

S T A T E O F M I C H I G A N
B E F O R E T H E M I C H I G A N P U B L I C S E R V I C E C O M M I S S I O N

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In the matter, on the Commission's own)
motion; of the rates and tariffs of)
MICHIGAN GAS UTILITIES COMPANY regarding)
gas transportation service and related)
matters.)
_____)

Case No. U-8788

At a session of the Michigan Public Service Commission held at its offices
in the city of Lansing, Michigan, on the 20th day of April, 1989.

PRESENT: Hon. William E. Long, Chairperson
Hon. Steven M. Fetter, Commissioner
Hon. Ronald E. Russell, Commissioner

OPINION AND ORDER ESTABLISHING
NATURAL GAS TRANSPORTATION TARIFFS

I.

BACKGROUND

On April 21, 1987, the Commission issued its order and notice of hearing that established this proceeding to develop appropriate rates, charges, and conditions of service for Michigan Gas Utilities Company (MGU) relating to the provision of natural gas transportation service. On June 12, 1987, MGU filed its direct case.

Pursuant to due notice, hearings began before Administrative Law Judge James N. Rigas (ALJ) on June 29, 1987. Michigan Consolidated Gas Company (Mich Con), Amoco Production Company, Thomas C. Pangborn, d/b/a Pangborn Exploration, Preston Oil Company, Federated Natural Resources Corporation, eNRG Management

Company, Consumers Power Company, the Association of Businesses Advocating Tar-iff Equity (ABATE), ANR Pipeline Company, and the Michigan School Gas Consortium intervened in the proceeding. Thomas C. Pangborn, d/b/a Pangborn Exploration, Preston Oil Company, and Federated Natural Resources Corporation subsequently withdrew their interventions. The Commission Staff (Staff) also participated in the proceeding.

The ALJ issued a Proposal for Decision on November 10, 1988. Exceptions and replies to exceptions were filed by the Staff, MGU, and ABATE. The record consists of 572 transcript pages and 37 exhibits.

II.

THE TRANSPORTATION PROGRAM

MGU's service area extends across much of southern lower Michigan, through natural gas producing regions, and it is traversed by several interstate natural gas pipelines. The company, itself, is the successor-in-interest to a number of smaller gas manufacturing and distribution companies spread throughout this area. The historical development of the company, in large measure, dictated the construction and configuration of MGU's system, resulting in system-supply delivery and pressure considerations peculiar to MGU and its service territories. In most respects, the peculiarities do not cause rate-setting problems because MGU is treated as a whole for rate-setting purposes. Moreover, as a franchised local distribution company (LDC), if gas was to be purchased within MGU's service territory, it could only be purchased from MGU. This required MGU to have sufficient gas available for sale to meet its customers' needs. The gas came from local production, inter-utility purchases, or interstate pipeline purchases.

In early 1985, the situation changed. MGU began transporting customer-owned natural gas under the provisions of 1929 PA 9, MCL 483.101 et seq. MGU's function became bifurcated into the transportation of customer-owned natural gas and the sale of company-produced or company-purchased gas. MGU's traditional function continues under the latter, while use of only its distribution system occurs under the former. Although natural gas transportation is a new aspect of MGU's business, transported natural gas must be delivered within the context of MGU's distribution system: an integrated distribution system built to serve the gas sales needs of MGU's service territories. That system, along with its peculiarities, must be adapted for use in this new dual system of sales and transportation.

From the outset, the Commission must stress that rather than favoring sales over transportation or vice versa, we are much more concerned with providing a gas supply for the state that is safe, reliable, and economic. Because transportation of customer-owned natural gas will form a necessary element of this safe, reliable, and economic supply, the Commission finds that transportation of gas is an appropriate function for MGU.

The parties generally agree that an LDC's duty to a sales customer differs from that owed to a transportation customer. When a customer leaves sales for transportation, that customer abandons future system-supply gas and extinguishes the LDC's obligation to plan for purchase of sufficient gas to meet that transportation customer's requirements. The LDC must still plan for the transportation customer's capacity needs. Should a transportation customer decide to return to firm sales status, that customer is in no better stead than a new customer.

Therefore, we find significant merit in the Staff's suggestion that all

transportation customers should be specifically advised by MGU that by electing transportation service the customer no longer may rely on the company for its gas supply. The Staff proposed use of a separate affidavit, while MGU would incorporate the verbiage of the affidavit within each transportation contract. While we see no impediment to MGU's proposal to include verbiage in each transportation contract, we find merit in use of a separate affidavit as well. Use of a separate form is an appropriate way to ensure that a transportation customer fully understands the consequences of its decision, and we find that such an affidavit, marked conspicuously, shall be used. However, the form used by the company should be easily understood, concise, and should be revised to reflect the transportation program authorized by this order, as well as the options open to customers to secure system-supply gas and the time limit imposed regarding a change from transportation to firm sales status.

The Basic Transportation Rate

The transportation programs proposed by the Staff, MGU, and ABATE are similar in that each would provide a tariffed rate for the movement of customer-owned gas from the point of delivery on MGU's system to the point of redelivery to the end-user. The Staff, MGU, and ABATE differ on the actual rate level, as well as on other charges associated with transportation services or back-up natural gas supply.

ABATE, MGU, and the Staff recognize the limitations of this proceeding. Because this is not a general rate case, costs may not be allocated between sales and transportation service nor may revised cost-of-service-based rates be established for all customers. Accordingly, ABATE, MGU, and the Staff begin the rate process with the distribution cost component (or distribution margin)

existing within MGU's present rates, which were established in an order in Case No. U-7976 dated March 11, 1986. In a most general way, the distribution margin of MGU's rates reflects the per-unit cost of distribution on MGU's system, while the gas commodity cost component reflects the per-unit cost of the natural gas itself. Thus, by deleting the gas commodity cost component from an existing rate, one is left with an approximate cost for use of the distribution system--the service provided to a customer moving its own gas. While ABATE uses this distribution margin as a basis for its proposal, it stresses that to do so continues any cross-class subsidization existing within MGU's present rates. ABATE acknowledges that without a cost-of-service study (not presented in this case), elimination of any subsidization is impractical.

Under any proposal, applicable surcharges would continue to be added to the basic rate, and the distribution margin utilized would be that of the end-use transportation customer's designated service rate, which is the most economical sales rate under which the customer would be allowed to take firm or interruptible sales service. (Exhibit I-24). Thus, the distribution margin used to establish a transportation rate will vary from customer class to customer class based on the underlying firm or interruptible sales rate.

MGU and the Staff would use the existing basic distribution margins as the transportation rate. ABATE, on the other hand, begins with the basic distribution margins and then removes, or "peels," costs associated with production and gathering expenses, storage services, inventory gas held in storage, lost-and-unaccounted-for gas, and company-use gas. In total, ABATE removes 18.62¢ from the various distribution margins to account for these costs. ABATE would permit MGU to bill separately for storage services on an as-needed, as-wanted basis. Lost-and-unaccounted-for gas (lost gas) and company-use gas would be returned to

MGU through a gas-in-kind factor--if MGU's lost gas is 1.5%, then for each 100 thousand cubic feet (Mcf) transported through MGU's system, MGU would redeliver only 98.5 Mcf to the end-user. The 1.5% retained would compensate MGU for its lost gas.

ABATE states that its "peeled margin" proposal is the only appropriate method to use to unbundle MGU's charges. Its proposal is charted on Exhibit I-24. ABATE asserts that production and gathering expenses relate only to gas as a commodity; consequently, the costs cannot be assessed to transportation service. ABATE removes 2.62¢ per Mcf from the distribution margin to reflect these costs. Moreover, it argues, storage services and inventory gas in storage are not used by transportation customers; therefore, those costs also must be removed. ABATE quantifies these costs as 7.59¢ per Mcf and 5.21¢ per Mcf, respectively. In ABATE's view, if storage services are necessary, a transportation customer will separately contract for those services, which would be provided on an as-needed, as-wanted basis. ABATE provides a rate for storage services of 7.59¢ per Mcf.

Finally, ABATE states, a gas-in-kind provision for lost and company-use gas provides an economic benefit to the state because transportation customers can purchase gas more cheaply than MGU; thus, fewer dollars will leave the state for gas purchased. ABATE removes 3.2¢ per Mcf from the distribution margin to reflect these costs.

MGU and the Staff, on the other hand, state that all components of the distribution margin are valid MGU costs, and unless assigned to other rates, should continue to be collected. MGU would not permit gas-in-kind; therefore, it argues, the lost and company-use gas component is appropriate. Moreover, MGU states, its system is integrated and designed to provide immediate gas usage:

if draws are light or heavy, gas flows through the system, whether into or out of storage, or to or from pipelines. MGU argues that few, if any, customers use a steady draw of gas, as a result there is a mismatch between interstate pipeline deliveries and actual customers' use. MGU, later supported by the Staff, argues that it is more probable than not that transportation customers will make use of MGU's storage capabilities (and its inventory gas) for load balancing and incidental storage. Therefore, the company states, the present distribution margin, containing rate components for storage and inventory gas, should continue to be collected. The Staff would set the rate for separate storage at 10¢ per Mcf.

The ALJ agreed with the Staff and MGU that the present distribution margins without revision should form the basic transportation rates. ABATE excepts, reiterating the arguments contained in its brief and reply brief.

Recently, in an order dated December 22, 1988 in Cases Nos. U-8635, U-8812, and U-8854, the Commission established natural gas transportation rates for Mich Con. We were able to do so in the context of a general rate case in which the Commission could realign costs among various customer classes and properly establish all rates to recover appropriate costs. The Commission was not called upon to excise portions of rates, nor were we compelled to establish transportation charges that would need to be abruptly restructured in the next general rate case when costs could be redistributed between customer classes. It is inappropriate to establish, or neglect to establish, charges in the transportation area that do not reflect a realistic assessment of the structure of future charges because transportation customers will be provided a false sense of future rate structures, thereby committing to transportation programs and leaving the security of system supply while not comprehending that the charges

levied may, of necessity, be substantially restructured in the near future.

While the Commission does not prejudge a future MGU rate case, from our experience with Mich Con it is apparent that certain charges will be developed in the transportation area, and in the Commission's judgment, it would be a dis-service to the public to establish a present rate structure without this in mind. Accordingly, the transportation rates established for MGU are designed to facilitate transportation, to treat fairly the remaining firm sales customers, and to provide for a smoother transition to cost-of-service-based rates in future proceedings.

ABATE argues that production and gathering expenses relate to gas as a commodity and, therefore, should be removed from the distribution margin. We agree, and will remove 2.62¢ per Mcf from the distribution margins to reflect that cost. In future cases, a production and gathering charge similar to that authorized in the Mich Con case should be proposed by MGU to recover production and gathering costs from those who utilize the facilities.

ABATE argues that transportation customers should be permitted to provide gas-in-kind for lost and company-use gas volumes. We agree. ABATE proposed removing 3.2¢ per Mcf from the distribution margin to reflect these costs. ABATE would permit MGU a 0.35% gas-in-kind factor to reimburse MGU for lost and company-use gas. We have reviewed ABATE's proposal and find that while the 3.2¢ per Mcf amount reflects both lost and company-use gas levels from the company's last rate case, Case No. U-7976 (Exhibit No. A-3, p. 12, in that case), the 0.35% gas-in-kind factor does not reflect company-use volumes--it reflects only MGU's lost gas. However, the gas-in-kind factor must reflect both. Using

Exhibit A-3 in Case No. U-7976, the correct gas-in-kind factor is 0.75%.¹ Therefore, 3.2¢ per Mcf shall be removed from the distribution margins, and MGU shall use a gas-in-kind factor of 0.75% to recompense it for the transportation customers' share of lost and company-use gas. We also find that gas-in-kind shall be mandatory for all transportation customers, thereby permitting a better planning base for MGU and its customers.

ABATE would also remove the inventory gas and storage components from the distribution margin. We do not agree, finding that it is more probable than not that transportation customers will use both these services on a day-to-day basis to provide incidental load balancing.

Because we hold that transportation customers will make incidental use of storage facilities, the Commission agrees with the Staff's proposal that the basic transportation rate should include storage of up to 10% of the transportation customer's annual contract quantity. However, records should be maintained regarding the actual month-end storage balance carried by transportation customers. In future cases, the 10% of annual contract quantity level may need to be revised should actual experience support a different conclusion. If available, incidental storage above the 10% level included in the base rate shall be unbundled and set at the Staff's proposed rate of 10¢ per Mcf. The Staff's proposed rate, rather than ABATE's, should recover the appropriate revenue necessary. We reject ABATE's argument that storage service needs to be unbundled further.

¹Company-use gas--121,900 Mcf; lost gas--106,400 Mcf; total requirements--30,414,400 Mcf; Exhibit A-3, Case No. U-7976. These numbers were used by ABATE to develop its 3.2¢ per Mcf amount to be removed from the distribution margin for lost and company-use gas volumes (3 Tr. 322).

In summary, MGU's basic transportation charge shall be the distribution margin for the most economical sales rate under which the end-user could take sales service, less 2.62¢ per Mcf reflecting production and gathering expenses and less 3.2¢ per Mcf reflecting lost and company-use gas (which will be returned to MGU through the gas-in-kind factor). The Staff's proposal for an interruptible transportation rate based on the interruptible sales distribution margin is also approved.

III.

ADDITIONAL MONTHLY CHARGES

Beyond the basic transportation charge, MGU proposes to assess the monthly customer charge for the designated service rate, a monthly \$800 transportation account administration fee, a monthly \$80 meter fee (to recover the costs of new telemetering equipment), a \$250 heating value measurement fee (if appropriate), a transition charge (to recover take-or-pay costs and excess pipeline fixed costs), a curtailment priority reservation charge (for the provision of system-supply back-up), and a supply reservation charge (for the provision of standby supply service from producers and interstate pipelines).

The Staff supported the use of the monthly customer charge for the designated service rate, the monthly \$800 transportation account administration fee, the monthly \$80 meter fee, the \$250 heating value measurement fee, and the concept of a transition charge. However, the Staff would compute and assess the transition charge differently. The Staff proposed a separate system-supply entitlement charge, thus opposing MGU's curtailment priority reservation and supply reservation charges.

ABATE opposes any transition charge, arguing that take-or-pay costs and excess pipeline fixed costs relate to gas as a commodity and are not appropriately borne by transportation customers. ABATE proposed its own supply reservation and capacity reservation charges, but with differing terms than MGU's, and a reduced monthly transportation account administration fee.

The ALJ recommended use of the monthly customer charge for the designated service rate, MGU's monthly \$800 transportation administration charge, MGU's monthly \$80 meter fee, the \$250 heating value measurement fee, and the Staff's proposed system-supply entitlement charge. While approving the Staff's proposed transition charge to recover take-or-pay and excess pipeline fixed costs, the ALJ recommended eliminating spot-market gas costs from its calculation. He rejected MGU's supply reservation and capacity reservation charges.

ABATE and MGU except to certain of the ALJ's recommendations.

Uncontested Charges

The ALJ recommended use of the customer charge for the designated service rate, the \$250 heating value measurement fee, and the monthly \$80 meter fee to recover the costs of new telemetering equipment. Exceptions were not filed. We have reviewed the charges and find them appropriate.

System-Supply Entitlement Charge

MGU, the Staff, and ABATE propose some form of charge that would permit firm transportation customers to use system-supply gas as a back-up to transportation gas. The ALJ recommended the Staff's proposal. MGU and ABATE except.

MGU proposes use of a capacity priority reservation charge (CPRC), arguing that a combined form of its CPRC and the Staff's system-supply entitlement charge results in a more appropriate and reasonable charge because the CPRC is

structured on a demand/commodity split as are interstate pipeline costs.

ABATE supports its proposed system-supply reservation charge (SSRC), arguing that its computation method is more appropriate than that for the Staff's proposal. Moreover, ABATE states, its proposal requires the imposition of the charge on curtailment priority one transportation customers² because the political realities are such that these high-priority customers will never be denied access to system-supply gas in the event of a supply shortage.

Payment of the Staff's system-supply entitlement charge (SSEC) permits firm transportation customers to draw system-supply gas without penalty whenever the customer's end-of-month cumulative balance of gas redelivered to it exceeds the customer's end-of-month cumulative balance of gas delivered for transportation or maintained in storage. In the event of a mismatch, the Gas Cost Recovery (GCR) rate would be charged for system-supply volumes drawn. Moreover, the SSEC provides a firm transportation customer with status equal to a firm sales customer for curtailment purposes, and permits the transportation customer to return to firm sales status without limitation.

If a firm transportation customer may at any time switch to firm sales status and require MGU to supply it gas, then MGU must plan for that customer's potential supply needs, and it can be assumed that, should the price of transportation gas rise unexpectedly above the cost of system-supply gas, transportation customers would shift to lower-cost system-supply sales gas. In order to meet this increased demand, MGU would need to purchase higher cost gas. While

²The Staff's revised Rule 21 provides that curtailment priority one customers are those with: residential gas requirements, commercial gas requirements having a maximum day requirement of less than 50 Mcf (notably smaller educational institution uses), requirements for services essential for public health and safety, and requirements for plant protection.

the average system-supply gas price would increase because of this higher cost gas, that price would never increase to the cost level of the additional gas because of the effect of averaging: the lower cost, earlier planned supply would be blended with the higher cost, additional supply. Thus, core sales customers would see a price increase and former transportation (now sales) customers would receive a lower price than that available elsewhere. The result is fundamentally unfair to core sales customers, who do not or cannot play the market but seek a sure supply at a fair price.

Because of this, we strongly agree with the Staff's proposal that a limitation must be placed upon a switch from transportation to firm sales status. The Staff would permit a transportation customer to request firm sales status, and then require a five-year period before another firm sales request could be made. However, the Commission finds that the five-year period should be implemented with the customer's choice of transportation service not with its first return to firm sales status--if a customer becomes a transportation customer in 1990 and does not pay a back-up supply charge, that customer cannot return to firm sales status until 1995 or beyond. At that time, the transportation customer would have the same standing as a new customer, i.e., if gas is available for sale, then MGU will supply gas to the new customer.

In a similar way, the Staff argued that some penalty should exist for transportation customers who use system-supply gas without authorization. Because a transportation customer is attached to MGU's integrated system, that customer may, at any time, draw gas, and it cannot be known whether the gas drawn exceeds the amount agreed to be transported until the meter is read. If the amount drawn exceeds that transported for or maintained in storage by the transportation customer, then that customer has received the benefit of MGU's

planned system-supply purchases. Consequently, if this unauthorized usage is billed at the GCR rate, the transportation customer, without cost, has received a back-up supply.

The Staff proposed a \$10 per Mcf charge in addition to the GCR rate for each Mcf of unauthorized usage. The ALJ agreed.

The Commission also agrees with the proposal. Transportation customers choose to secure their own gas supply and must manage the quantity of that supply to meet their overall needs. They cannot rely upon MGU to do so without compensation. We therefore find the penalty charge appropriate to discourage unauthorized gas takes by transportation customers.

We have reviewed MGU's CPRC, ABATE's SSRC, and the Staff's SSEC. We are persuaded that the Staff's proposed charge and its computation are superior. The SSEC will give firm transportation customers the option of using system-supply gas as a back-up, if they so choose, and the charge reflects the costs to MGU of providing and planning for the contingency service. The Commission is unconvinced of the need to structure a back-up supply charge using a demand/commodity split as proposed by MGU. We also find that the Staff's calculation method is more appropriate than that proffered by ABATE because it more closely replicates the actual pipeline costs incurred to provide the back-up supply.

Moreover, the Commission does not agree with ABATE that curtailment priority one customers should be required to pay the SSEC, or any similar back-up supply charge. The decision to switch to transportation service should not be constrained by the mandatory imposition of a back-up supply charge thereby making transportation uneconomic for a certain group of customers.

The Commission, nevertheless, is concerned that the charge should reflect the current costs of the contingent supply as proposed by Staff witness Joel

Sharkey. Rather than set an absolute rate in this proceeding, the Staff proposes to establish a range between \$1.50 and 20¢ per Mcf of gas transported. MGU would then establish the rate within this range consistent with Mr. Sharkey's Exhibit S-30. While the Staff proposes that the SSEC amounts would be accounted for separately during each GCR period, under MGU's proposal, the SSEC collected would be deducted from the GCR cost of gas during the annual GCR reconciliation, providing a possible benefit to those customers.

Combining the Staff's charge with MGU's proposed use of the GCR reconciliation appears workable and would provide for a yearly review of the SSEC, thus ensuring that the charge remains current. We find an annual review in a GCR proceeding to be a proper method to assure collection of appropriate revenue. The Commission therefore will implement a combined proposal.

While the SSEC by its nature will apply only to firm transportation customers, the Commission does not find that an annual GCR-type reconciliation of the SSEC, as proposed by ABATE, is appropriate or possible. The SSEC is not similar to the GCR system because, under 1982 PA 304 (Act 304), the Commission may surcharge for undercollections. However, with the SSEC, the general prohibition against retroactive ratemaking removes any ability to recover an SSEC shortfall from SSEC customers. Under the combined proposal outlined above, any such shortfall will be recovered within the GCR reconciliation. Accordingly, any benefit arising from the SSEC should likewise go to GCR customers.

While we agree that an SSEC is appropriate, we find that rather than apply it to all gas transported by a customer, it should apply only to those amounts chosen by a customer, i.e., if a customer transports 1000 Mcf monthly, it may choose to pay an SSEC covering only 500 Mcf. The choice should be the customer's.

MGU proposes a supply reservation charge (SRC), which is different from its version of the SSEC. Under the SRC, rather than reserve firm system-supply gas for back-up to transportation customers, MGU would acquire standby services from natural gas producers and interstate pipelines, some of which might involve storage services. MGU acknowledged that the Federal Energy Regulatory Commission (FERC) has not authorized interstate pipelines to provide such services, but argued that the FERC is close to that authorization. The Staff and ABATE opposed the service as premature. The ALJ agreed. MGU excepts, arguing that an SRC should be implemented on an experimental basis.

While the Commission encourages MGU to innovate and to provide new services to meet its customers' needs, we must agree with the Staff that the underlying basis for any innovation must be more clearly defined than that presented by MGU. The SRC would provide standby back-up services from producers or pipelines. However, the FERC has not yet permitted pipelines to offer the service contemplated by MGU, nor has the company presented a single producer who would provide the underlying standby supply. Therefore, we reject as premature MGU's request to establish the separate SRC.

The Commission is concerned that a sale of excess system-supply gas should be made when that sale will benefit the GCR customers or when the GCR customers are not disadvantaged by the sale. Accordingly, the transportation tariffs authorized provide for transportation customers to obtain pre-authorized, short-term access to MGU's excess system-supply gas, if available, through application to the company and payment of a nominal premium.

Take-or-Pay, Minimum Bill, and Excess Pipeline Fixed Costs

Due to a change in the natural gas market, it is undisputed that MGU faces

considerable costs reflecting gas contracted for, but not taken, by pipelines (take-or-pay costs), and excess pipeline fixed costs, which reflect lower demand on MGU's supplying pipelines. Prior to the advent of a substantial transportation program, the Commission treated some similar costs as part of the booked cost of gas sold, and therefore collectible through the GCR system. ABATE insists that take-or-pay and excess pipeline costs strictly relate to gas as a commodity, in effect relating only to MGU's sales function. It argues that it is illogical to force transportation customers to shoulder sales-related costs. Moreover, ABATE states, MGU's minimum bill has been eliminated, its take-or-pay costs are speculative, and, because MGU has brought its supply and contract demand into balance, its excess pipeline fixed costs are nominal.

The Staff, on the other hand, views these take-or-pay and excess pipeline costs as a phenomenon arising from conservation, plant closings, shifts to other fuels, and gas transportation; in short, a consequence of the changes in the gas market. In the Staff's view, these costs result in part from MGU's attempt to assure a gas supply to sales customers that are now transportation customers. The Staff would allocate the costs to all of MGU's customers, including the transportation customers. The Staff argues that many such costs are not long-term and will disappear in the short run as MGU brings its supply requirements in line with its sales and transportation needs.

Staff witness Joel Sharkey noted that MGU has reduced its pipeline contract demand and is very close to being in balance. The Staff proposes a method, similar to MGU's transition charge, to assess the take-or-pay and excess pipeline fixed costs to all MGU customers, and states its concern that the assessment must be continually revised to reflect the amount of the costs and the method by which the costs are placed into the pipelines' rates. Under the

Staff's proposal, a transition charge would be established at 50¢ per Mcf, which could be reduced to zero. MGU would set and revise the rate to recover excess pipeline fixed costs and take-or-pay costs according to the methodology within Mr. Sharkey's exhibits.

MGU proposes its own transition charge that would be assessed to transportation customers until the company can reduce its contractual demand with its interstate pipelines. The charge would be set at a ceiling level within this proceeding, which could be reduced to zero. MGU would continually revise the charge as the costs of its elements varied. The charge has three elements: (1) excess pipeline contract demand costs; (2) the transportation customers' pro-rata share of MGU's estimated minimum bill requirement; and (3) the transportation customers' share of take-or-pay charges imposed in the rates of MGU's interstate pipelines (divided by the total firm commitment on MGU's system).

MGU acknowledges that much of its take-or-pay liability was incurred through reduced system-wide consumption of natural gas by all of its customers, by the loss of sales to industrial customers that switched to gas transportation, and by MGU itself transporting less expensive system-supply gas for the company's GCR customers. In MGU's view, the transition charge expenses should be borne by all customers causing the expenses. However, MGU would not assess its transition charge to: (1) new customers seeking firm transportation without entitlements, (2) non-system-supply firm transportation customers, and (3) separately metered and contracted incremental loads in excess of 10,000 Mcf added as a result of a current customer's installation of new gas equipment. MGU would assess these costs to new residential customers. MGU admits that its minimum bill has been eliminated.

The ALJ agreed with the Staff's proposal that take-or-pay and excess pipe-

line fixed costs should be recovered from sales and transportation customers through the Staff's form of a transition charge. However, he disagreed with the Staff's proposed method of calculating certain of the costs, recommending that MGU's spot-market gas purchases not be included in the determination of excess pipeline costs. Moreover, he agreed with the Staff, and not MGU, that the costs should be borne by all of MGU's customers.

ABATE excepts to the assessment of any of the costs to transportation customers. MGU excepts to the ALJ's recommendation that the costs be borne by all of MGU's customers.

The gas industry has changed dramatically in the recent past. Due to these changes, significant take-or-pay and, possibly, excess pipeline fixed costs face MGU, and the blame cannot be laid at the doorstep of any single customer or group of customers. Conservation, fuel shifts, plant closings, and transportation have all contributed to the situation. MGU faces the costs and, if appropriate, will be allowed to recover them.

While the Commission recognizes that transportation customers now purchase their own gas, we simply do not agree with ABATE that transportation customers need not bear some take-or-pay and excess pipeline fixed costs. The Commission finds that take-or-pay and excess pipeline fixed costs are legitimate costs of doing business for MGU, and as such, if appropriate, must be recovered on an even-handed basis as are other legitimate costs.

Because of this we cannot agree with MGU that the costs should be borne by only certain customers. MGU would assess these costs to those responsible for causing them. We find the argument impractical because it is impossible to know the extent to which any one customer "caused" the situation, and many such customers may have left MGU's system. Moreover, MGU's proposed method to exempt

customers that have not "caused" the costs is faulty--it does not remove all new customers, only those MGU believes will be price sensitive.

Because of these reasons, we find that excess pipeline fixed costs shall be apportioned between all of MGU's customers pursuant to the Staff's proposal, as modified by the ALJ to delete spot-market gas from the calculation. The Staff's volumetric method provides a rational and even-handed method to recover the costs. We also find that take-or-pay costs shall be apportioned between sales and transportation customers and collected according to the Staff's proposal.

Exhibits S-29 and S-30 contain the Staff's excess pipeline fixed cost calculation for that element of the Staff's transition charge. We find the calculation appropriate as well as the Staff's proposed method to allocate and to recover the costs.

Exhibits S-29 and S-30 also contain the Staff's method of collecting take-or-pay costs, i.e., those exhibits compute that element of the Staff's transition charge. We find the Staff's proposal an even-handed and rational method to collect these take-or-pay costs as they are incurred by MGU. Thus, we adopt the Staff's proposed method to calculate and to collect this element of the Staff's transition charge.

In summary, the transition charge will be set at the Staff's 50¢ ceiling level and shall be revised by MGU as necessary to reflect the current take-or-pay and excess pipeline costs, as provided for in this order.

The Staff proposed that when take-or-pay and excess pipeline costs are eliminated or brought into balance, the transition charge should cease, and that any overcollection should be refunded to those who paid the charge. Until that time, any overcollection would be carried by MGU as a liability to defray future excess pipeline fixed costs and take-or-pay costs allocated to transportation

service. MGU opposes a final reconciliation. ABATE opposes the transition charge altogether, but if one is adopted, it states that a reconciliation should occur on an annual basis. The ALJ agreed with the Staff's reconciliation proposal. MGU and ABATE except.

The transition charge is established under 1939 PA 3, as amended (Act 3), the Commission's general rate-setting powers, and not the Act 304 amendments to Act 3, which permit limited retroactive ratemaking. Accordingly, the Commission cannot establish an Act 304 GCR-type scheme for transition charges as proposed by ABATE, thereby permitting the yearly refunding of overcollections or surcharging for undercollections. The Staff's proposal, which permits downwardly flexible rates from an established ceiling, a method to continually revise the rate to reflect changing pipeline rates or take-or-pay pass-throughs, and a final reconciliation and refund, provides a rational, reasonable, and even-handed cost collection method that will assure the eventual return to transportation customers of excess collections. While at this time we make no prejudgment as to how that refund will be accomplished, we do find that the flexible rate should permit MGU to collect the appropriate amount, ending speculation that the company will be left in an underrecovered situation. Additionally, excess collections will be returned to transportation customers. MGU shall keep sufficient records for each transportation customer to permit an appropriate reconciliation and refund. The reconciliation shall occur when take-or-pay and excess pipeline costs are eliminated or brought into balance, or as of December 31, 1993, whichever occurs first.

Administrative Fee

MGU, supported by the Staff, proposes an \$800 administrative fee designed

to recover increased costs of administering the transportation program. ABATE proposes a \$250 fee, arguing that many of the costs identified by MGU are not truly incremental and are already included within MGU's existing rates. The ALJ rejected the argument and recommended use of MGU's \$800 figure. ABATE excepts.

Exhibit I-14 shows MGU's breakdown of its \$800 charge. Exhibit I-23 contains ABATE's revisions to that breakdown resulting in its \$250 charge. ABATE argues that certain expenses, such as the legal department, Washington counsel, and the President's expense, are either not incremental or are already recovered within MGU's rates. MGU responds that many listed costs are incurred solely for transportation matters, such as increased use of Washington counsel and the addition of three transportation-related employees. MGU also states that much of its officers' expenses and central office overhead are allocated between MGU and its parent corporation, Michigan Energy Resources Corporation (MERC). Therefore, while it is true that portions of those costs are reflected in MGU's existing rates, some of the apportioned costs are not. Thus, the costs now sought to be recovered are costs formerly attributable to other MERC activities that now rightly belong to MGU's transportation activities. MGU states that inclusion of these former MERC costs within an MGU rate will not result in a double recovery.

While we agree with ABATE that some costs listed on Exhibit I-14 are not truly incremental, the Commission has reviewed the costs listed, as well as MGU's testimony regarding its three new employees and the related expenses necessary to implement the company's transportation program. We note that MGU's proposed charge would recover less than its projected costs.

The Commission agrees with MGU that many costs formerly attributed to MERC activities now relate to transportation matters; thus, these costs should now be

reflected within an MGU rate. We find MGU's \$800 figure more appropriate than ABATE's \$250 figure. Moreover, the Commission agrees that the costs presented by MGU as support for its \$800 charge are reasonable approximations upon which to predicate a rate. We find that MGU's \$800 charge should provide a reasonable revenue amount to recompense MGU for the costs of administering the company's transportation program.

Seized Gas Tariff

ABATE states that, while remote, a possibility exists that during a future natural gas shortage, transportation gas may be seized by MGU to provide a supply to its high-priority customers. Given this possibility, ABATE proposes, and the ALJ recommended adoption of, a tariff that would allow the seizure and, at the transportation customer's option, either deferral of the gas for later delivery or payment for the gas. Payment would be the greater of the total cost of alternate fuel used or the cost of the gas seized, including transportation. ABATE did not elaborate under what authority or in what situations the company could seize the gas.

The Commission does not agree with the ALJ. The situation posed is remote and if such a supply situation were to arise, the Commission could institute a special proceeding to review that situation.

Miscellaneous Items

The Staff proposed revisions to MGU's rules 8, 17, and 21. We have reviewed the rules, which concern the attachment of new load to MGU's system and the curtailment of gas service. We find the rules appropriate.

ABATE and MGU proposed various revisions to MGU's tariffs to reflect the company's transportation program. While helpful, the tariffs authorized and

attached to this order represent our view of transportation service. MGU's proposal forms the basis for our tariffs, which have been modified to conform with the findings of this order.

ABATE would require a standard transportation contract. We find a standard contract unnecessary because the tariffs authorized are sufficiently specific, and, in any event, would form the basis and controlling elements of any contract thus obviating the need for a form contract. Moreover, the Staff proposes, and the ALJ recommended, that transportation contracts that conflict with or do not comply with the approved tariff must be submitted for separate Commission approval. (In its exceptions, MGU agrees that review should only occur for contracts that vary from the authorized tariff.) Accordingly, we find that any new transportation contract proposed that varies from the terms of the approved tariff must be submitted for Commission review. We believe this requirement should ease ABATE's fears that without a standard form, customers will be left to the discretion of an overreaching monopoly. A standard, explicit tariff exists and contracts that deviate from that tariff will be reviewed by the Commission.

The Staff proposes, and the ALJ recommended, that MGU report quarterly to the Commission a summary of monthly information for each transportation customer stating: (1) the rate, (2) the transportation volume redelivered, (3) the transportation volumes delivered by the pipeline, and (4) the transportation volumes delivered from Michigan production. Exceptions were not filed. The Commission agrees.

MGU proposes, and the ALJ recommended, a coal displacement rate and an electric generation rate within the transportation tariffs. Exceptions were not filed. The Commission agrees. The rates authorized may provide incremental

load and may prove beneficial. They shall be included within the interruptible transportation tariff.

The Staff would "grandfather" all existing transportation contracts. The ALJ recommended the proposal. The Commission agrees. Testimony indicated that existing contracts are of a relatively short-term nature. Permitting these contracts to expire by their own terms will preserve the benefits bargained for by the parties and will permit a smooth transition to the tariffed rates.

ABATE proposed a rate 10¢ per Mcf below the standard rate for one-year contract customers. MGU initially proposed a 10¢ per month premium for month-to-month contracts. We do not agree that either proposal is appropriate because evidence was not presented regarding the revenue effect of the premium or discount and because insufficient evidence was presented regarding the need for a rate other than the standard tariff rate.

In summary, this order establishes a transportation rate consisting of the distribution margin for a customer's designated service rate, less 2.62¢ per Mcf for production and gathering expenses and less 3.2¢ per Mcf for lost and company-use gas; the standard meter/customer charge for the designated service rate; an \$800 administration fee; a separate \$80 meter fee for telemetering equipment; a \$250 heating value measurement fee; and a transition charge. The order also establishes an SSEC and approves a coal displacement and an electric generation rate.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1929 PA 9, as amended, MCL 483.101 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL

24:201 et seq.; and the Commission's Rules of Practice and Procedure, 1979 Administrative Code, R 460.11 et seq.

b. The distribution margin of the most economical rate schedule a customer could qualify for should form the base of MGU's transportation rates.

c. MGU should remove 2.62¢ per Mcf from the distribution margins to reflect production and gathering expenses.

d. MGU should remove 3.2¢ per Mcf from the distribution margins to reflect lost and company-use gas. A gas-in-kind factor of 0.75% will reimburse MGU for this lost and company-use gas.

e. The basic transportation rate should include storage of up to 10% of the transportation customer's annual contract quantity. Incidental storage above that level, if available, should be unbundled and the rate set at 10¢ per Mcf.

f. A monthly \$80 meter fee to recover the costs of telemetering equipment and a monthly \$250 heating value measurement fee are appropriate.

g. MGU's proposed monthly \$800 administration fee for transportation accounts will reasonably compensate the company for the costs of administering transportation accounts that are not presently recovered in MGU's rates.

h. A transition charge, calculated according to the Staff's proposal as modified by the ALJ, and to be reviewed in a later reconciliation case, is a reasonable, rational, and even-handed way to recover the transportation customers' appropriate share of MGU's business expenses relating to take-or-pay and excess pipeline fixed costs.

i. The SSEC as proposed by the Staff and modified in this order should be implemented.

j. The Staff's proposed revisions to MGU's rules 8, 17, and 21 should be

approved. ABATE's seized gas tariff should be rejected.

k. The Staff's quarterly summary of monthly transportation information should be authorized.

l. MGU's proposed coal displacement and electric generation rates should be authorized within the interruptible transportation tariff.

m. Existing gas transportation contracts should be grandfathered.

THEREFORE, IT IS ORDERED that:

A. Michigan Gas Utilities Company is authorized to implement the natural gas transportation rates and program specified within this order on and after April 21, 1989.

B. The Staff's proposed revisions to Michigan Gas Utilities Company's rules 8, 17, and 21 are authorized.

C. Michigan Gas Utilities Company, within 30 days of the date of this order, shall file its tariff sheets in substantial compliance with those attached to this order, as well as any other tariff revisions necessary and appropriate to comply with this order.

The Commission specifically reserves jurisdiction of the matters herein contained and the authority to issue such further order or orders as the facts and circumstances may require.

Any party desiring to appeal this order must perfect an appeal to the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ William E. Long
Chairperson

(S E A L)

/s/ Steven M. Fetter
Commissioner

/s/ Ronald E. Russell
Commissioner

By the Commission and pursuant to
its action of April 20, 1989.

/s/ Dorothy Wideman
Its Executive Secretary

GAS TRANSPORTATION SERVICE RULES

1. GAS TRANSPORTATION STANDARDS AND BILLING PRACTICES

A. General Provisions and Definitions:

- 1) "Gas" means natural gas, manufactured gas, or a combination of the two.
- 2) "Alternate-fuel capability" means the ability to actually utilize a fuel other than gas, in place of gas.
- 3) "Nominations" means the process by which the customer notifies the Company of expected transportation quantities.
- 4) "Day" means a period of 24 consecutive hours (23 hours when changing from standard to daylight time and 25 hours when changing back to standard time) beginning at 8:00 a.m. eastern time or at such other time as may be mutually agreed.
- 5) "Annual contract quantity (ACQ)" means a quantity of gas, as specified in the transportation contract between the customer and the Company, that is based on the customer's maximum historical 12-month usage (determined from the customer's 36-month base period) plus adjustments for known or expected changes.
- 6) "Maximum daily quantity (MDQ)" means a quantity of gas, as specified in the transportation contract between the customer and the Company, that is based on the customer's historical peak-month usage (determined from the customer's 36-month base period) plus adjustments for known or expected changes. The MDQ is the greatest quantity of gas that the Company agrees to accept for transportation on the customer's behalf on any day.
- 7) "Average daily quantity (ADQ)" means a quantity of gas equal to the customer's ACQ divided by 365.
- 8) "Month" means a period beginning at 8:00 a.m. eastern time on the first day of a calendar month and ending at 8:00 a.m. eastern time on the first day of the following calendar month.
- 9) "Broker" means an intermediary that arranges the purchase of gas from the producer and the sale of that gas to a buyer.
- 10) "Buyer" means the purchaser and ultimate user of gas and of all the services necessary to make gas available for usage.
- 11) "Customer" means an individual or business in the Company's service territory that purchases gas and related services from the Company's system supply of gas or transportation service on the Company's system.

- 12) "Off-system customer" means other utilities or pipelines and customers taking sales gas, or transportation, exchange, or storage service from the Company for a facility that is: (a) not located within the Company's franchised gas service territory; or (b) located within the Company's franchised gas service territory and directly connected to the Company's distribution system, but is also eligible for direct service from another pipeline system pursuant to a 1929 PA 69 certificate.
- 13) "Total heating value per cubic foot" means the number of British thermal units produced by the combustion, at constant pressure, of one cubic foot of gas, with air of the same pressure and temperature as the gas, when the products of combustion are cooled to the initial temperature of the gas and air, and when the water formed by the combustion is condensed to the liquid state.
- 14) "Balancing" means the reconciliation of differences in the amounts of gas received by the pipeline transporter(s) from the producer or broker, by the Company from the pipeline transporter(s), and/or by the buyer from the Company.
- 15) "Commingle" means to combine gas from different sources into a common, undifferentiated whole.
- 16) "Contract year" means a period of 12 consecutive months with the initial contract year beginning on the date provided for in the contract.
- 17) "Cubic foot of gas" means the volume of gas that occupies one cubic foot when the gas is at a temperature of sixty degrees fahrenheit and at a pressure base of 14.65 psia dry.
- 18) "Curtailed" means an interruption by the Company of the flow of gas to the buyer's facility.
- 19) "Dekatherm" means a thermal unit equal to 1,000,000 British thermal units.
- 20) "Delivery point" means any point on the Company's gas distribution system at which an interconnection exists with an interstate pipeline or other transporter to enable the Company to receive gas owned by the buyer for redelivery to the buyer's facility.
- 21) "Delivery" means the transfer of gas from an interstate pipeline or other transporter to the Company at a point of interconnection to the Company's distribution system.
- 22) "Entitlement" means the claim, as provided for in the Company's rules, regulations, and rate schedules, of the buyer to receive gas from the Company's system supply in the event of interruption, or cessation of redelivery, to the buyer's facility of the buyer's own source of gas.
- 23) "Mcf" means 1,000 cubic feet of gas.

- 24) "Peak day" means the reservation by the buyer of access to the Company's system supply of gas at any time, including the 24-hour period of greatest gas sendout by the Company to system-supply customers during any year or other applicable period as established in the contract between the Company and the buyer.
- 25) "Redelivery" means the transfer of gas from the Company to the buyer at the meter at the buyer's facility.
- 26) "System supply" means gas reserved or purchased directly by the Company from any source for resale to its filed tariff sales customers, approved special contract sales customers, and transportation customers that pay the System-Supply Entitlement Charge.
- 27) "Transportation" means the provision of capacity within the Company's gas distribution system together with associated services to move gas owned by the buyer to the buyer's facility, as contrasted with the direct sale of gas owned by the Company to a customer.
- 28) "Transporter(s)" means an interstate pipeline or other company that delivers gas owned by the buyer to the Company for redelivery to the buyer's facility.
- 29) "Designated service rate" means the most economical sales rate under which the customer would be allowed to take firm or interruptible sales service.

B. Application of Rules

Unless otherwise provided for within these transportation service rules or under Transportation Service Rates T-2 and T-2, transportation rate customers are subject to all the rules and regulations contained within the Company's rules, regulations, and rate schedules governing the sale or transportation of gas. Customers taking service under transportation rules and rates shall be considered utility service customers of the Company.

C. Possession of Gas

1) Responsibility For Gas

The Company and the customer shall each be responsible for its own equipment, facilities, and gas on its own side of a delivery point. The Company and the customer shall each have good title or good right to make such a delivery or redelivery; and, further, shall warrant for itself, its personal representatives, its successors, and its assigns that the gas shall be free and clear of all liens, encumbrances, and claims. With respect to any adverse claim that may arise as to the gas or as to royalties, taxes, license fees, or charges on it, the party delivering, redelivering, causing the delivery, or causing the redelivery of the gas shall indemnify and save the receiving party harmless from all suits, actions, debts, accounts, damages, costs, losses, and expenses arising from or out

of that action, provided that the receiving party gives the other prompt notice of any adverse claim.

2) Indemnification of the Company

In the absence of negligence, recklessness, or willful misconduct on the part of the Company or the Company's directors, officers, employees, or agents, the customer waives any and all claims against the Company, its officers, its employees, or its agents, arising out of or in any way connected with: (a) the quality, use, or condition of the gas after redelivery from the Company's line for the account of the customer; (b) any losses or shrinkage of gas during or resulting from transportation; and (c) all other claims and demands arising out of the performance of the duties of the Company, its directors, its officers, its employees, or its agents.

2. RECORDS, ACCOUNTING, AND CONTROLS

A. Mailing of Notices, Bills, and Payments

All notices, bills, and payments required or permitted to be given in connection with transportation service shall be sent to the address specified in the customer's contract unless otherwise indicated therein; shall be in writing; and shall be valid and sufficient if delivered in person or by first class mail, Western Union, or telex.

B. Nominations, Accounting, and Controls

- 1) Monthly: At least seven working days prior to the first day of each month, the customer or the customer's designated representative shall furnish the Company's transportation department with a written schedule, in a format supplied by the Company, showing the estimated daily quantity of gas that it desires the Company to receive and to redeliver during the month, unless other arrangements are required by the Company.
- 2) Departures From Nominations: The customer, by telephoning the Company's gas control department, shall give the Company at least 48-hours' notice of any proposed change of a daily quantity from that set forth in the schedule provided for in 2(B)(1) above. Any proposed change in nomination, made pursuant to procedures specified by the Company, may not be made until after the first day of the month covered by the nomination. The Company may waive any part of the 48-hours' notice upon request if, in its judgment, operating conditions permit the waiver. The customer and the Company shall inform each other of any changes in anticipated deliveries immediately. Departures from the monthly and daily schedules shall be kept to a minimum as permitted by operating conditions, and the parties' dispatchers shall cooperate to this end.

3. GAS QUALITY

- A. The quality of gas delivered to the Company shall meet the following requirements:

- 1) Gas shall not contain more than three percent oxygen by volume;
 - 2) Gas shall be commercially free from objectionable odors, solid or liquid matter, dust, gum, or gum-forming constituents that might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters, or other appliances through which it flows;
 - 3) Gas shall not contain more than 0.3 grain of hydrogen sulphide per 100 cubic feet;
 - 4) Gas shall not contain more than twenty grains of total sulfur (including hydrogen sulfide and mercaptan sulfur) per 100 cubic feet;
 - 5) Gas shall not at any time have a carbon dioxide content in excess of two percent by volume;
 - 6) Gas shall not contain an amount of moisture that at any time exceeds seven pounds per million cubic feet; and
 - 7) Gas shall not contain a nitrogen content in excess of three percent by volume.
- B. Gas delivered to the Company shall have a total heating value per cubic foot of not less than 950 British thermal units (BTUs) nor more than 1,100 BTUs.

4. SERVICE REQUIREMENTS

A. Quantities

- 1) The customer may deliver or cause to be delivered and the Company will accept quantities of gas up to the MDQ agreed to in the contract with the customer. Such deliveries shall be made to the Company at a location(s) agreed to by the Company and the customer where the Company's pipeline facilities are connected with: (a) the facilities where the gas is being produced; or (b) with other facilities through which the gas is being transported. Deliveries to the Company in excess of the agreed upon quantities shall be grounds for termination of the contract by the Company.
- 2) Gas delivered to the Company shall be thermally evaluated at the point of receipt into the Company's system, and the Company will redeliver to the customer gas with an equivalent British thermal unit (BTU) content based on: (a) the Company's calculated average BTU content; or (b) test results from a BTU sampler located at the point of redelivery to the customer.

B. Pressure

The Company shall not be required to alter its prevailing line pressure at the delivery point or at the redelivery point.

C. Measurement

- 1) When delivered to the customer, all gas shall be measured by the Company. The accuracy of meters used for that purpose shall be evaluated and maintained in accordance with the Michigan Public Service Commission technical standards for gas service (technical standards).
- 2) Adjustments for meter errors shall be in accordance with the applicable rule in the technical standards.

D. Curtailment

- 1) A customer's curtailment rights and obligations are determined under the Company's Rule 21, curtailment of gas service.
- 2) Curtailment of gas service, when necessary in the Company's opinion to balance gas requirements with gas supplied, shall be implemented under Rule 21, curtailment of gas service.

E. Limitation of Service

The Company shall not be required to perform service under a transportation contract on behalf of any customer failing to comply with any and all terms of the customer's contract and the Company's transportation rules and rates. By mutual agreement between the customer and the Company, specific transportation contract language may vary from the terms and conditions of the tariff.

5. BILLING

A. Billing

The Company shall endeavor to render a transportation billing to the customer on or about the fifth day of each calendar month for service during the prior month. The Company will issue a separate billing for service under each of the customer's transportation contracts that will be due 10 days from the date it is rendered. The Company will make a thermal balance sheet available to each customer at the time of billing at the customer's request. Each party to a transportation contract shall have the right at all reasonable times to examine the books, records, and charts of the other party, to the extent necessary to verify the accuracy of any statement, charge, or computation made under or pursuant to any provisions of the contract.

B. Agency

- 1) If the customer's pipeline gas transporter has a provision for directly billing a customer for transportation fees, the Company has the option to collect fees to be paid to the pipeline.
- 2) The Company, at its option, may serve as a customer's agent in its contracts for transportation by interstate pipelines or other transporters.

FIRM TRANSPORTATION SERVICE RATE T-1

Availability

This rate is available to any customer desiring gas transportation service whose designated service rate is any rate except the interruptible rate. For the purpose of establishing a customer charge and a transportation charge, the customer must qualify for, designate in its contract with the Company, and comply with the applicable provisions of, one of the Company's existing firm gas sales rates, which will then be its designated service rate.

The customer must contract for delivery to a specific metering point(s) where the gas will be consumed. Gas transported under this rate may not be resold.

Nature of Service

The Company will accept gas delivered to it on behalf of a Firm Transportation Service Rate T-1 customer. The Company will redeliver an amount of gas to the customer containing the equivalent British thermal unit content of the gas delivered to the Company on behalf of that customer.

If in any month the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost-and-unaccounted-for (lost) gas, is more than the volume of gas taken by the customer at the redelivery point(s), the difference shall be considered as storage gas to be retained by the Company and redelivered to the customer in those succeeding months when the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost gas, is less than the volume of gas required by the customer. Should the aggregate volume of gas,

less the allowance for company-use and lost gas, retained by the Company at any month-end exceed 10% of the annual contract quantity, then the Company shall have the rights: (1) to refuse to receive any additional volume of gas for that customer until the Company has satisfied itself that the volume of gas retained for the customer is less than 10% of the annual contract quantity, and (2) to charge the customer for the storage of any month-end balance that exceeds 10% of the annual contract quantity. The customer shall withdraw any gas retained by the Company within 60 days of the termination of the contract.

If in any month the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost gas, plus any volume of gas retained by the Company and redelivered at the redelivery point(s) during that month, is less than the volume of gas taken by the customer at the redelivery point(s), the difference shall be considered unauthorized gas usage to the extent that the customer is unable to purchase the difference from the Company's system-supply gas. The customer's ability to purchase system-supply gas shall be based on the customer's payment of the System-Supply Entitlement Charge or its pre-arranged authorized use of system-supply gas.

Bills will be rendered on a monthly basis.

Gas Cost Recovery

Gas transported under this rate is not subject to adjustments for fluctuations in the cost of purchased gas as stated in Rule 16 of the Company's Rules, Regulations, and Rate Schedules, M.P.S.C. No. 5.

Company-Use and Lost-and-Unaccounted-For Gas

The Company shall retain .75% of all gas received at the delivery point(s) to compensate it for the company-use and lost-and-unaccounted-for gas on the Company's system. This volume shall not be included in the quantity available for redelivery to the customer.

Charges:

Customer Charge

\$800.00 per each gas transportation contract per month, plus the monthly customer charge specified in the designated service rate in the customer's gas transportation contract with the Company for each meter through which the customer transports gas under a transportation contract.

Transportation Charge

The customer shall pay the distribution charge, less \$0.0582 per Mcf and plus all applicable surcharges, specified under the designated service rate for all Mcfs redelivered.

Storage Charge

A customer shall be charged \$0.1000 per Mcf per month for the storage of any month-end balance of gas that exceeds 10% of the annual contract quantity.

System-Supply Entitlement Charge (Optional)

At the customer's option, for all transported volumes received by the customer at the redelivery point(s) in a given month, up to the volume of gas delivered at the delivery point(s) during that month, less company-use and lost-and-unaccounted-for gas, plus any volume of gas retained by the Company and redelivered at the redelivery point(s) during that month, the customer may pay a System-Supply Entitlement Charge of \$1.5000 per Mcf. The Company shall discount the System-Supply Entitlement Charge for all customers to reflect the currently effective unavoidable pipeline charges, but not below a floor of \$0.2000 per Mcf. Once a System-Supply Entitlement Charge, including any discount, is in effect, that charge will remain effective until notification to the appropriate customers. Such notification must be made at least 15 days prior to the beginning of the billing month in which the rate change is to take effect.

Customers may choose to pay this charge at their option. This choice shall be made within 90 days of selecting transportation service, and a customer may choose to pay this charge on a fixed monthly quantity or percentage of its total transportation requirements. Transportation customers who have previously forfeited their status as firm sales customers for any portion of their total requirements must apply for and be granted firm sales service pursuant to the Company's Rule 17, Controlled Service, in order to exercise this option.

Unauthorized Gas Usage Charge

If a customer is not currently paying the System-Supply Entitlement Charge, then the customer shall pay for unauthorized gas usage at that customer's

designated service rate, plus the currently effective GCR factor and \$10.0000 per Mcf, for all gas taken by the customer in excess of the cumulative volume delivered to the Company, less company-use and lost-and-unaccounted-for gas, on behalf of that customer.

Authorized Gas Usage:

(A) A customer currently paying the System-Supply Entitlement Charge has automatic access to the Company's system supply for all gas taken by the customer in excess of the cumulative volumes delivered to the Company, less company-use and lost-and-unaccounted-for gas, on behalf of that customer, up to the quantity or percentage of system-supply entitlement the customer has selected. The customer shall pay for this authorized gas usage at the customer's designated service rate plus the currently effective GCR factor.

(B) A customer not currently paying the System-Supply Entitlement Charge may obtain access to the Company's system supply for gas requirements in excess of the cumulative volumes delivered to the Company, less company-use and lost-and-unaccounted-for gas, on behalf of that customer. To obtain access, the customer shall make prior application to the Company specifying the volumes required and the time period requested (not to exceed 90 days). The Company, at its sole discretion, shall grant the request if it has sufficient volumes to do so without jeopardizing service to other customers. If the Company is unable to grant the request, in whole or in part, it shall maintain the application on file. If multiple customers request access, service shall be made available on a first-come, first-served basis. Existing unserved applications shall have priority over any new application.

The customer shall pay for the authorized gas usage at the designated service rate, plus the currently effective GCR factor and \$0.1000 per 100 cubic feet. The customer shall also pay \$0.0100 per 100 cubic feet for any unused volume that the customer received authorization to take.

Transition Charge

\$0.5000 per Mcf.

This charge, which is to be applied to all transported volumes received by the customer at the redelivery point(s), up to the volume of gas delivered at the delivery point(s) during that month, plus any volumes retained by the Company and redelivered at the redelivery point(s) during that month, shall be discounted to a floor of \$0.0000 per Mcf if required based on the Company's current estimate of excess system unavoided pipeline costs and take-or-pay costs. Once a transition charge is in effect, including any discounts, that charge will remain in effect until customers are notified of a rate change. Such notification must be made at least 15 days prior to the commencement of the billing month in which the rate change is to take effect.

Meter Charge

\$80.00 per month for each meter of size 5,000-standard-cubic-feet-per-hour, or larger, through which gas is transported.

Heating Value Measurement

\$250.00 per month per installation.

Conditions under which the Company, at its option, may require the installation of a heating value measurement device and the payment by the customer of the monthly heating value measurement charge are:

1. If the customer has annual requirements of 100,000 Mcf or more; or
2. For any smaller customer, if the customer refuses to include in its gas transportation service contract a provision that holds the Company harmless for any damages resulting from measuring errors; or
3. For any smaller customer, if the customer demands that heating value measurement equipment be installed.

Due Date and Late Payment Charge

A late payment charge of 2% of the unpaid balance outstanding shall be applied to any bill that is not paid on or before the due date shown. If failure to pay continues for 30 days after payment is due, then, in addition to any other remedy it may have, the Company may suspend further receipt or redelivery of gas until the balance is paid. However, the company must provide at least five-days' notice before service is suspended for non-payment.

The due date shall be 10 days from the date the bill is rendered. A billing may be based on estimated quantities if actual quantities are unavailable at the time of billing. In that event, the Company shall provide in the succeeding month's billing an adjustment based on any difference between actual and estimated quantities.

Contract

All service under this rate requires a written gas transportation service contract.

Alternative Charge Calculation

The Company, at its option and with the concurrence of the customer, may cause any charges in this rate to read per dekatherm rather than per Mcf.

INTERRUPTIBLE TRANSPORTATION SERVICE RATE T-2

Availability

This rate is available to any customer desiring gas transportation service whose designated service rate is the interruptible rate. For the purpose of establishing a customer charge and a transportation charge, the customer must qualify for, designate in its contract with the Company, and comply with the applicable provisions of, the Company's existing interruptible gas sales rate, which will then be its designated service rate.

The customer must contract for delivery to a specific metering point(s) where the gas will be consumed. Gas transported under this rate may not be resold.

Nature of Service

The Company will accept gas delivered to it on behalf on an Interruptible Transportation Service Rate T-2 customer. The Company will redeliver an amount of gas to the customer containing the equivalent British thermal unit content of the gas delivered to the Company on behalf of that customer.

If in any month the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost-and-unaccounted-for

(lost) gas, is more than the volume of gas taken by the customer at the redelivery point(s), the difference shall be considered as storage gas to be retained by the Company and redelivered to the customer in those succeeding months when the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost gas, is less than the volume of gas required by the customer. Should the aggregate volume of gas, less the allowance for company-use and lost gas, retained by the Company at any month-end exceed 10% of the annual contract quantity, then the Company shall have the rights: (1) to refuse to receive any additional volume of gas for that customer until the Company has satisfied itself that the volume of gas retained for the customer is less than 10% of the annual contract quantity, and (2) to charge the customer for the storage of any month-end balance that exceeds 10% of the annual contract quantity. The customer shall withdraw any gas retained by the Company within 60 days of the termination of the contract.

If in any month the volume of gas received by the Company at the delivery point(s), less the allowance for company-use and lost gas, plus any volume of gas retained by the Company and redelivered at the redelivery point(s) during that month, is less than the volume of gas taken by the customer at the redelivery point(s), the difference shall be considered unauthorized gas usage to the extent that the customer is unable to purchase the difference from the Company's system-supply gas. The customer's ability to purchase system-supply gas shall be based on the customer's pre-arranged authorized use of system-supply gas.

Bills will be rendered on a monthly basis.

Gas Cost Recovery

Gas transported under this rate is not subject to adjustments for fluctuations in the cost of purchased gas as stated in Rule 16 of the Company's Rules, Regulations, and Rate Schedules, M.P.S.C. No. 5.

Company-use and Lost-and-Unaccounted-For Gas

The Company shall retain .75% of all gas received at the delivery point(s) to compensate it for the company-use and lost-and-unaccounted-for gas on the Company's system. This volume shall not be included in the quantity available for redelivery to the customer.

Charges:

Customer Charge

\$800.00 per each gas transportation contract per month, plus the monthly customer charge specified in the designated service rate in the customer's gas transportation contract with the Company for each meter through which the customer transports gas under a transportation contract.

Transportation Charge

Except as noted later in this rate, the customer shall pay the distribution charge, less \$0.0582 per Mcf and plus all applicable surcharges, specified under the designated service rate for all Mcfs redelivered.

If the gas to be transported is an incremental load and will be used to displace coal or coal-derived fuels, the transportation charge shall be a price, as negotiated between the customer and the Company, between a floor price of \$0.3000 per Mcf and a ceiling price equal to the distribution charge specified under the designated service rate, less \$0.0582 per Mcf, and plus all applicable surcharges for all Mcfs redelivered.

If the gas to be transported is for use by a regulated utility to generate electricity, the transportation charge shall be a price, as negotiated between the customer and the Company, between a floor price of \$0.3000 per Mcf and a ceiling price equal to the distribution charge specified under the designated service rate, less \$0.0582 per Mcf, and plus all applicable surcharges, for all Mcfs redelivered.

Storage Charge

A customer shall be charged \$0.1000 per Mcf per month for the storage of any month-end balance of gas that exceeds 10% of the annual contract quantity.

Unauthorized Gas Usage Charge

In addition to the designated service rate, a charge of \$10.0000 per Mcf plus the currently effective GCR factor, will be applied to all gas taken by the customer in excess of the cumulative volumes delivered to the Company, less company-use and lost gas, on behalf of that customer.

Authorized Gas Usage:

A customer may obtain access to the Company's system supply for gas requirements in excess of the cumulative volumes delivered to the Company, less company-use and lost gas, on behalf of that customer. To obtain access, the customer shall make prior application to the Company specifying the volumes required and the time period requested (not to exceed 90 days). The Company, at its sole discretion, shall grant the request if it has sufficient volumes to do so without jeopardizing service to other customers. If the Company is unable to grant the request, in whole or in part, it shall maintain the application on file. If multiple customers request access, service shall be made available on a first-come, first-served basis. Existing unserved applications shall have priority over any new application.

The customer shall pay for the authorized gas usage at the designated service rate, plus the currently effective GCR factor and \$0.1000 per 100 cubic feet. The customer shall also pay \$0.0100 per 100 cubic feet for any unused volume that the customer received authorization to take.

Transition Charge:

\$0.5000 per Mcf.

This charge, which is to be applied to all transported volumes received by the customer at the redelivery point(s), up to the volume of gas delivered at the delivery point(s) during that month, plus any volumes retained by the Company and redelivered at the redelivery point(s) during that month, shall be discounted to a floor of \$0.0000 per Mcf if required based on the Company's current estimate of excess system unavowed pipeline costs and take-or-pay

costs. Once a transition charge is in effect, including any discounts, that charge will remain in effect until customers are notified of a rate change. Such notification must be made at least 15 days prior to the commencement of the billing month in which the rate change is to take effect.

Meter Charge

\$80.00 per month for each meter of size 5,000-standard-cubic-feet-per-hour, or larger, through which gas is transported.

Heating Value Measurement

\$250.00 per month per installation.

Conditions under which the Company, at its option, may require the installation of a heating value measurement device and the payment by the customer of the monthly heating value measurement charge are:

1. If the customer has annual requirements of 100,000 Mcf or more; or
2. For any smaller customer, if the customer refuses to include in its gas transportation service contract a provision that holds the Company harmless for any damages resulting from measuring errors; or
3. For any smaller customer, if the customer demands that heating value measurement equipment be installed.

Due Date and Late Payment Charge

A late payment charge of 2% of the unpaid balance outstanding shall be applied to any bill that is not paid on or before the due date shown. If failure to pay continues for 30 days after payment is due, then, in addition to any other

remedy it may have, the Company may suspend further receipt or redelivery of gas until the balance is paid. However, the company must provide at least five-days' notice before service is suspended for non-payment.

The due date shall be 10 days from the date the bill is rendered. A billing may be based on estimated quantities if actual quantities are unavailable at the time of billing. In that event, the Company shall provide in the succeeding month's billing an adjustment based on any difference between actual and estimated quantities.

Contract

All service under this rate requires a written gas transportation service contract.

Alternative Charge Calculation

The Company, at its option and with the concurrence of the customer, may cause any charges in this rate to read per dekatherm rather than per Mcf.

Special Provisions

Gas transported under this rate shall be separately metered and shall not be used interchangeably with firm gas purchased or transported under any other rate. A customer receiving service under this rate: (1) shall have and shall maintain complete standby fuel equipment, shall have standby fuel available, and must agree to use that fuel when necessary; or (2) shall give a written statement that it can cease using gas and not cause undue hardship to its

employees by virtue of any gas curtailment or interruption. In the event that the customer fails to discontinue use of gas after two-hours' notice from the Company stating that gas transportation under this rate is not available, all unauthorized gas transported shall be paid for at the rate of \$10.0000 per Mcf in addition to the regular transportation charge.

17. CONTROLLED SERVICE

A. Scope

This Controlled Service Rule provides the Company with the authorization to control the attachment of additional firm and interruptible system supply load and non-system supply load, consistent with changes in gas supply as they occur.

B. Application

1. All customers requesting firm gas service, except those seeking gas for residential use or for single family space heating use, must make written application for such service on a form provided by the utility.
2. Existing firm sales customers requesting to attach additional gas burning equipment, or existing transportation customers seeking firm sales service, shall not be given preferential treatment over new customers but shall be considered the same as new customers in accordance with this Controlled Service Rule.
3. A transportation customer who does not pay the System-Supply Entitlement Charge may not apply for firm sales service for a period of five years after the customer initiates transportation service. If the customer pays the System-Supply Entitlements Charge on a portion of its load, on that portion for which the system supply Entitlement Charge is not paid, the customer must await the completion of the five-year period before application may be made for firm sales service.
4. The Company reserves the right to attach new interruptible load.

C. Approval

1. As the Company is able to contract for new gas supplies at reasonable and prudent prices, terms, and conditions, applications for firm sales service will be approved.
 - a) Approval will be on a first-come first-served basis within each Controlled Service Priority.
 - b) The Company will open the highest priority first. If all the applicants within that priority are granted firm gas service, and sufficient supply is available, the next highest priority will be opened.
 - c) If the available supply is committed before granting all applicants firm gas service, then those applicants who do not receive firm gas service shall have their standing reserved within their priority, but will not receive preference over a later applicant who qualifies for a higher priority, when gas again becomes available and priorities are again opened.
2. An applicant whose Controlled Service Priority is open at the time of application may be granted immediate approval provided such applicant demonstrates to the satisfaction of the company that the construction and installation of the necessary equipment will proceed in a timely manner.
3. An applicant whose Controlled Service Priority is closed at the time of application, such that gas service is not initially granted, shall have his application for firm gas service kept on file by Controlled Service Priority

and date application is received.

4. Notification of approval shall specify the date within which service must be commenced.

D. Forfeiture

1. An applicant who is not initially granted firm gas service, shall notify the Company in writing, within 30 days of date of notification of approval, of his intention to accept firm gas service, otherwise approved application is void.

2. A customer shall install the necessary equipment and commence gas service by the date specified in the company's notification of approval, otherwise the customer forfeits his reservation of firm supply.

3. If any time after commencing firm gas service, a customer switches to transportation service, that customer shall pay a System-Supply Entitlement Charge applied to transported volumes, otherwise such customer forfeits firm sales customer status.

4. The Company reserves the right to discontinue service to any customer who violates any of the provisions of this Rule.

E. Impact on Existing Customers

1. The Company may grant firm sales service to new customers, or permit the attachment of additional gas burning equipment by existing customers, when:

a) current system supplies are sufficient to provide reliable long term service to both the Company's existing firm sales customers and the new firm sales load being attached.

b) the acquisition of additional long term supplies allows the attachment of new firm sales load. The Company will be held responsible to justify the reasonableness and prudence of such additional gas acquisitions at its GCR Plan and Reconciliation proceedings.

2. The Company may not grant firm sales service to new customers or permit the attachment of additional gas burning equipment by existing customers, if:

a) the Company is curtailing any customers under the Capacity Curtailment provisions of Rule 21.

b) the Company is curtailing any firm customers under the Gas Supply Deficiency provisions of Rule 21; except that the Company may attach new residential customers provided no customers in curtailment Priority Two are being curtailed.

F. Restricted Sales

1. As a result of warmer-than-normal weather, or other factors, the Company may have system-supply volumes in excess of its immediate firm and interruptible sales load. The Company may sell such excess gas to other than system supply customers. However, the availability of system supply gas to non-system supply customers is conditioned on and subject to:

- a) the requirements of present and future firm and interruptible system supply customers of the utility;
- b) the provision of a net economic benefit to the utility's system supply customers as a result of the sale of excess system supply gas;
- c) demonstration by the company at its GCR Reconciliation proceeding that the sale of excess system supply caused no detriment to its system supply.
- d) the designation of all sales of excess system supply as super-interruptible load subject to curtailment Category Five of Rule 21.
- e) Commission approval of such sales on a special contract basis, limited as to time and volume.

2. From time to time the Company may have gas supplies available to it on a short term or best efforts basis, that are not required for, and are incremental to system supply. Such supply may be sold on a special contract basis, limited as to time and volume, and subject to Commission approval. At its GCR Reconciliation proceeding, the Company must demonstrate that such incremental supplies sold on a special contract basis caused no detriment to its system supply.

G. Priorities

1. For purposes of controlling which new customers seeking firm sales status, if any, may be granted such status, the following categories are hereby established, of which Priority Six constitutes the lowest priority and Priority One the highest priority:

PRIORITY ONE

The use of natural gas by any residential or commercial customer for any purpose except space heating or air conditioning.

PRIORITY TWO

The use of natural gas by any residential customer for space heating or air conditioning and the use of natural gas for services essential for public health and safety.

PRIORITY THREE

The use of natural gas by any industrial customer for industrial processing or in gas fired after burners to limit or abate obnoxious odors or air pollution.

PRIORITY FOUR

The use of natural gas by any non-residential customer for space heating or air conditioning.

PRIORITY FIVE

The use of natural gas for all other purposes not listed in Priority One through Four or Priority Six.

PRIORITY SIX

The use of natural gas for the generation of steam or electricity by utilities, or the firing of kilns which can be fired by other fuels.

2. A customer who has a pollution problem which presents a threat to the public health and welfare, where the use of natural gas offers the only feasible solution to the problem, may petition the Commission to assign a priority of use higher than that to which the customer would otherwise be entitled. The matter will be considered by the Commission pursuant to its Rules of Practice relating to petitions or complaints.

3. The use of natural gas in boilers which have alternate fuel capability shall not qualify as requirements for services essential for public health and safety without the express authorization of the Michigan Public Service Commission. The matter will be considered by the Commission pursuant to its Rules of Practice relating to petitions or complaints.

21. CURTAILMENT OF GAS SERVICE

FOR GAS SUPPLY DEFICIENCY

A. Determination of Need for Curtailment

1. If at any time the Company cannot provide continuous service to its system supply customers because of an inability to procure sufficient gas volumes from its interstate pipeline suppliers or other firm suppliers, and reliable short term supplies are not available at reasonable and prudent prices, the company has the right to curtail the distribution of system supply gas to its customers in accordance with the provisions of this rule.

2. In implementing this rule, however, all sales of system supply gas to other than system supply customers shall be curtailed prior to curtailing, limiting or interrupting the distribution of gas to system supply customers. Further, all sales of system supply gas to interruptible customers shall be interrupted prior to curtailing the distribution of gas to firm system supply customers.

3. The Company may separately institute curtailment of its system supply gas in the integrated and non-integrated portions of its total system, consistent with the inability to procure sufficient gas volumes in each respective portion of its system.

B. Notice of Curtailment

1. The Company shall provide not less than 90 days advance written notice of curtailment to all firm system supply customers expected to be curtailed, except where actions by foreign, federal, state, or local government or regulatory agencies preclude the giving of such notice.

2. The Company shall provide not less than 30 days advance written notice of curtailment to all interruptible system-supply customers expected to be curtailed, except that in the event of any emergency which threatens the continuance of service to the utility's firm system-supply customers, the utility may immediately interrupt service, for such duration as the utility in its sole judgement shall deem necessary.

3. The Company may immediately curtail or interrupt the distribution of system supply gas to non-system supply customers, by oral notice or otherwise, to the extent and for such duration as the company in its sole judgement shall deem necessary.

4. Notification of curtailment shall specify the starting date, an estimate of the length of time the curtailment is expected to be in effect, and the classification of the priorities to be curtailed. Prior to and during the period of curtailment, all customers in curtailment priorities to be affected shall be given not less than 30 days advance written notice of the authorized volumes to which they will be entitled for the following month.

C. Method of Curtailment

1. Curtailments shall be made in accordance with the curtailment priorities set forth in Section E of this rule, beginning with the lowest priority category and proceeding to the next highest priority category. The total curtailment shall equal the estimated deficiency of gas brought about by the demands of all customers purchasing system supply gas in the integrated and/or non-integrated portions of the Company's system.

2. Curtailments may be simultaneously instituted in more than one curtailment category provided that gas usage falling within a lower priority category has been completely curtailed.

3. When curtailment of less than 100% of the sales volume in a particular curtailment priority is required, the available volumes shall be allocated to each customer assigned to that priority, on a pro-rata basis, using the customer's base period volumes that correspond to the month being curtailed.

D. Base Period

1. Base Period For Firm System Supply Customers

a) For the purpose of determining the volumes within each curtailment category, a twelve month base period shall be established. Such base period shall be fixed for the term of the curtailment. The base period volumes shall consist of the twelve consecutive monthly consumptions ending six months prior to the commencement of curtailment under this Rule B4. In those instances where the customer has encountered strikes, interruption of gas service or unavoidable operational abnormalities, the Company may make reasonable adjustments to normalize the customer's requirements. Base period volumes may be adjusted for equipment added or deleted.

b) In determining monthly consumptions, the Company shall determine the gas used during each month of the period described above for all buildings, parts of buildings, and equipment associated with each customers gas billing in accordance with the Company's Rules and Regulations. Volumes specified in curtailment Priorities One through Three shall apply in the aggregate for all equipment of the same end use rather than on a unit of equipment basis.

c) The monthly consumptions so determined, with such adjustments as provided above, shall then be divided by the number of billing days in each month to arrive at the various maximum day requirements specified in the curtailment categories. In determining a customer's curtailment category, the highest maximum daily requirement in any of the twelve months of the base period shall be used.

2. Base Period For Interruptible System Supply Customers

A base period is not established pursuant to this rule for interruptible system supply customers. The distribution of gas to interruptible system supply customers is subject to curtailment Priority Four whereby the Company has sole discretion in determining the extent and duration of curtailment of such customers.

3. Base Period For Non-System Supply Customers

A base period is not established pursuant to this rule for non-system supply customers. The distribution of system supply gas to non-system supply customers is subject to curtailment Priority Five whereby the Company has sole discretion in determining the extent and duration of curtailment of such customers.

E. Curtailment Priorities

For purposes of curtailment five categories are established with Priority Five constituting the lowest priority and Priority One the highest.

PRIORITY ONE

Residential gas requirements, commercial gas requirements having a maximum day requirement of less than 50 Mcf, requirements for plant protection, and requirements for services essential for public health and safety.

PRIORITY TWO

Commercial and industrial gas requirements, not having alternate fuel capability, and having a maximum day requirement of 50 Mcf or more, and industrial gas requirements for feedstock and process needs.

PRIORITY THREE

Commercial and industrial gas requirements, having alternate fuel capability, and having a maximum day requirement of 50 Mcf or more.

PRIORITY FOUR

Commercial and industrial gas requirements purchased under an interruptible rate schedule.

PRIORITY FIVE

All sales of system supply gas to non-system supply customers.

FOR CAPACITY DEFICIENCY

F. Determination of Need for Curtailment

If in the event of an emergency such as extreme cold weather, damage to facilities, or other cause, the Company determines that its ability to supply gas may diminish to the point where continuous service to its customers is threatened, the Company shall have the right to curtail the distribution of gas to its customers, irrespective of the contracts in force.

G. Curtailment Priorities

Customers shall be curtailed in the following order:

1. Customers for whom the Company transports gas on a month-to month basis.
2. Interruptible sales and interruptible transportation customers.
3. All other commercial and industrial customers consuming annual volumes equal to 10,000 Mcf or more.
4. All customers consuming annual volumes less than 10,000 Mcf.

In order to determine the annual volumes of gas consumed by its customers, the Company shall determine the gas used during the latest available twelve month period for all buildings, parts of buildings and equipment associated with each customer's gas billing in accordance with the Rules and Regulations of the Company.

H. Method of Curtailment

The curtailment of customers shall equal the deficiency in capacity brought about by the demands of all customers in the company's system during the period of curtailment.

Customers within category (1) shall be curtailed pro-rata based upon monthly contract quantity.

Customers within category (2) shall be curtailed pro-rata based upon annual contract quantity in the case of transportation customers and the latest available twelve month consumption in the case of sales customers.

Customers within category (3) and within category (4) shall be curtailed pro-rata based upon the volume of gas taken by the customer in the same month occurring one year prior to the month in which the customer is to be curtailed.

In those instances where the customer's consumption of gas in the same month of the prior year does not fairly represent normal operations, or if the curtailment of a customer would endanger public health and safety or plant protection as defined in Section I, the Company may make reasonable adjustments as it deems appropriate.

I. Rate Adjustments

A customer shall not be liable for any part of a monthly service charge provided in a rate schedule if such customer's consumption under that rate is completely curtailed for the entire billing period. No other rate adjustments will be permitted.

J. Enforcement

The Company reserves the right to inspect the customer's equipment, to install special metering, and to immediately terminate gas service for violations of this Rule. Once gas service is terminated, the Company may withhold such service until it is satisfied that the terms and conditions of this Rule will be observed.

K. Penalties For Violation

Any gas used by a customer in excess of the volumes authorized during the period when a curtailment has been instituted pursuant to this Rule shall be subject to excess use charges, with such charges being in addition to those normal charges made under the applicable rate schedules. The charge for such excess usage shall be one dollar for each one hundred cubic feet. Failure to pay an excess use charge when rendered shall subject the customer to termination of gas service.

L. Definitions for Supply Deficiency

1. Residential gas requirements shall include all direct natural gas usage for space heating, cooking, water heating, and other residential uses in a single family dwelling or in an individual flat or apartment; or two or more households served by a single meter (one customer) in a multiple family dwelling, or portion thereof. A "multiple family dwelling" includes such living facilities as, for example, cooperatives, condominiums, and apartments; provided each household within such multiple family dwelling has the normal household facilities such as bathroom, individual cooking, and kitchen sink. A "multiple family dwelling" does not include such living facilities as, for example, penal or corrective institutions, motels, hotels, dormitories, nursing homes, tourist homes, military barracks, hospitals, special care facilities or any other facilities primarily associated with the purchase, sale or supplying (for profit or otherwise) of a private person, entity, organization or institution.

2. Commercial gas requirements shall include all service to customers engaged primarily in the furnishing or sale of goods or services including schools, local, state and federal government agencies and other public or private institutions for use other than those involving manufacturing or electric power generation.

3. Industrial gas requirements shall include all service to customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

4. Boilers shall mean all closed vessels in which a liquid is heated or vaporized by the combustion of fuel for the generation of steam or hot liquid. The utilization of gas turbines for the generation of electricity shall be defined as a boiler.

5. Feedstock gas is natural gas used as a raw material for its chemical properties in creating an end product.

6. Process gas is natural gas used in appliances capable of burning only a gaseous fuel so as to utilize those combustion characteristics of gaseous fuels such as complete combustion, safe combustion products, flame geometry, ease of temperature control to precise levels, and optimum safety of heat application. Specifically excluded are boilers, gas turbines, space heating equipment (other than direct fired make-up air heaters for process purposes) and indirect air heaters.

7. Alternate fuel capability means that an alternate fuel could have been used whether or not the facilities for use have actually been installed or the alternate fuel is available; provided, however, where the use of natural gas is for plant protection and the only alternate fuel is propane or other gaseous fuel, then the customer will be treated as if he had no alternate fuel capability.

8. Requirements for services essential for public health and safety shall mean gas purchased for food processing and for use by or in connection with hospitals, convalescent homes, nursing homes, medical centers and clinics; water and sewage treatment and waste disposal facilities; civil defense centers and public utility buildings; newspapers, radio and television stations; fire stations, police stations, jails and penal institutions; and such other uses of gas as are found qualified by the Michigan Public Service Commission as requirements for services essential for public health and safety; provided, however, that boilers which have alternate fuel capability shall not qualify as requirements for services essential for public health and safety without the express authorization of the Michigan Public Service Commission after hearing.

9. Requirements for plant protection shall mean such minimum volumes of gas as required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

M. Definitions for Capacity Deficiency

1. Customers shall mean both sales customers and transportation customers unless otherwise specified.

2. Commercial customers shall include all customers which consume gas for use other than those involving manufacturing or electric power generation and are engaged primarily in the furnishing or sale of goods or services including local, state or private institutions, but excluding schools and buildings used for permanent or transient residence.

3. Industrial customers shall include all customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

S T A T E O F M I C H I G A N
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter, on the Commission's own)
motion, of the rates and tariffs of)
MICHIGAN GAS UTILITIES COMPANY regarding gas)
transportation service and related matters.)

Case No. U-8788

At a session of the Michigan Public Service Commission held at its offices
in the city of Lansing, Michigan, on the 21st day of April, 1987.

PRESENT: Hon. William E. Long, Chairperson
Hon. Edwyna G. Anderson, Commissioner
Hon. Matthew E. McLogan, Commissioner

ORDER AND NOTICE OF HEARING

On September 26, 1984, in response to an application for rulemaking by the Association of Businesses Advocating Tariff Equity (ABATE), the Commission initiated an inquiry in Case No. U-7991 for the purpose of determining whether the Commission should develop, by rulemaking or otherwise, a policy governing the provision of transportation service by gas distribution utilities. Pursuant to that order, three days of public hearings were held during which testimony was received from ten witnesses. Briefs were filed by six parties and reply briefs were filed by five parties. The Commission issued its order in Case No. U-7991 on December 17, 1986. On the same day, it issued an order beginning a proceeding to establish rates and tariffs for Michigan Consolidated Gas Company (Mich Con) to offer transportation service. This order creates a comparable proceeding for Michigan Gas Utilities Company (MGU). To provide the background and define the nature of the proceeding, the Commission will repeat much of what it said in the December 17, 1986 order that initiated Mich Con's proceeding.

On October 9, 1985, the Federal Energy Regulatory Commission (FERC) issued Order No. 436, which substantially modified the basic structure of the natural gas industry in the United States. In essence, that order permits interstate pipelines to become, at their option, open access transporters, which would enable the pipelines to provide non-discriminatory transportation service under liberalized regulatory procedures. The Commission is participating as an intervenor in cases before the FERC involving the efforts of ANR Pipeline Company, Panhandle Eastern Pipe Line Company and Trunkline Gas Company to become open access transporters under Order No. 436. To date, none of the interstate pipeline companies serving local distribution companies in Michigan have received final FERC authority to provide open access transportation under Order No. 436.

On June 6, 1986, the Commission Staff (Staff) prepared A Report on Natural Gas Transportation in Michigan. This report brought together current issues on transportation in one document and has been used as a vehicle to generate additional and timely input from end users, local distribution companies (LDCs) and other parties interested in gas transportation in Michigan.

At its August 26, 1986 study session on transportation, the Commission encouraged the Staff to take an active role in working with the various individuals and organizations interested in transportation to identify issues that may come before the Commission and to attempt to resolve or reach settlement positions.

After reviewing the record in Case No. U-7991 and considering the comments received from interested parties as a result of the June 6, 1986 Staff report on transportation, and as a result of information in the Commission's files and the Commission's ongoing working relationship with the Staff and others, the Commission has reached the following conclusions:

1. The Commission believes it would be undesirable and inappropriate to promulgate rules under the Administrative Procedures Act covering the provisions of transportation service by gas distribution utilities or other common or contract carriers.
2. The Commission believes it would be undesirable and inappropriate to develop flexible guidelines covering the provision of transportation service by gas distribution utilities or other common or contract carriers.
3. The Commission believes it would be most appropriate to permit the various parties, in future cases, to raise issues and take positions on matters that may affect the level of any transportation rate or any related transportation charges or that may affect any conditions of transportation service. The Commission encourages the parties to any transportation case to engage in early discovery and, to the extent possible, to minimize the number of contested issues by settlement or agreement on various issues.
4. The Commission believes it would be appropriate and in the public interest to take an active role in addressing the relationship and related effects of any transportation rate, charge or condition of service on a utility's remaining captive gas sales customers. Transportation rates should reflect a fair allocation of the offering utility's total system costs so that there will be no subsidization of transportation rates by sales customers.
5. The Commission believes it would be in the public interest for utilities to provide end user transportation services with rates and charges in an unbundled manner that would permit particular types of end users to choose services appropriate for their needs.
6. The Commission believes it would be appropriate to design flexible transportation rates and charges to permit the offering utility to maximize revenues received under such transportation rates and charges.
7. The Commission believes it would be inappropriate to wait until all transportation issues at the federal level are resolved before it commences proceedings to address transportation matters in Michigan. However, the Commission recognizes that certain FERC decisions will have an impact on a utility's overall operation and longer term structural changes relating to a utility's gas purchasing arrangements will eventually have an impact on both gas sales rates and transportation rates, as well as conditions of gas sales service and gas transportation service.

8. The Commission believes it would be appropriate to establish end user transportation rates, fees and conditions of transportation service under the Commission's general regulatory authority over public utilities as discussed later in this order, rather than continue with the current method of accomplishing gas transportation in Michigan under 1929 PA 9 (Act 9).
9. The Commission believes that, until such time as there is a need to specifically address utility transportation rates for other utilities' system supply, it would be appropriate for those transportation rates to be continued under the provision of Act 9 by filing related contracts with the Commission.

The Commission's authority for regulating the rates charged for the transportation of natural gas is well grounded. Act 9 vests the Commission with the authority to regulate "corporations, associations or persons engaged in the business of carrying and transporting natural gas." Section 6 of Act 9 provides:

"All corporations, associations and persons, purchasing or collecting natural gas and transmitting or conveying the same for hire, compensation or otherwise by pipeline or lines as a common carrier shall be a common carrier thereof as at common law, and it shall be unlawful for any such common carrier doing business within this state to give, either directly or indirectly, any preference or advantage to any person, copartnership, corporation or locality, in any respect whatsoever as to rates, service, facilities for service or commodity delivered."

Section 10 of Act 9 requires every common carrier of natural gas acting as a carrier for hire to file with the Commission a schedule of the rates and charges that it will assess for the service it performs, together with related contracts for such service. Any subsequent change in the filed rates and charges must be approved by the Commission. MGU has filed contracts covering transportation service pursuant to Section 10.

The Commission also derives jurisdiction over gas transportation through its general regulatory authority over public utilities. Section 6 of 1939 PA 3 (Act 3), which created the Public Service Commission, provides in part:

"The Michigan public service commission is hereby vested with complete power and jurisdiction to regulate all public utilities in the state except any municipally owned utility and except as otherwise restricted by law. It is hereby vested with power and jurisdiction to regulate all rates, fares, fees, charges, services, rules, conditions of service and all other matters pertaining to the formation, operation or direction of such public utilities. It is further granted the power and jurisdiction to hear and pass upon all matters pertaining to or necessary or incident to such regulation of all public utilities, including electric light and power companies, whether private, corporate or cooperative, gas companies, water, telephone, telegraph, oil, gas and pipeline companies, motor carriers, and all public transportation and communication agencies other than railroads and railroad companies."

Act 3 also transferred to this Commission, all rights, powers and duties of the former Public Utilities Commission. The Public Utilities Commission was created by 1919 PA 419, which provides in Section 4 that:

"In addition to the rights, powers and duties vested in an imposed on said commission by the preceding section, its jurisdiction shall be deemed to extend to and include the control and regulation, including the fixing of rates and charges, of all public utilities within this state producing, transmitting, delivering or furnishing steam for heating or power, or gas for heating or lighting purposes for the public use."

The Commission has routinely used its authority under Act 3 to regulate rates and charges for gas sales by utilities under the Commission's jurisdiction. Because of the open access provisions of FERC Order No. 436 and other FERC decisions, gas transportation is becoming a significant factor in providing utility service and the rates and charges for gas transportation should be regulated in the same manner as gas sales.

The issues to be addressed in this proceeding shall include, but not be limited to:

1. The design of transportation rates and charges, including the following:
 - a. Firm and interruptible service

- b. Storage/load balancing charges
 - c. Flexible rates with maximums and minimums
 - d. Pipeline fixed cost charges
 - e. Standby charges
 - f. Supply commitment charge
 - g. Capacity reservation charge
 - h. Any other appropriate charges
2. The appropriateness and justification of any minimum requirements to qualify for transportation service.
 3. Modification of existing tariffs to accommodate transportation service, including gas sales restriction and gas curtailment procedures.
 4. New tariffs for use in providing transportation service including the following:
 - a. Conditions and receipt and delivery
 - b. Scheduling and notification
 - c. Quality standards
 - d. Measurement
 - e. Billing and payment
 - f. Responsibility during transportation
 - g. Use and loss
 - h. Any other appropriate tariff
 5. The interrelationship between transportation and gas supply planning, including the effect upon the company's Gas Cost Recovery Plan.
 6. The effect of transportation upon the utility's obligation to serve.
 7. Any other issues that are relevant to transportation service.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCLA 462.2

et seq.; 1919 PA 419, as amended, MCLA 460.51 et seq.; 1929 PA 9, as amended, MCLA 483.101 et seq.; 1939 PA 3, as amended, MCLA 460.1 et seq.; 1969 PA 306, as amended, MCLA 24.201 et seq.; and the Commission's Rules of Practice and Procedure, 1979 Administrative Code, R 460.11 et seq.

b. A contested case hearing should be held for the purpose of developing appropriate rates, charges and conditions of service for MGU relating to the provision of gas transportation service.

THEREFORE, IT IS ORDERED that:

A. A prehearing conference will be held at 9:00 a.m. on June 29, 1987, in the offices of the Commission, Mercantile Building, 6545 Mercantile Way, Lansing, Michigan.

B. Michigan Gas Utilities Company shall file prepared testimony on or before June 15, 1987. Testimony shall address at least all of the issues discussed above in the scope of the proceedings. The Administrative Law Judge is responsible for setting the schedule in this case; however, the Commission Staff shall not be required to file prepared testimony any sooner than 30 days after the date set for intervenors to file their prepared testimony.

C. Michigan Gas Utilities Company shall, on or before June 12, 1987, mail a copy of this Order and Notice of Hearing to all cities, incorporated villages, townships and counties in its gas service area, as well as to all intervenors or parties who appeared in Cases Nos. U-8294-R, U-8575 and U-7991. Proof of Service shall be filed at or before the prehearing conference on June 29, 1987.

D. Michigan Gas Utilities Company shall cause to be published, on or before June 12, 1987, a Notice of Hearing in daily newspapers of general circulation throughout its gas service area which shall set forth the substance of

this Order and Notice of Hearing. Affidavits of Publication shall be filed at or before the prehearing conference.

E. The Executive Secretary of the Commission shall, on or before June 2, 1987, mail a copy of this Order and Notice of Hearing to those interested parties who submitted comments on the Staff's Report on Natural Gas Transportation in Michigan and to those who submitted comments to the Staff as a result of its general meeting on end user transportation issues. The Executive Secretary is relieved from mailing copies of this Order and Notice of hearing to parties who will receive a copy of it pursuant to ordering paragraph C of this order.

F. Any person seeking to intervene in accordance with Rule 11 of the Rules of Practice and Procedure Before the Commission shall file with the Commission, on or before June 24, 1987, an original and 12 copies of a Petition to Intervene.

G. Michigan Gas Utilities Company shall, on or before June 29, 1987, serve upon each person who has petitioned to intervene in accordance with Rule 11, a copy of the written direct testimony of its proposed witnesses and the proposed exhibits as filed with the Commission. Proof of Service shall be filed with the Commission on or before July 6, 1987.

The Commission specifically reserves jurisdiction of the matters herein contained and the authority to issue such further order or orders as the facts and circumstances may require.

Any party desiring to appeal this order must perfect an appeal to the appropriate court within 30 days after issuance and notice of this order, pursuant to MCLA 426.62.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ William E. Long
Chairperson

(S E A L)

/s/ Edwyna G. Anderson
Commissioner

/s/ Matthew E. McLogan
Commissioner

By the Commission and pursuant to
its action of April 21, 1987.

/s/ Bruce R. Maughan
Its Secretary