

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
MICHIGAN GAS COMPANY and)	
SOUTHEASTERN MICHIGAN GAS COMPANY)	Case No. U-11220
for authority to merge and increase rates for the)	
sale and transportation of natural gas and related)	
approvals.)	
_____)	

At the October 29, 1997 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
 Hon. John C. Shea, Commissioner
 Hon. David A. Svanda, Commissioner

OPINION AND ORDER

On December 10, 1996, Michigan Gas Company and Southeastern Michigan Gas Company (Southeastern), jointly referred to as SEMCO Energy Gas Company¹ (SEMCO), filed a joint application, with supporting testimony and exhibits, requesting authority to merge their rate structures and implement an annual increase of \$5.6 million in rates for the sale and transportation of natural gas. They also requested the merger of their gas cost recovery (GCR) clauses, implementation of an incentive regulation plan, elimination of Southeastern's current 90/10 plan, implementation of a pilot program for unbundled natural gas service, and approval of a consolidated, revised tariff covering SEMCO's rates, rules, and terms of service.

¹ On April 1, 1997, the parent of Michigan Gas, Southeastern, and Battle Creek Gas Company merged the companies and, on April 30, 1997, renamed the surviving corporation SEMCO Energy Gas Company.

Pursuant to due notice, a prehearing conference was held on January 22, 1997 before Administrative Law Judge Theodora M. Mace. SEMCO, the Commission Staff, Attorney General Frank J. Kelley, the Association of Businesses Advocating Tariff Equity, and Stone Container Corporation (Stone) participated in the proceedings.

Following several days of testimony, the parties submitted a settlement agreement resolving all issues in this case.

According to the settlement agreement, the parties agreed, among other things, that (1) the rate structures and GCR clauses of Michigan Gas and Southeastern should be merged; (2) an annual revenue deficiency of \$401,772 currently exists; (3) jurisdictional revenues for these merged companies should be increased by approximately \$401,772 annually, as reflected in the revised rates for the sale and transportation of natural gas set forth in Attachment A to the settlement agreement; (4) an overall rate of return of 8.59%, a return on common equity of 10.75%, and a pre-tax rate of return of 11.44% should be authorized; (5) the reverse taper incentive regulation plan set forth in Attachment B to the settlement agreement and the elimination of Southeastern's current 90/10 plan should be approved; (6) the revised rates, rules, and terms of service set forth in Attachment C to the settlement agreement should be approved; (7) the aggregated transportation service for customers without remote metering and the aggregation option for transportation customers with remote metering, as set forth in Attachment C, should be approved; (8) the daily and monthly balancing system requirements and charges for transportation services set forth in Attachment C should be approved; (9) the transportation standards of conduct and complaint procedure set forth in Attachment D to the settlement agreement should be adopted; and (10) the balancing service agreement between SEMCO and Stone, set forth in Attachment E to the settlement agreement, should be approved.

After review of the settlement agreement, the Commission finds that the agreement is reasonable and in the public interest, and should be approved.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 et seq.; MSA 22.21 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; MSA 22.1 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; MSA 22.13(1) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 et seq.

b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A,² is approved.

B. The rate structures and gas cost recovery clauses of Michigan Gas Company and Southeastern Michigan Gas Company are merged.

C. On the date following issuance of this order, SEMCO Energy Gas Company shall implement the rates for the sale and transportation of natural gas set forth in Attachment A to the settlement agreement.

D. SEMCO Energy Gas Company shall implement the reverse taper incentive regulation plan as set forth in Attachment B to the settlement agreement.

E. SEMCO Energy Gas Company shall cease implementing Southeastern Michigan Gas Company's 90/10 plan.

F. SEMCO Energy Gas Company shall implement in its regulated service territory an aggregated transportation service for customers without remote metering and an aggregation option for transportation customers with remote metering, as set forth in Attachment C to the settlement agreement.

²Due to their length, Attachments C and E are not included with copies of this order.

G. SEMCO Energy Gas Company shall implement the daily and monthly balancing system requirements and charges for transportation services set forth in Attachment C to the settlement agreement. The firm balancing and curtailment tariff provisions shall take effect on the day following issuance of this order, with the exception of the provisions imposing interruptible balancing charges, excess balancing charges, and imbalance penalties. Those three charges and penalties shall take effect as soon as practicable. However, at least 30 days before it implements the interruptible balancing charges, excess balancing charges, and imbalance penalties, SEMCO Energy Gas Company shall notify its transportation customers and the Commission of the implementation date.

H. SEMCO Energy Gas Company, with respect to the regulated portion of its business, shall adhere to the transportation standards of conduct set forth in Attachment D to the settlement agreement. Moreover, SEMCO Energy Gas Company shall establish a complaint procedure as detailed in the settlement agreement.

I. SEMCO Energy Gas Company shall adhere to the terms and conditions of the balancing service agreement set forth in Attachment E to the settlement agreement.

J. Within 30 days of the issuance of this order, SEMCO Energy Gas Company shall file with the Commission four sets of tariff sheets essentially the same as those described in Attachment C to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

John G. Strand
Chairman

(S E A L)

John C. Shea
Commissioner

David A. Svanda
Commissioner

By its action of October 29, 1997.

Dorothy Wideman
Executive Secretary

I. SEMCO Energy Gas Company shall adhere to the terms and conditions of the balancing service agreement set forth in Attachment E to the settlement agreement.

J. Within 30 days of the issuance of this order, SEMCO Energy Gas Company shall file with the Commission four sets of tariff sheets essentially the same as those described in Attachment C to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

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By its action of October 29, 1997.

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Suggested Minute:

“Adopt and issue order dated October 29, 1997 approving the settlement agreement, merging the rate structures and gas cost recovery clauses of Michigan Gas Company and Southeastern Michigan Gas Company, increasing rates by \$401,772 annually, instituting a daily balancing system, providing for aggregation, and revising gas sales and transportation rates for SEMCO Energy Gas Company, as set forth in the order.”