

DTE Energy



MichCon

RICHARD P. MIDDLETON, ESQ.
Legal Department
(313) 235-3647

May 31, 2006

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

Re: In the matter of the application of Michigan Consolidated Gas Company for
accounting approvals related to implementation costs of its Performance
Excellence Process
MPSC Case No. U-14909

Dear Ms. Kunkle:

Attached for electronic filing is Michigan Consolidated Gas Company's Application for
Accounting Authority along with a Proof of Service.

Very truly yours,

Richard P. Middleton

RPM/kbt
Attachments
cc: Service List

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of Michigan)
Consolidated Gas Company for accounting)
approvals related to implementation costs)
of its Performance Excellence Process)

Case No. U-14909

MICHIGAN CONSOLIDATED GAS COMPANY'S APPLICATION
FOR ACCOUNTING AUTHORITY

Michigan Consolidated Gas Company ("MichCon" or "Company"), files this Application seeking Michigan Public Service Commission (Commission) approval to use certain accounts and accounting practices to track implementation costs associated with the Company's Performance Excellence Process ("PEP"). In support of its request MichCon states as follows:

1. MichCon is a subsidiary of DTE Energy Company, a Michigan corporation with its principle offices located at 2000 Second Avenue, Detroit, Michigan 48226. MichCon is a public utility, subject to the jurisdiction of the Michigan Public Service Commission ("MPSC" or "Commission") engaged in the acquisition, storage, transportation, distribution and sale of natural gas and other related services to 1.2 million residential, commercial, and industrial customers within the State of Michigan.

2. MichCon continuously strives to improve efficiencies and lower costs, while maintaining reliable customer services at reasonable rates. Recently, MichCon began a comprehensive PEP plan to address the near-term economic outlook for the State of Michigan and for the Company. The PEP plan, which focuses on company-wide cost savings and performance improvements, is a logical outgrowth of the Company's need to

address its role in Michigan's economic future, and maintain its continuous improvement efforts that began several years ago.

3. MichCon anticipates that the PEP will be implemented over a two to three year period beginning in 2006. While the Company has preliminary estimates of approximately \$40 to 60 million in potential annual steady state O&M savings from the Performance Excellence Process, the final outcomes and ultimate workforce impacts are not yet fully known. As the PEP plan progresses, the savings, implementation costs, as well as the ultimate outcomes will come into sharper focus. While total cost savings will not be finalized until the PEP process is complete, MichCon's initial implementation efforts indicate that a portion of the cost savings will be achieved through reductions in employee levels, resulting in lower labor, benefit and related expenses.

4. To achieve the savings intended from the PEP plan, various implementation costs ("Costs to Achieve" or "CTA") will be incurred including consulting and project management expenses, and costs associated with exiting employees. Costs related to employee reductions will include severance allowances and related payroll taxes, outplacement services, potential pension and other post-employment benefit ("OPEB") curtailment charges, as well as pension and OPEB special termination charges. Preliminary estimates indicate that the CTA necessary to attain the intended PEP efficiencies and savings will be in the range of approximately \$55 million to \$60 million. With this Application MichCon is requesting Commission authorization to defer, for accounting purposes in anticipation of future ratemaking treatment, the CTA expenditures associated with the PEP program.

5. Specifically, MichCon proposes to defer the curtailment and special termination charges for pensions as part of its currently required pension deferral accounting. This means, these costs will off-set a portion of the Company's regulatory pension liability.

6. MichCon also proposes to defer, in account 186, non-pension related costs in the year in which the cost is recognized. While the initial charges may be recorded to various expense accounts, MichCon proposes to record the credit portion of the deferral entry to account 930.2. Much of the PEP CTA is expected to be recognized in 2006, but some may be recognized in 2007 or later years.

7. Some of the CTA expenses recognized in 2006 will be estimated and recorded at their present value (discounted amount) to reflect that the cash payment will occur in 2007 or 2008, as required under generally accepted accounting principles. Accretion expense will be recorded subsequent to the initial expense until the full amount of cash paid is recorded. MichCon proposes to defer the initial charge, the subsequent accretion expense, and any adjustments replacing estimates with actual cash payments in 2007 or 2008.

8. The Company proposes to amortize to account 425 the deferred charges over a five-year period beginning with the year subsequent to the year the expense was recorded. For example, expenses recorded and deferred in 2006 will be amortized beginning January 1, 2007. Since the costs to achieve the PEP savings will be incurred up front while the savings will be realized during subsequent years, this deferral and amortization method will result in a better matching of the CTA expenses with the expected savings from the PEP program.

9. Although an amortization period less than five years is warranted in light of the PEP savings, the Company is proposing the five year amortization in order to provide a reasonable matching of savings and CTA. A five year amortization is appropriate because it affords the Company a reasonable time to recover the CTA and also will provide meaningful benefits to customers because of the significant PEP cost savings. A longer amortization period would inappropriately stretch-out MichCon's ability to recover prudently incurred CTA, providing immediate benefits to customers but stretching out the Company's cash recovery of prudently incurred expenses.

10. Moreover, the five year amortization period is consistent with the Commission's typical policy for one time costs incurred for the purpose of generating future savings. For example, five year amortization periods were adopted by the Commission in the past for the workforce reduction costs and the pension settlement costs. One specific instance where the Commission used a 5 year amortization for cost associated with a workforce reduction, is MichCon's 1979 early retirement program that resulted in the early retirement of about 450 employees through the offering of incentives to certain qualified employees and involuntary terminations. The Commission also approved the deferral and amortization of certain costs associated with the reduction in the workforce of Southeastern Michigan Gas Company in 1985 (Case No. U-8088), and in 1986, for a workforce reduction program of Michigan Gas Utilities (Case. No. U-8405).

11. Some of the PEP program costs have been expensed in 2005. MichCon is not asking for deferral of these previously recorded expenses. In addition, MichCon is not

asking for deferral of capital costs related to the PEP because the Company expects capital expenditures to be reviewed in future general rate cases.

12. The accounting authority requested in this Application will not result in any increase in MichCon's rates or charges for natural gas service. Moreover, approval of this Application does not preclude parties to a future MichCon general rate case from challenging the recovery, through future rates of amortized or unamortized PEP CTA expenditures. Thus, approval of this Application is appropriate without notice and hearing as provided for in MCL 460.6a.

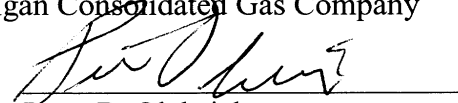
13. The Commission has jurisdiction to approve the relief requested in this Application pursuant to 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; and 1909 PA 300, as amended MCL 462.2 et. seq.

WHEREFORE, Michigan Consolidated Gas Company respectfully requests that the Commission issue an order without notice or hearing as expeditiously as possible authorizing the Company to account for the Costs to Achieve its performance Excellence process as described in this Application.

Respectfully submitted,

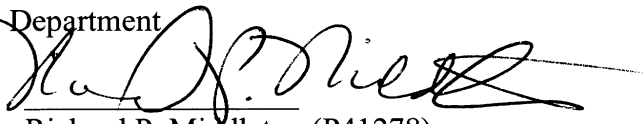
Michigan Consolidated Gas Company

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Date: May 31, 2006

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of Michigan)
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PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

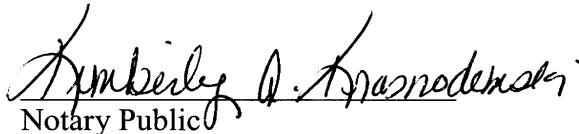
ESTELLA R. BRANSON, being duly sworn, deposes and says that on the 31st day of May, 2006, a copy of MICHIGAN CONSOLIDATED GAS COMPANY'S APPLICATION FOR ACCOUNTING AUTHORITY in the above captioned matter was served upon the persons on the attached service list via e-mail.

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: 2006.05.31 16:14:28 -0400

ESTELLA R. BRANSON

Subscribed and sworn to before
me this 31st day of May, 2006.


Notary Public

KIMBERLY A. KRASNODEMSKI
NOTARY PUBLIC WAYNE CO., MI
MY COMMISSION EXPIRES May 9, 2007

MPSC Case No. U-14909

May 30, 2006

SERVICE LIST

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