month-to-month variable rate. , So let's get you started today, okay?

I'm not interested/I don't think so/Not at this time

Mr. /Ms. [CUSTOMER NAME], most of our customers felt the same way, until they realized they could protect themselves from the fluctuating natural gas prices by switching to MXenergy. Did you know that MICHCON/DTE's rate has increased as much as 96% over the last three years? So let's get you protected and get you started with MXenergy today, okay?

I want to talk it over with my spouse

Mr. /Ms. [CUSTOMER NAME], I agree. This is the kind of decision you want to make with your spouse. What we can do is get you started now that way you'll receive everything in writing before it begins. This will give the two of you time to look over all of the information. If you decide to change your mind, just call the number on the letter within 30 calendar days to cancel without a fee. Okay?

I'm paying a lower rate

Mr. /Ms. [CUSTOMER NAME], Do you know if they charge you a variable or fixed rate for your gas? For example, are you paying the same rate per CCF each month or do you see the rate change from time to time?

Variable Rate/Rate Changes:

Well Mr. /Ms. [CUSTOMER NAME], I'm sure you've noticed then that MICHCON/DTE's gas rates have gone up as much as 96% in the last three years. With MXenergy's Winter Fixed Rate Plan, you'll have peace of mind knowing that you'll be protected for seven months during the peak heating Winter months beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period. And MXenergy will do everything it can do to provide competitive rates while you are on a month to month rate for the other 5 months of your one year term. So let's get you started today, okay?

Fixed Rate/Rate Does Not Change:

I see Mr. /Ms. [CUSTOMER NAME] (GO TO NON – SALE COURTESY CLOSE)

Send me some information/Send it in writing

Mr. /Ms. [CUSTOMER NAME], "I can send literature but I would be the best source of information concerning the plan. Are there any questions I can answer at this time?" (Go Back to Point of Interruption and try and close. Okay?

If customer still wants information in writing

Confirm the name and mailing address. Remind them of the web site at www.dteenergy.com and the MXenergy website at www.MXenergy.com to learn more about the plan.

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

I don't want the hassle of paying two bills

That is one of the great things about this offer. You'll still only receive one, easy-to-read bill directly from DTE Energy. By accepting MXenergy's Float to Winter Fixed Rate Plan you won't be switching utility companies you'll only be changing the supplier of your natural gas. So let's get you started today, okay?

I want to think about it/shop around/need more time

That's understandable. The good thing about this offer is that you'll be receiving everything in writing before it begins. Keep in mind – with MXenergy you'll be **protected** from rising gas prices for seven months with MXenergy's Winter Fixed rate of \$1.181 cents per CCF between your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period. And for the other 5 months of your one year term you will receive our month-to-month variable rate. Plus, if you decide to change your mind, just call the number on the letter within 30 calendar days and you can cancel without a fee. So let's get you started today, okay?

I like the reliability of my Local utility provider

That's great because you are not leaving MICHCON/DTE with this offer. MICHCON/DTE will still deliver the gas to you, and in the event of any emergencies they are still the ones to call. When you take advantage of MXenergy's Winter Fixed Rate Plan the only thing that changes is your Natural Gas supplier. So let's get you started today, okay?

Sounds to good to be true/What's the catch

Mr. /Ms. [CUSTOMER NAME], our contract is unconditional, which means there are no surprises down the road. Once you sign with MXenergy you will receive a letter with the full terms and conditions outlined. You also have 30 calendar days to review this information. So please take the time to review this information and to consider your decision. So let's get you started today, okay?

I've done fixed rates with other services before and they had hidden cost

I can understand your concerns; however, MXenergy offers a straight-forward plan with no hidden fees, no escalation charges and no surprises. Keep in mind that after you've made the decision to enroll with MXenergy you will receive everything in writing in a few days. If you should change your mind, just call the number on the letter within 30 calendar days and you can cancel without a fee. So let's get you started today, okay?

I don't want to pay a higher rate for natural gas

I can understand that, Mr. /Ms. [CUSTOMER NAME], because no one wants to pay higher gas costs than they have to. That's part of the reason why a Winter Fixed Rate Plan is so great. The price for natural gas in North America has more than doubled since 2000. With MXenergy's Float to Winter Fixed Rate Plan you'll be able to budget your gas usage and protect yourself from any unexpected price spikes during the peak Winter heating season. So let's get you started today, okay?

MICHCON/DTE is not my current utility:

I am sorry, in order to get you setup with MXenergy, MICHCON/DTE must be your utility. I'm sorry to have bothered you today. If you have any questions about this call, please call **1-800-456-0565**.

FAQ'S

Q: Am I Guaranteed to Save Money?

A: Mr. /Ms. [CUSTOMER NAME] unfortunately no one knows what the price of gas is going to be next month or next year. However, I'm sure you've noticed then that MICHCON/DTE's gas rates have gone up as much as 96% in the last three years. With MXenergy's Winter Fixed Rate Plan, you'll have peace of mind knowing that you'll be protected from these sudden price increases for seven months with MXenergy's Winter fixed rate of One dollar and eighteen point one cents per Ccf between your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period. So let's get you started today, okay?

Q: What happens if I change my mind/Can I change my mind?

A: Mr. /Ms. [CUSTOMER NAME] once you've made the decision to enroll with MXenergy you'll receive everything in writing in a few days. If you decide to change your mind, just call the number on the letter within 30 calendar days and you can cancel without a fee. Should you decide to cancel your service after this 30 calendar day period there is a nominal gas recovery fee of only \$150. We don't think you'll want to cancel however because with MXenergy's Winter Fixed Rate Plan, you'll have peace of mind knowing that you'll be protected from sudden price increases for seven months beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period!! So let's get you started today, okay?

Q: Can I cancel later; what if rates go down?

A: That is a great question Mr. /Ms. [CUSTOMER NAME]. Yes, you can always cancel your service at anytime. There is however a nominal gas recovery fee of \$150 you'll be responsible for if you were to cancel before the end of your agreement. We are able to give you a great Winter fixed rate because we pre-purchase your total gas volume for the peak Winter heating season beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period! When you cancel, this fee is used to offset the storage costs of your unused gas. So let's get you started today, okay?

Q: What's the \$150 fee for?

A: We pre-purchase gas volume for the peak Winter heating season beginning with the October 2006 billing cycle and extending through the April 2007 billing cycle, the Winter Period. If a customer cancels our agreement we are left with unused gas and storage costs. If you should choose to terminate your service before the end of the 12 month term, you would be responsible for a nominal gas recovery fee of \$150.

Q: Why doesn't MICHCON/DTE offer this to me directly?

A: That's a great question. MICHCON/DTE, as a state-regulated utility, is required to contract for certain levels of guaranteed gas supply to cover even the coldest days in winter. The cost for gas must be passed along to customers in one uniform rate. The gas company doesn't make a profit on the gas itself; they make their money on the delivery and service. MXenergy, as an unregulated gas supplier, shops the market for the best prices and purchases gas in advance for your home for the peak Winter heating season beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period! This is how we guarantee your price won't change when the market does.

Or

A: That's a great question. The simple answer is that this is a choice program, meaning your utility company is not allowed to make this choice for you. However, this is a program offered to you from MICHCON/DTE.

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

Q: What am I currently paying per Ccf?

A: Based on the MICHCON/DTE posted rate for May, **the price to compare is \$0.895 cents per CCF.** Let me quickly point out that the MICHCON/DTE rate can be adjusted periodically based on MICHCON/DTE's actual cost of gas, which means your rate may fluctuate. And I'm sure you've noticed that gas prices have nearly doubled in North America since 2000. With MXenergy's Winter Fixed Rate Plan, you'll have peace of mind knowing that you'll be protected from these sudden price increases for seven months beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period! So let's go ahead and lock in your rate today, okay?

Q: What rates and prices are other suppliers offering?

A: That's a great question, Mr. /Ms. [CUSTOMER NAME] – I can understand you're interested in shopping around. Energy suppliers offer different pricing and terms for their plans which often change. What I can tell you is that MXenergy's Float to Winter Fixed Rate Plan is a simple and effective plan; our plan includes no hidden charges, escalation fees, and no confusing terms. Your gas use beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle, the Winter Period, will be at the rate we've offered, no matter how high the natural gas price climbs.

Q: Are you switching me now/How soon will this change occur?

A: Once you have chosen to enroll in the Michigan Customer Choice Program, the process normally takes 1 – 2 billing cycles to complete. MXenergy will only be your Natural Gas supplier, providing you the benefits we've discussed today. MICHCON/DTE will still deliver your Natural Gas and handle any emergencies.

Q: Where are you calling from/Are you calling from MICHCON/DTE?

A: I'm calling from MXenergy. We are an approved natural gas supplier in the The Michigan Natural Gas Customer Choice Program.

***If customer asks specifically where you are calling from?**

My name is [AGENT NAME] and I work for [VENDOR NAME], working on behalf of MXenergy. We are physically located at [VENDOR ADDRESS] and our phone number is [VENDOR NUMBER].

Q: MICHCON/DTE is not my current natural gas provider/ I'm a Choice Customer now. Can I change?

A: I'm glad to hear that you've taken advantage of your power to choose. You can change, but if the term of your current agreement has not expired you may want to contact your current supplier regarding its policy on early cancellations. And if you switched to them within the last twelve months, MICHCON/DTE may charge you \$10 to switch to the MXenergy plan.

Q: I don't want to risk my gas getting cut off?

A: I can certainly understand that concern. MXenergy's Float to Winter Fixed Rate Plan will in no way affect your continuing gas supply. Your local utility will still continue to monitor, maintain, and provide all the services they have in the past. MXenergy will just be the supplier of your natural gas.

Q: How do I qualify for this?

A: You must heat your home with natural gas and be current on your natural gas bill.

Q: Where will my bill come from?

A: DTE Energy will send you the same bill they always have and you will see your new rates on that bill with MXenergy listed as the supplier.

Q: Who will read my meter?

A: MICHCON/DTE will continue to read your meter just as they always have.

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

Q: What happens at the end of my term?

A: You will receive a notice from MXenergy with a new offer. You can continue receiving gas from MXenergy or you can return to MICHCON/DTE for your gas supply at that time.

Q: Do I have to do this?

A: No, this is a choice program. However, the only way for you to receive MXenergy's guaranteed Winter fixed rate on the natural gas supply portion of your DTE Energy bill is to enroll.

Q: Are there any extra fees for this?

A: There are no extra charges. This is a free program put together by your gas company and the public utility/service commission in your state.

Q: Why do you have to transfer me to a third party?

A: It is required that a Third Party verify and re-confirm everything we've discussed today. It's for your protection.

Q: Who is authorized to make changes?

A: The person whose name appears on the bill or any person over the age of 18 that has been authorized by the account holder.

Q: How long has MXenergy been servicing my area?

A: MXenergy has been servicing customers in your area with natural gas since 2001.

Q: Why does it take so long to change my service?

A: In most instances it does not take this long but it can take up to 1-2 billing cycles. The welcome letter you'll receive in a few days will outline the process.

Q: Why would your Winter Fixed Rate Plan be better than the utility variable rate?

A: That's a great question. Our Winter Fixed Rate Plan protects your gas bill when you need it most during the peak Winter heating season. MICHCON/DTE's gas rates have increased as much as 96% over the last three years.

Q: What is The Michigan Natural Gas Customer Choice Program?

A: The Michigan Natural Gas Customer Choice Program is an opportunity for residential customers to buy their natural gas from another supplier. MICHCON/DTE will still distribute the gas to your home, read your meter, respond to any emergencies and provide the superior service you have come to rely on.

Q: Can I keep MICHCON/DTE as my supplier?

A: Yes. If you've never participated in The Michigan Natural Gas Customer Choice Program and want to keep MICHCON/DTE as your supplier, no action is required by you. MICHCON/DTE will automatically remain your supplier of record.

Q: Is there a deadline for signing up?

A: No. The Michigan Natural Gas Customer Choice Program has open enrollment. You may elect to sign up at any time. It can take up to two bills to reflect your choice of supplier.

Q: Why offer Customer Choice?

A: Because it's the right thing to do. The Michigan Natural Gas Customer Choice Program is a program your utility company is able to offer eligible customers as a result of competition in the natural gas industry. MICHCON/DTE believes that by opening the market to competition, their customers can take advantage of pricing options and new services.

MxEnergy – MICHCON/DTE WINTER FIXED rate Script

May 12, 2006

Q: What is the price to compare?

A: Your total natural gas charge is divided into 2 parts: the gas supply charge (the cost for the gas) and the distribution charge (the cost of delivering that gas to your home). The "price to compare" is the cost of gas per hundred cubic feet (CCF) that you pay to MICHCON/DTE if you purchase gas from them.

Q: Can you guarantee your fixed rate will be lower than MICHCON/DTE's rates?

A: NO. Mr./Ms. _____, no one can say for sure what gas prices are going to be in the future. Our fixed rate price protection plan gives you peace of mind that you are protected from potential future price increases.

Q: What will my rate be after the April 2007 Billing Cycle?

A: Mr./Ms. _____, we can't guarantee what your rate will be after your April 2007 billing cycle as gas prices are constantly changing. Assuming that your 12 month term was not complete by then, you'd be on our month to month variable rate until the end of your 12 month term.

Q: How does the Winter Fixed Rate Plan Work?

A: Mr./Ms. _____, you would become an MXenergy natural gas customer for a 12 month term. For the first part of the plan, through your September billing cycle, you'd be on our month to month variable rate, similar to what you are on now with Michcon/DTE. Beginning with your October billing cycle and extending through your April billing cycle, you would then be locked into a Winter fixed rate for 7 months at \$1.181 per Ccf. And, if your 12 month term has not expired by then, you would return to our month to month variable rate for the remainder of the term. So, the plan is 7 months Winter fixed and 5 months variable, month to month.

Q: Does MICHON'S gas costs stay the same for an entire year?

A: MICHCON/DTE's gas supply cost is subject to change on a monthly basis. MICHCON/DTE then passes the cost of gas to you with no mark-up or profit. In order to bill you accurately for gas charges, they may adjust your rate up or down based on the actual cost of gas.

Q: Do you have Budget Billing?

A: No, since MICHCON/DTE sends you your bills, you will have to work out Budget Billing through them.

Q: What is MXenergy's current variable rate?

A: The MXenergy May variable rate is \$1.03/Ccf

Q: What will MXenergy's Winter Fixed Rate be?

A: \$1.181/Ccf for seven months beginning with the October 2006 billing cycle and extending through the April 2007 billing cycle, the Winter Period. For the other 5 months of the one year term, you will be on a month to month variable rate.

Q: What is MICHCON/DTE's current rate?

A: \$0.895/Ccf

Q: What is MICHON'S phone number?

Their number is 1-800-477-4747

Q: What is the Michigan Public Service Commission's phone number?

Their number is 1-800-292-9555

DNC Close

I understand Mr. /Ms. [CUSTOMER NAME]. We want to place calls only to people who are interested in receiving new information or updates about our offers. We will remove your name as you requested. Please be aware that you may receive another call before your name removal takes effect due to the processing time required. We regret any inconvenience this may cause. Thank you again for your request and if you have any questions about this call, you may call **1-800-456-0565**.

Why Will It Take So Long to Remove My Name from Your List?

I know it seems like a long time, but because you may be eligible for several different marketing offers, it may take that long to remove your name from all appropriate lists. As I stated, this can take anywhere from 4-12 weeks. In the meantime, if you do get another call, you should let the person know you have made a request to have your name deleted. Mr. /Ms. [CUSTOMER NAME] we will do everything possible to make sure that your request will be honored as soon as possible. (GO TO NON SALE COURTESY CLOSE)

**I'm on the National/State Do Not Call List Close
DNC Close**

Why did you call me/I'm on the DNC List?

I'm very sorry for inconveniencing you Mr. /Ms. [CUSTOMER NAME]. We did purchase the National Do Not Call Registry and apply it to our files prior to making calls. There are two possible reasons why your phone number is in our database.

- 1) Depending on when you registered, you may remain on telemarketers' lists for up to three months from the date you registered.
- 2) Or, an error may have occurred during the on-line registration process. If you did not complete the process by opening the email from Register@donotcall.com and clicking on the link provided, then you are not officially registered. You also needed to receive a confirmation message saying "Registration complete" after clicking on the link. If any of these things did not occur, you are not yet registered for the Do Not Call list.

GATEKEEPER RESPONSES

Who's calling? /What is this About?

My name is [REP NAME] and I'm calling on behalf of MXenergy. I wanted to speak with him/her about the The Michigan Natural Gas Customer Choice Program. Is [Mr. /Mrs. Last Name] available?

If "No" Customer Unavailable:

That's fine. When would be a better time for me to call back? Thanks! Have a great day/evening! Goodbye.

"You can talk to me":

I'm calling concerning the The Michigan Natural Gas Customer Choice Program. Does your name appear on the bill or are you an authorized account holder?

IF YES: Go to PRESENTATION

IF NO: Continue below

Since (First Name/Last Name) is the person I am authorized to speak with, what would be a good time for me to call back when both of you are available? Thanks! Have a great day/evening! Goodbye.

May I take a message?

There's no message. When would be a more convenient time to call (him / her / them) back? Thank you for your time. Have a great day/evening! Goodbye.

Courtesy Close:

Thanks for your time. Have a great day/evening! Goodbye.

May 24, 2006

«Busname»
«Firname» «Lastname»
«Postalstreet» «Postalunit»
«Postalpobox»
«Postalcity», «POSTALSTATE» «Postalzip» Account:
«LDCaccountnum»

Dear «Firname»:

Congratulations for making a decision to do something about all the uncertainties surrounding natural gas prices. We want to remind you of the key features of the plan you have chosen and make sure you know what will happen next.

Our Winter Fixed Rate Plan has a term of 12 months that begins when you start receiving your natural gas supply from MXenergy. During the coldest time of the year, our Winter Fixed Rate Plan locks in your natural gas rate and is guaranteed not to change. Beginning with your October 2006 billing cycle and extending through your April 2007 billing cycle (the "Winter Period"); you will receive a fixed rate of «Price» per Ccf.

For the other 5 months of your one year term you will receive our month-to-month variable rate. Here's what happens next:

- There are some steps involved with setting up your account with MichCon that usually take a few weeks. After that, **you will see MXenergy listed on your DTE Energy bill** along with charges from MichCon to service your home, read your meter and process your bill.
- **You pay your utility bill directly to DTE Energy.** It's that simple. One bill. One payment.
- If you have any questions about your gas supply lines, appliances or meters, or need to report an emergency, you continue to contact MichCon, just like you always have.
- If you have any questions about the MXenergy portion of your bill, call us directly at 800.785.4373, Monday through Friday 8:00 AM to 6:00 PM EST.

We look forward to having you as a customer!

MXenergy Customer Care Team
www.mxenergy.com

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Comparison of Current Contingent Factor Mechanism Proposals

Line	Close Date							Unweighted Calculations		MC Weighted Avg. Calc.	
			3/1/2006 (Col. 1)	3/2/2006 (Col. 2)	3/3/2006 (Col. 3)	3/6/2006 (Col. 4)	3/7/2006 (Col. 5)	5-Day Avg (Col. 6)	Calculated Averages (Col. 7)	Date Range of Averages (Col. 8)	Schmidt Weighting (Col. 9)
1	January (Close)										
2	February (Close)						\$ 11.4310				
3	March (Close)						\$ 8.4000				
4	April (Close)	6.7330	6.7600	6.7900	6.5470	6.6780	\$ 7.1120	\$ 8.9810	Jan '06 - March '06	-2.00%	\$ (0.1796)
5	May	6.9400	6.9600	6.9950	6.7670	6.8880	\$ 6.7016				
6	June	7.1150	7.1500	7.1900	6.9720	7.0850	\$ 6.9100				
7	July	7.2900	7.3350	7.3750	7.1720	7.2780	\$ 7.1024				
8	August	7.4170	7.4680	7.5120	7.3270	7.4310	\$ 7.2900				
9	September	7.5020	7.5610	7.6050	7.4420	7.5460	\$ 7.4310				
10	October	7.6070	7.6730	7.7170	7.5720	7.6760	\$ 7.5312				
11	November	8.7220	8.7630	8.7870	8.6720	8.7710	\$ 7.6490	\$ 7.2307	April '06 - Oct '06		
12	Dec-06	9.7420	9.7680	9.7770	9.6820	9.7810	\$ 7.6787	\$ 7.6787	April '06 - Dec '06	58.00%	\$ 4.4536
13	January	10.4320	10.4530	10.4570	10.3720	10.4710	\$ 8.7430	\$ 8.0043	Jan '06 - Dec '06		
14	February	10.4370	10.4580	10.4620	10.3770	10.4760	\$ 9.7500				
15	March	10.2420	10.2630	10.2670	10.1820	10.2810	\$ 10.4370	\$ 10.3753	Jan '07 - March '07	27.00%	\$ 2.8013
16	April	8.5020	8.5230	8.5570	8.5220	8.6210	\$ 10.4420	\$ 8.3529	April '06 - March '07		
17	May	8.3220	8.3430	8.3770	8.3420	8.4410	\$ 10.2470				
18	June	8.3820	8.4030	8.4370	8.4020	8.5010	\$ 8.5450				
19	July	8.4570	8.4780	8.5120	8.4770	8.5760	\$ 8.3650				
20	August	8.5270	8.5480	8.5820	8.5470	8.6460	\$ 8.4250				
21	September	8.5520	8.5730	8.6070	8.5740	8.6730	\$ 8.5000				
22	October	8.6220	8.6430	8.6770	8.6470	8.7460	\$ 8.5700				
23	November	9.2620	9.2830	9.3070	9.2770	9.3760	\$ 8.5958				
24	Dec-07	9.8370	9.8580	9.8920	9.8670	9.9660	\$ 8.6670	\$ 8.7614	April '07 - Dec '07	17.00%	\$ 1.4894
25	Avg. for April '05 - March '06 (X _{Plan})						\$ 9.3010	\$ 9.1649	Jan '07 - Dec '07		
26	Plan Average					(X Unweighted)	\$ 9.8840			100%	\$ 8.5648
27	Difference					(X Plan - X Unweighted)	\$ 10.9500			(X Weighted)	\$ 10.9500
							\$ (2.5972)			(X Plan - X Weighted)	\$ (2.3852)

Comparison of Contingent Factors

		Staff Contingent Factor		MichCon Contingent Factor			
		Multi-Input Calculations (Col. 1)	New GCR Factor Calculation (Col. 2)	Weighted Averages		Unweighted Averages	
				(2.3852)	(2.3852)	(2.5972)	(2.5972)
				Differential Using FM = 1.2 (Col. 3)	Differential Using FM = 1.134 (Col. 4)	Differential Using FM = 1.2 (Col. 5)	Differential Using FM = 1.134 (Col. 6)
28	GCR Base Factor		\$ 12.150				
	Flowing						
29	March 1 - March 7 Avg NYMEX Price	\$ 8.35					
30	Plan NYMEX Price	\$ 11.22					
31	Difference	\$ (2.87)	\$ (3.024)				
	2006 LIFO						
32	Actual 2006 Average	\$ 8.00					
33	Plan 2006 LIFO	\$ 11.61					
34	Difference	\$ (3.61)	\$ 0.630				
	2007 LIFO						
35	Actual 2007 Average	\$ 9.16					
36	Plan 2007 LIFO	\$ 10.15					
37	Difference	\$ (0.99)	\$ (0.219)				
38	New GCR Factor		\$ 9.538	\$ 9.288	\$ 9.445	\$ 9.033	\$ 9.205
39	Differentials (Staff - MichCon)			\$ 0.250	\$ 0.092	\$ 0.504	\$ 0.333
	Overrecovery Adjustment (\$96 million)		\$ (0.710)	\$ (0.710)	\$ (0.710)	\$ (0.710)	\$ (0.710)
	New GCR Factor w/Adjustment		\$ 8.828	\$ 8.578	\$ 8.735	\$ 8.323	\$ 8.495

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Comparison of Current Contingent Factor Mechanism Proposals

Line	Close Date							Unweighted Calculations		MC Weighted Avg. Calc.	
		4/12/2006 (Col. 1)	4/13/2006 (Col. 2)	4/17/2006 (Col. 3)	4/18/2006 (Col. 4)	4/19/2006 (Col. 5)	5-Day Avg. (Col. 6)	Unweighted Averages (Col. 7)	Date Range of Averages (Col. 8)	Schmidt Weighting (Col. 9)	Weighted Averages (Col. 10)
1	January (Close)						\$ 11.4310				
2	February (Close)						\$ 8.4000				
3	March (Close)						\$ 7.1120	\$ 8.9810	Jan '06 - March '06	-2.00%	\$ (0.1796)
4	April (Close)						\$ 7.2330				
5	May	6.8080	7.1350	7.5770	8.0080	8.1920	\$ 7.5440				
6	June	7.0180	7.3450	7.7870	8.2250	8.4100	\$ 7.7570				
7	July	7.2430	7.5750	8.0070	8.4450	8.6400	\$ 7.9820				
8	August	7.4380	7.7730	8.2070	8.6500	8.8500	\$ 8.1836				
9	September	7.6230	7.9550	8.3820	8.8300	9.0400	\$ 8.3660				
10	October	7.8180	8.1500	8.5770	9.0280	9.2400	\$ 8.5626	\$ 7.9469	April '06 - Oct '06		
11	November	9.1180	9.4000	9.7770	10.2230	10.5050	\$ 9.8046	\$ 8.4880	April '06 - Dec '06	58.00%	\$ 4.9230
12	Dec-06	10.3130	10.5400	10.8870	11.3530	11.7030	\$ 10.9592	\$ 8.6113	Jan '06 - Dec '06		
13	January	11.0680	11.2750	11.5970	12.0630	12.4500	\$ 11.6906				
14	February	11.0630	11.2650	11.5820	12.0480	12.4350	\$ 11.6786	\$ 11.6203	Jan '07 - March '07	27.00%	\$ 3.1375
15	March	10.8930	11.0850	11.3970	11.8530	12.2300	\$ 11.4916	\$ 9.2711	April '06 - March '07		
16	April	9.1930	9.3350	9.5770	9.8030	10.0000	\$ 9.5816				
17	May	9.0180	9.1550	9.3920	9.5930	9.7800	\$ 9.3876				
18	June	9.0850	9.2220	9.4590	9.6600	9.8450	\$ 9.4542				
19	July	9.1630	9.3000	9.5370	9.7380	9.9230	\$ 9.5322				
20	August	9.2250	9.3620	9.5970	9.7930	9.9750	\$ 9.5904				
21	September	9.2630	9.4020	9.6370	9.8280	10.0150	\$ 9.6290				
22	October	9.3430	9.4820	9.7170	9.9030	10.0850	\$ 9.7060				
23	November	10.0080	10.1470	10.3770	10.5630	10.7400	\$ 10.3670	\$ 9.8060	April '07 - Dec '07	17.00%	\$ 1.6670
24	Dec-07	10.6480	10.7870	11.0170	11.2030	11.3750	\$ 11.0060	\$ 10.2596	Jan '07 - Dec '07		
25	Avg. for May '05 - March '06 (X _{Plan})						\$ 9.4563			100%	\$ 9.5479
26	Plan Average					(X Unweighted)	\$ 10.9500			(X Weighted)	\$ 10.9500
27	Difference					(X Plan - X Unweighted)	\$ (1.4937)			(X Plan - X Weighted)	\$ (1.4021)

Comparison of Contingent Factors

Staff Contingent Factor		MichCon Contingent Factor			
Multi-Input Calculations (Col. 1)	New GCR Factor Calculation (Col. 2)	Weighted Averages		Unweighted Averages	
		(1.4021) Differential Using FM = 1.2 (Col. 3)	(1.4021) Differential Using FM = 1.134 (Col. 4)	(1.4937) Differential Using FM = 1.2 (Col. 5)	(1.4937) Differential Using FM = 1.134 (Col. 6)
28	GCR Base Factor	\$ 12.150			
Flowing					
29	April 12 - April 19 Avg. NYMEX Price	\$ 9.27			
30	Plan NYMEX Price	\$ 11.22			
31	Difference	\$ (1.95)	\$ (2.069)		
2006 LIFO					
32	Actual 2006 Average	\$ 8.61			
33	Plan 2006 LIFO	\$ 11.61			
34	Difference	\$ (3.00)	\$ 0.525		
2007 LIFO					
35	Actual 2007 Average	\$ 10.26			
36	Plan 2007 LIFO	\$ 10.15			
37	Difference	\$ 0.11	\$ 0.023		
38	New GCR Factor	\$ 10.629	\$ 10.467	\$ 10.560	\$ 10.358
39	Differentials (Staff - MichCon)	\$ 0.162	\$ 0.069	\$ 0.271	\$ 0.173
	Overrecovery Adjustment (\$96 million)	\$ (0.710)	\$ (0.710)	\$ (0.710)	\$ (0.710)
	New GCR Factor w/Adjustment	\$ 9.919	\$ 9.757	\$ 9.850	\$ 9.648

Quarterly GCR Factor

(Continued From Sheet No. E-3.01)

Quarterly GCR Factor Ceiling Price Adjustment (Contingency) Mechanism

The following Contingent Gas Cost Recovery Factors are authorized for the April 2006 through March 2007 GCR plan period:

	1 st Quarter: Apr - Mar	2 nd Quarter: Jul - Mar	3 rd Quarter: Oct - Mar	4 th Quarter: Jan - Mar
Fractional Mult. F_m	1.20	1.20	1.00	0.60
Plan NYMEX (X_{plan})	\$10.95	\$11.03	\$11.19	\$11.11
NYMEX Increase	Contingent GCR Price Ceiling (Rate per Ccf)			
$X - X_{plan} < 0.10$	\$1.144	\$1.144	\$1.144	\$1.144
$X - X_{plan} < 0.20$	\$1.156	\$1.156	\$1.154	\$1.500
$X - X_{plan} < 0.30$	\$1.168	\$1.168	\$1.164	\$1.156
$X - X_{plan} < 0.40$	\$1.180	\$1.180	\$1.174	\$1.162
$X - X_{plan} < 0.50$	\$1.192	\$1.192	\$1.184	\$1.168
$X - X_{plan} < 0.60$	\$1.204	\$1.204	\$1.194	\$1.174
$X - X_{plan} < 0.70$	\$1.216	\$1.216	\$1.204	\$1.180
$X - X_{plan} < 0.80$	\$1.228	\$1.228	\$1.214	\$1.186
$X - X_{plan} < 0.90$	\$1.240	\$1.240	\$1.224	\$1.192
$X - X_{plan} < 1.00$	\$1.252	\$1.252	\$1.234	\$1.198
$X - X_{plan} < 1.10$	\$1.264	\$1.264	\$1.244	\$1.204
$X - X_{plan} < 1.20$	\$1.276	\$1.276	\$1.254	\$1.210
$X - X_{plan} < 1.30$	\$1.288	\$1.288	\$1.264	\$1.216
$X - X_{plan} < 1.40$	\$1.300	\$1.300	\$1.274	\$1.222
$X - X_{plan} < 1.50$	\$1.312	\$1.312	\$1.284	\$1.228
$X - X_{plan} < 1.60$	\$1.324	\$1.324	\$1.294	\$1.234
$X - X_{plan} < 1.70$	\$1.336	\$1.336	\$1.304	\$1.240
$X - X_{plan} < 1.80$	\$1.348	\$1.348	\$1.314	\$1.246
$X - X_{plan} < 1.90$	\$1.360	\$1.360	\$1.324	\$1.252
$X - X_{plan} < 2.00$	\$1.372	\$1.372	\$1.334	\$1.258
$X - X_{plan} < 2.10$	\$1.384	\$1.384	\$1.344	\$1.264
$X - X_{plan} < 2.20$	\$1.396	\$1.396	\$1.354	\$1.270
$X - X_{plan} < 2.30$	\$1.408	\$1.408	\$1.364	\$1.276
$X - X_{plan} < 2.40$	\$1.420	\$1.420	\$1.374	\$1.282
$X - X_{plan} < 2.50$	\$1.432	\$1.432	\$1.384	\$1.288
$X - X_{plan} < 2.60$	\$1.444	\$1.444	\$1.394	\$1.294
$X - X_{plan} < 2.70$	\$1.456	\$1.456	\$1.404	\$1.300
$X - X_{plan} < 2.80$	\$1.468	\$1.468	\$1.414	\$1.306
$X - X_{plan} < 2.90$	\$1.480	\$1.480	\$1.424	\$1.312
$X - X_{plan} < 3.00$	\$1.492	\$1.492	\$1.434	\$1.318
$X - X_{plan} \geq 3.00$	\$1.504	\$1.504	\$1.444	\$1.324

" X " is the weighted average of the actual NYMEX monthly natural gas futures contract prices (in \$/MMBtu) for the GCR period.

ISSUED BY
M. E. CHAMPLEY
SENIOR VICE PRESIDENT
REGULATORY AFFAIRS

DETROIT, MICHIGAN

EFFECTIVE FOR BILLS RENDERED
ON AND AFTER FIRST BILLING CYCLE OF
THE APRIL 2006 BILLING MONTH THROUGH
THE LAST BILLING CYCLE OF MARCH 2007
ISSUED UNDER AUTHORITY OF 1982 PA 304
SECTION 6H AND MICHIGAN PUBLIC
SERVICE COMMISSION IN CASE
IN CASE NO. U-14717

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Historical Comparison of Staff and MichCon Contingent Factor Mechanism Proposals (U-13902)
March Calculation for Remaining 12 Months of GCR Period

Line	Close Date	3/1/2005 (Col. 1)	3/2/2005 (Col. 2)	3/3/2005 (Col. 3)	3/4/2005 (Col. 4)	3/7/2005 (Col. 5)	5-Day Avg. (Col. 6)	Calculated Averages (Col. 7)	Date Range of Averages (Col. 8)
1	January (Close)						\$ 6.2130		
2	February (Close)						\$ 6.2280		
3	March (Close)						\$ 6.3040		
4	April	6.6800	6.7170	6.6570	6.7440	6.7140	\$ 6.7024		
5	May	6.7720	6.8120	6.7720	6.8560	6.8460	\$ 6.8116		
6	June	6.8420	6.8940	6.8590	6.9410	6.9340	\$ 6.8940		
7	July	6.9050	6.9590	6.9340	7.0130	7.0120	\$ 6.9646		
8	August	6.9350	6.9910	6.9700	7.0470	7.0520	\$ 6.9990		
9	September	6.9400	6.9970	6.9800	7.0570	7.0670	\$ 7.0082		
10	October	6.9620	7.0190	7.0030	7.0820	7.0940	\$ 7.0320	\$ 6.9160	DCA April '05 - Oct '05
11	November	7.3250	7.3840	7.3810	7.4570	7.4760	\$ 7.4046		
12	Dec-05	7.6830	7.7440	7.7480	7.8270	7.8540	\$ 7.7712	\$ 6.8611	Jan '05 - Dec '05
13	January	7.9180	7.9760	7.9830	8.0620	8.0920	\$ 8.0062		
14	February	7.8910	7.9460	7.9560	8.0350	8.0650	\$ 7.9786		
15	March	7.7050	7.7610	7.7730	7.8520	7.8820	\$ 7.7946	\$ 7.2806	April '05 - March '06
16	April	6.5650	6.6210	6.6380	6.6920	6.7270	\$ 6.6486		
17	May	6.4250	6.4780	6.4950	6.5490	6.5840	\$ 6.5062		
18	June	6.4500	6.5030	6.5200	6.5740	6.6090	\$ 6.5312		
19	July	6.4800	6.5330	6.5500	6.6040	6.6390	\$ 6.5612		
20	August	6.5100	6.5630	6.5800	6.6340	6.6690	\$ 6.5912		
21	September	6.4850	6.5380	6.5550	6.6090	6.6440	\$ 6.5662		
22	October	6.5050	6.5580	6.5750	6.6290	6.6640	\$ 6.5862		
23	November	6.7950	6.8480	6.8700	6.9240	6.9590	\$ 6.8792		
24	Dec-06	7.0750	7.1230	7.1450	7.1990	7.2340	\$ 7.1552	\$ 6.9837	Jan '06 - Dec '06
25	Avg. for April '05 - March '06 (X _{Plan})						\$ 7.2806		
26	Plan Average						\$ 7.0300		
27	Difference						\$ 0.2506		
28	MichCon Resulting Factor (Exhibit A-33)						\$ 8.2100		

Comparison of Contingent Factors

		Staff Contingent Factor		MC Contingent Factor	
		Multi-Input Calculations (Col. 1)	New GCR Factor Calculation (Col. 2)	MichCon Contingent Factor (Col. 3)	Differential (Col. 4)
29	GCR Base Factor		\$ 7.990		
Index					
30	June 1 - June 7 Avg. NYMEX Price	\$ 7.28			
31	Plan NYMEX Price	\$ 7.03			
32	Difference	\$ 0.25	\$ 0.264		
2005 LIFO					
33	Actual 2005 Average	\$ 6.86			
34	Plan 2005 LIFO	\$ 7.16			
35	Difference	\$ (0.30)	\$ (0.055)		
2006 LIFO					
36	Actual 2006 Average	\$ 6.98			
37	Plan 2006 LIFO	\$ 6.67			
38	Difference	\$ 0.31	\$ 0.068		
39	New GCR Factor		\$ 8.267	\$ 8.210	\$ 0.057

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Historical Comparison of Staff and MichCon Contingent Factor Mechanism Proposals (U-13902)
June Calculation for Remaining 9 Months of GCR Period

Line	Close Date	6/1/2005 (Col. 1)	6/2/2005 (Col. 2)	6/3/2005 (Col. 3)	6/6/2005 (Col. 4)	6/7/2005 (Col. 5)	5-Day Avg. (Col. 6)	Calculated Averages (Col. 7)	Date Range of Averages (Col. 8)
1	January (Close)						\$ 6.2130		
2	February (Close)						\$ 6.2880		
3	March (Close)						\$ 6.3040		
4	April (Close)						\$ 7.3200		
5	May (Close)						\$ 6.7500		
6	June (Close)						\$ 6.1230		
7	July	6.7890	6.8190	6.8800	7.1220	7.1270	\$ 6.9474		
8	August	6.8590	6.8890	6.9530	7.1950	7.1830	\$ 7.0158		
9	September	6.8930	6.9220	6.9860	7.2170	7.1950	\$ 7.0426		
10	October	6.9580	6.9850	7.0510	7.2750	7.2370	\$ 7.1012	\$ 6.9000	DCA April '05 - Oct '05
11	November	7.4930	7.5100	7.5710	7.7600	7.7040	\$ 7.6076		
12	Dec-05	7.9980	8.0100	8.0660	8.2300	8.1570	\$ 8.0922	\$ 6.9004	Jan '05 - Dec '05
13	January	8.3030	8.3150	8.3660	8.5100	8.4270	\$ 8.3842		
14	February	8.3110	8.3270	8.3730	8.5100	8.4270	\$ 8.3896		
15	March	8.1510	8.1700	8.2180	8.3550	8.2670	\$ 8.2322	\$ 7.6459	July '05 - March '06
16	April	7.1260	7.1200	7.1380	7.2350	7.1970	\$ 7.1632		
17	May	6.9910	6.9900	7.0030	7.0950	7.0570	\$ 7.0272		
18	June	7.0370	7.0360	7.0490	7.1410	7.1030	\$ 7.0732		
19	July	7.0840	7.0830	7.0960	7.1880	7.1530	\$ 7.1208		
20	August	7.1210	7.1200	7.1330	7.2230	7.1930	\$ 7.1580		
21	September	7.1110	7.1100	7.1230	7.2180	7.1930	\$ 7.1510		
22	October	7.1510	7.1500	7.1630	7.2560	7.2310	\$ 7.1902		
23	November	7.5110	7.5100	7.5280	7.6210	7.5960	\$ 7.5532		
24	Dec-06	7.8310	7.8300	7.8480	7.9410	7.9110	\$ 7.8722	\$ 7.5263	Jan '06 - Dec '06
25	Avg. for July '05 - March '06 (X _{Plan})						\$ 7.6459		
26	Plan Average						\$ 7.1100		
27	Difference						\$ 0.5359		
28	Resulting Factor (Exhibit A-33)						\$ 8.5400		

Comparison of Contingent Factors

	Staff Contingent Factor			MC Contingent Factor	
	Multi-Input Calculations (Col. 1)	New GCR Factor Calculation (Col. 2)		MichCon Contingent Factor (Col. 4)	Differential (Col. 5)
29	GCR Base Factor		\$ 7.990		
Index					
30	June 1 - June 7 Avg. NYMEX Price	\$ 7.65			
31	Plan NYMEX Price	\$ 7.11			
32	Difference	\$ 0.53	\$ 0.413		
DCA (Staff)					
33	April - October	\$ 6.90			
34	Summer/Winter Strip Ratio	1.12			
35	DCA Calculation	\$ 7.73			
36	Plan DCA	\$ 7.36			
37	Difference	\$ 0.36	\$ 0.038		
DCA (MichCon)					
38	April - October (Actual Average)	\$ 6.90			
39	Plan DCA	\$ 7.36			
40	Difference	\$ (0.46)			
2005 LIFO					
41	Actual 2005 Average	\$ 6.90			
42	Plan 2005 LIFO	\$ 7.16			
43	Difference	\$ (0.26)	\$ (0.029)		
2006 LIFO					
44	Actual 2006 Average	\$ 7.53			
45	Plan 2006 LIFO	\$ 6.67			
46	Difference	\$ 0.86	\$ 0.226		
47	New GCR Factor		\$ 8.638	\$ 8.540	\$ 0.098

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Historical Comparison of Staff and MichCon Contingent Factor Mechanism Proposals (U-13902)
September Calculation for Remaining 6 Months of GCR Period

Line	Close Date	9/1/2005 (Col. 1)	9/2/2005 (Col. 2)	9/6/2005 (Col. 3)	9/7/2005 (Col. 4)	9/8/2005 (Col. 5)	5-Day Avg (Col. 6)	Calculated Averages (Col. 7)	Date Range of Averages (Col. 8)
1	January (Close)						\$ 6.2130		
2	February (Close)						\$ 6.2880		
3	March (Close)						\$ 6.3040		
4	April (Close)						\$ 7.3200		
5	May (Close)						\$ 6.7500		
6	June (Close)						\$ 6.1230		
7	July (Close)						\$ 6.9760		
8	August (Close)						\$ 7.6470		
9	September (Close)						\$ 9.5880		
10	October	11.7570	11.6910	11.6570	11.2010	11.3470	\$ 11.5306	\$ 7.9907	DCA April '05 - Oct '05
11	November	11.9670	11.9410	11.9570	11.6460	11.8670	\$ 11.8756		
12	Dec-05	12.2270	12.2210	12.2420	11.9960	12.2570	\$ 12.1886	\$ 8.2337	Jan '05 - Dec '05
13	January	12.4670	12.4710	12.5020	12.2860	12.5420	\$ 12.4536		
14	February	12.3870	12.3910	12.4200	12.2090	12.4550	\$ 12.3724		
15	March	12.1120	12.1160	12.1450	11.9360	12.1770	\$ 12.0972	\$ 12.0863	Oct '05 - March '06
16	April	9.7120	9.6160	9.6250	9.5060	9.6770	\$ 9.6272		
17	May	9.3820	9.2610	9.2650	9.1610	9.3220	\$ 9.2782		
18	June	9.4110	9.2900	9.2900	9.1870	9.3470	\$ 9.3050		
19	July	9.4520	9.3310	9.3310	9.2280	9.3880	\$ 9.3460		
20	August	9.4940	9.3730	9.3730	9.2710	9.4310	\$ 9.3884		
21	September	9.4740	9.3530	9.3490	9.2470	9.4070	\$ 9.3660		
22	October	9.5040	9.3830	9.3780	9.2760	9.4360	\$ 9.3954		
23	November	9.8640	9.7480	9.7480	9.6460	9.8060	\$ 9.7624		
24	Dec-06	10.2040	10.0930	10.0950	10.0060	10.1660	\$ 10.1128	\$ 10.2087	Jan '06 - Dec '06
25	Avg. for October '05 - March '06 (X _{Plan})						\$ 12.0863		
26	Plan Average						\$ 7.2700		
27	Difference						\$ 4.8163		
28	Resulting Factor (Exhibit A-33)						\$ 10.0900	\$ 11.3500	

Comparison of Contingent Factors

	Staff Contingent Factor				MC Contingent Factor	
	Multi-Input Calculations		New GCR Factor Calculation	New GCR Factor Calculation w/o Cap	New MichCon GCR Factor	New MichCon GCR Factor w/o Cap
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)
29	GCR Base Factor		\$ 7.990	\$ 7.990		
30	Index					
31	Sept 1 - Sept 8 Avg NYMEX Price	\$ 12.09				
32	Plan NYMEX Price	\$ 7.67				
33	Difference	\$ 4.42	\$ 0.842	\$ 1.901		
34	DCA (Staff)					
35	April - October	\$ 7.99				
36	Summer/Winter Strip Ratio	1.12				
37	DCA Calculation	\$ 8.95				
38	Plan DCA	\$ 7.36				
39	Difference	\$ 1.59	\$ 0.364	\$ 0.364		
40	DCA (MichCon)					
41	April - October (Actual Average)	\$ 7.99				
42	Plan DCA	\$ 7.36				
43	Difference	\$ 0.63				
44	2005 LIFO					
45	Actual 2005 Average	\$ 8.23				
46	Plan 2005 LIFO	\$ 7.16				
47	Difference	\$ 1.07	\$ 0.081	\$ 0.081		
48	2006 LIFO					
49	Actual 2006 Average	\$ 10.21				
50	Plan 2006 LIFO	\$ 6.67				
51	Difference	\$ 3.54	\$ 0.567	\$ 1.019		
52	New GCR Factor		\$ 9.844	\$ 11.354	\$ 10.090	\$ 11.350
53	Differentials (Staff - MichCon)				\$ (0.246)	\$ 0.004

Michigan Consolidated Gas Company
2006 - 2007 GCR Plan Case
Historical Comparison of Staff and MichCon Contingent Factor Mechanism Proposals (U-13902)
December Calculation for Remaining 3 Months of GCR Period

Line	Close Date	12/1/2005 (Col. 1)	12/2/2005 (Col. 2)	12/5/2005 (Col. 3)	12/6/2005 (Col. 4)	12/7/2005 (Col. 5)	5-Day Avg (Col. 6)	Calculated Averages (Col. 7)	Date Range of Averages (Col. 8)
1	January (Close)						\$ 6.2130		
2	February (Close)						\$ 6.2880		
3	March (Close)						\$ 6.3040		
4	April (Close)						\$ 7.3200		
5	May (Close)						\$ 6.7500		
6	June (Close)						\$ 6.1230		
7	July (Close)						\$ 6.9760		
8	August (Close)						\$ 7.6470		
9	September (Close)						\$ 9.5880		
10	October (Close)						\$ 13.9070	\$ 8.3301	DCA April '05 - Oct '05
11	November (Close)						\$ 13.8320		
12	Dec-05 (Close)						\$ 11.1800	\$ 8.5107	Jan '05 - Dec '05
13	January	13.0270	13.9310	13.6600	13.4890	13.7000	\$ 13.5614		
14	February	13.1170	13.9510	13.7430	13.5840	13.8100	\$ 13.6410		
15	March	12.9470	13.7650	13.5830	13.4910	13.7360	\$ 13.5044	\$ 13.5689	Jan '06 - March '06
16	April	10.6670	11.0050	10.9830	10.9710	11.0360	\$ 10.9324		
17	May	10.5170	10.7500	10.7130	10.7160	10.7660	\$ 10.6924		
18	June	10.5520	10.7800	10.7440	10.7470	10.7960	\$ 10.7238		
19	July	10.5970	10.8180	10.7840	10.7870	10.8360	\$ 10.7644		
20	August	10.6370	10.8600	10.8280	10.8310	10.8800	\$ 10.8072		
21	September	10.6290	10.8520	10.8200	10.8230	10.8710	\$ 10.7990		
22	October	10.6770	10.8950	10.8650	10.8680	10.9110	\$ 10.8432		
23	November	11.1470	11.3580	11.3300	11.3330	11.3760	\$ 11.3088		
24	Dec-06	11.6120	11.8150	11.7900	11.7930	11.8360	\$ 11.7692	\$ 11.6123	Jan '06 - Dec '06
25	Avg. for Jan '06 - March '06 (X _{Plan})						\$ 13.5689		
26	Plan Average						\$ 7.4700		
27	Difference						\$ 6.0989	w/o Cap	
28	Resulting Factor (Exhibit A-33)						\$ 10.0900	\$ 12.1900	

Comparison of Contingent Factors

		Staff Contingent Factor				MC Contingent Factor	
		Multi-Input Calculations		New GCR Factor Calculation	New GCR Factor Calculation w/o Cap	New MichCon GCR Factor	New MichCon GCR Factor w/o Cap
		(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)
29	GCR Base Factor			\$ 7.990	\$ 7.990		
Index							
30	Dec 1 - Dec 7 Avg NYMEX Price		\$ 13.57				
31	Plan NYMEX Price		\$ 7.93				
32	Difference		\$ 5.64	\$ 0.552	\$ 1.585		
DCA (Staff)							
33	April - October	\$ 8.33					
34	Summer/Winter Strip Ratio	1.12					
35	DCA Calculation		\$ 9.33				
36	Plan DCA		\$ 7.36				
37	Difference		\$ 1.97	\$ 0.552	\$ 0.552		
DCA (MichCon)							
38	April - October (Actual Average)		\$ 8.33				
39	Plan DCA		\$ 7.36				
40	Difference		\$ 0.97				
2006 LIFO							
41	Actual 2006 Average		\$ 11.61				
42	Plan 2006 LIFO		\$ 6.67				
43	Difference		\$ 4.94	\$ 0.948	\$ 2.381		
44	New GCR Factor			\$ 10.042	\$ 12.508	\$ 10.090	\$ 12.190
45	Differentials (Staff - MichCon)					\$ (0.048)	\$ 0.318

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
Michigan Consolidated Gas Company)
for 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

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

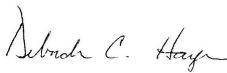
ESTELLA R. BRANSON, being duly sworn, deposes and says that on the 25th day of May, 2006, she served a copy of Michigan Consolidated Gas Company's Rebuttal Testimony and Exhibits of George H. Chapel and Jennifer C. Schmidt to be served upon the parties on the attached service list via electronic mail.

Estella R. Branson

Digitally signed by Estella R. Branson
DN: cn=Estella R. Branson, c=US, o=Regulatory Affairs,
ou=Detroit Edison/MichCon, email=bransone@deenergy.
com
Date: 2006.05.25 17:06:07 -04'00'

ESTELLA R. BRANSON

Subscribed and sworn to before
me this 25th day of May, 2006



Deborah C. Hayes
Notary Public, State of MI, County
of Oakland, My Commission
Expires 1/18/12, Acting in County
of Wayne
2006.05.25 17:08:05 -04'00'

Notary Public

MPSC Case No. U-14717
PAPERLESS CASE - ELECTRONIC SERVICE ONLY
2006-2007 MichCon GCR PLAN
April 10, 2006

ADMINISTRATIVE LAW JUDGE

Hon. James N. Rigas
Michigan Public Service Commission
6545 Mercantile Way, Ste. 15
Lansing, MI 48911
(517) 241-6060
(517) 241-6061 (fax)
e-mail: jnrigas@michigan.gov

MPSC STAFF

Kristin M. Smith
Assistant Attorney General
6545 Mercantile Way, Suite 15
Lansing, Michigan 48911
(517) 241-6680
e-mail: smithkm@michigan.gov

MICHIGAN ATTORNEY GENERAL

Michael E. Moody
Assistant Attorney General
Special Litigation Division
6th Floor, G. Mennen Williams Building
525 W. Ottawa Street
Lansing, Michigan 48913
(517) 373-1123
e-mail: moodyme@michigan.gov

**RESIDENTIAL RATEPAYER
CONSORTIUM (RRC)**

David L. Shaltz
2379 Woodlake Drive
Suite 480-B
Okemos, MI 48864
(517) 347-8925
e-mail: dshaltz@sbcglobal.net

Ralph Miller
5502 Western Avenue
Chevy Chase, MD 20815
e-mail: ralphmiller@ralphmiller.org

Frank J. Hollewa
EPEC
6182 Grovedale Court
Suite 100
Alexandria, VA 22310
e-mail: fjhepec@starpower.net

**MICHIGAN COMMUNITY ACTION
AGENCY ASSOCIATION (MCAAA)**

Don L. Keskey, Esq.
212 E. Grand River Avenue
Lansing, MI 48906
(517) 318-3014
(517) 318-3099 fax
e-mail: dkeskey@clarkhill.com