

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
SEMCO ENERGY GAS COMPANY)	Case No. U-13496
for approval of depreciation rates and practices.)	
_____)	

In the matter of the application of)	
SEMCO ENERGY GAS COMPANY)	Case No. U-13575
for authority to increase rates for sale and)	
transportation of natural gas and related approvals.)	
_____)	

At the May 2, 2003 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On August 30, 2002, SEMCO Energy Gas Company (SEMCO Gas) filed an application, with supporting testimony and exhibit, requesting approval of revised depreciation rates and practices in Case No. U-13496. Pursuant to due notice, a prehearing conference was held on October 2, 2002 before Administrative Law Judge James N. Rigas (ALJ). The Commission Staff (Staff) participated in the proceedings, and the ALJ granted the petition to intervene of Attorney General Jennifer M. Granholm¹ (Attorney General).

¹On January 1, 2003, Michael A. Cox replaced Jennifer M. Granholm as Attorney General.

On November 21, 2002, SEMCO Gas filed an application, with supporting testimony and exhibits, in Case No. U-13575, requesting authority to increase its rates for retail natural gas service by \$10,938,290 annually. Pursuant to due notice, the ALJ conducted a prehearing conference on January 2, 2003 and granted petitions to intervene filed by the Attorney General and Michigan Technological University. The ALJ also granted a motion to consolidate Cases Nos. U-13496 and U-13575. The Staff participated in the proceedings.

Subsequently, the parties submitted a settlement agreement resolving all issues in the consolidated cases.

According to the terms of the settlement agreement, attached as Appendix 1, the parties agree to a revenue requirement of \$71,863,230 based on a projected test year ending December 31, 2003 and a return on common equity of 11.40%. The parties also agree to revised depreciation rates as set forth on Exhibit A to the settlement agreement. Those depreciation rates include a negative net salvage value approach methodology, i.e., negative net salvage is included in making the requisite calculations. Additionally, the parties agree that SEMCO Gas, beginning the first month after the date of this order, will separately track all gas plant retirements without replacement, i.e., retirements in which service to a customer facility or to a service area is abandoned. SEMCO Gas shall segregate all gas plant retirements, costs of removal, and salvage into two categories:

(a) retirements with replacement, and (b) retirements without replacement. In SEMCO Gas's next depreciation rate case, SEMCO Gas shall include the net salvage values applicable to retirements without replacement as a separate identifiable section of its original filing. The rates reflected in the rate case tariff sheets set forth on Exhibit B to the settlement agreement incorporate the revised depreciation rates.

The parties also agree that the personal property tax expense used in calculating the rates reflects the new personal property tax multiplier tables to the extent that taxing districts are using them and that no further adjustment to rates is necessary to resolve the issues raised in the November 7, 2002 order in Case No. U-13610. The parties agree that the unbundled cost of service allocation study submitted by SEMCO Gas in this docket complies with the July 11, 2001 order in Case No. U-12550.

The settlement agreement also reflects SEMCO Gas's agreement to adopt the Affiliate Transaction Guidelines set forth in Exhibit D to the settlement agreement. The parties further agree that the reverse taper incentive regulation plan established in Case No. U-11220 should be eliminated.

Finally, the settlement agreement reflects, as set forth in Exhibit B, miscellaneous tariff revisions to SEMCO Gas's general rules.

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

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 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, as amended, 1992 AACS, R 460.17101 et seq.
- b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Appendix 1, is approved. The exhibits attached to the settlement agreement are contained within the docket on file at the Commission, but are not attached to copies of this order, due to their length.

B. On the day following the issuance of this order, SEMCO Energy Gas Company shall implement the rates for the sale of natural gas, as well as the rates for gas transportation service and related services, approved by this order.

C. On the day following the issuance of this order, SEMCO Energy Gas Company is authorized to revise its depreciation rates as approved in this order and incorporated in the attached settlement agreement.

D. Within 30 days of the issuance of this order, SEMCO Energy Gas Company shall file with the Commission four sets of tariff sheets essentially the same as those set forth in Exhibit B to the settlement agreement.

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

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

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

By its action of May 2, 2003.

/s/ Dorothy Wideman
Its Executive Secretary

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

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of May 2, 2003.

Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of SEMCO ENERGY GAS COMPANY for approval of depreciation rates and <u>practices.</u>)))))	Case No. U-13496 [e-file]
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In the matter of the application of SEMCO ENERGY GAS COMPANY for authority to increase rates for sale and transportation of natural gas <u>and related approvals</u>)))))	Case No. U-13575 [e-file]
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SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 333 of the Rules of Practice and Procedure before the Michigan Public Service Commission ("MPSC" or "Commission"), SEMCO Energy Gas Company ("SEMCO Gas"), the MPSC Staff ("Staff"), Attorney General Michael A. Cox ("AG"), and Michigan Technological University ("MTU") agree as follows:

1. On August 30, 2002, SEMCO Gas filed in Case No. U-13496 its Application along with supporting testimony and exhibit with the Commission requesting approval of depreciation rates and practices. Among other things, SEMCO Gas's requested depreciation rates included an overall 38.40% negative net salvage value.
2. On October 2, 2002, the Commission issued its Notice of Hearing in Case No. U-13496, scheduling a prehearing conference for October 29, 2002, before the Honorable James N. Rigas.
3. In accordance with the Commission's Notice of Hearing, SEMCO Gas provided notice of the Case No. U-13496 proceeding throughout its service territory.
4. At the October 29, 2002 prehearing conference in Case No. U-13496, Staff participated in the conference, and the AG was granted intervenor status. SEMCO Gas's proofs of mailing and publications were accepted without objection.

5. On November 21, 2002, SEMCO Gas submitted its application, testimony, exhibits, and workpapers in support of a proposed annual revenue increase of \$10,938,290 in Case No. U-13575.

6. On January 2, 2003, the Commission issued its Notice of Hearing in Case No. U-13575 scheduling a prehearing conference for January 28, 2003, before the Honorable James N. Rigas.

7. In accordance with the Commission's Notice of Hearing, SEMCO Gas provided notice of the Case No. U-13575 proceeding throughout its service territory.

8. At the prehearing conference on January 28, 2003, SEMCO Gas's proofs of mailing and publication were accepted without objection, and the petitions to intervene of the AG and MTU were granted. Staff also entered its appearance and participated in the prehearing conference.

9. At the January 28, 2003 prehearing conference, the Motion to Consolidate SEMCO Gas's 2002 depreciation rate proceeding, Case No. U-13496, with the general rate proceeding, Case No. U-13575, was granted.

10. Subsequent to the prehearing conferences, the parties have engaged in discovery and review of SEMCO Gas's depreciation and rate filing.

11. On March 17 and 18, 2003, the parties engaged in extensive negotiations at the Commission's offices, which negotiations have led to the agreements incorporated in this settlement agreement.

12. It is the opinion of the signatories hereto that this settlement agreement will aid the expeditious conclusion of these proceedings, and will minimize expense which would otherwise have to be devoted to these matters by the Commission and the parties.

13. This settlement agreement finally resolves these cases and all provisions of the settlement agreement are dependent upon all other provisions.

14. By this settlement agreement, SEMCO Gas, Staff, the AG, and MTU agree as follows:

a. The parties have agreed to a revenue requirement of \$71,863,230 based on a 2003 projected test year and a return on common equity of 11.40 %.

b. The parties have agreed to depreciation rates which reflect a \$2,853,468 downward adjustment from that requested in SEMCO Gas's application and as reflected in the agreed upon revenue requirement of \$71,863,230. These depreciation rates are attached hereto as Exhibit A. The depreciation rates set forth on the attached Exhibit A include a negative net salvage value approach methodology, *i.e.*, negative net salvage value was included in making the requisite calculations. The parties have agreed to an adjustment of the overall value of net salvage from that requested in SEMCO Gas's application to an overall value of negative 13.44%. The \$2,853,468 depreciation adjustment was solely due to the adjustment of the net salvage values. The rates reflected on the tariff sheets attached hereto as Exhibit B incorporate these revised depreciation rates. Additionally, the parties agree that SEMCO Gas, beginning the first month subsequent to the date of the MPSC Order Approving Settlement Agreement, will separately track all gas plant retirements without replacement, *i.e.*, retirements wherein service to a customer facility or to a service area is abandoned. SEMCO Gas shall segregate all gas plant retirements, cost of removal, and salvage into two categories; (a) retirements with replacement, and (b) retirements without replacement. In SEMCO Gas's next depreciation rate case, SEMCO Gas shall include the net salvage values applicable to retirements without replacement as a separate identifiable section of its original filing. By this settlement agreement, the

parties reserve the right to raise issues in future SEMCO Gas depreciation cases which could lead to changes in SEMCO Gas's depreciation rates on a prospective basis.

c. On a class-by-class basis, the tariff sheets in Exhibit B implement the percentage rate increases set forth on the attached Exhibit C.

d. The rates reflected in Exhibit A and Exhibit B are to be effective for service rendered on and after the day following the issuance of a Commission order approving this settlement agreement.

e. It is further agreed that the personal property tax expense used in calculating the rates set forth on Exhibit B reflects the new personal property tax multiplier tables to the extent taxing districts are using them. Therefore, no further adjustment to SEMCO Gas's rates is necessary in response to the Commission's November 7, 2002 order in Case No. U-13610.

f. It is also agreed that the unbundled cost of service allocation study submitted by SEMCO Gas in Case No. U-13575 constitutes compliance with Order ¶B of the Commission's July 11, 2001, Opinion and Order in Case No. U-12550, dated July 11, 2001.

g. SEMCO Gas agrees to adopt the Affiliate Transaction Guidelines as set forth in attached Exhibit D to the extent that such Guidelines are interpreted to be consistent with the Court of Appeals decision in Midland Cogeneration Venture Limited Partnership v Public Service Commission, 199 Mich App 286 (1993).

h. It is further agreed to eliminate SEMCO Gas's reverse taper incentive regulation plan as established in Case No. U-11220.

i. Finally, it is agreed that miscellaneous revisions to SEMCO Gas's general rules as set forth in tariff sheets attached as Exhibit B should be approved.

j. Each signatory agrees not to appeal, challenge or contest the rates approved by the Commission in this case if they are the result of a Commission order accepting and approving this settlement agreement without modification. If the Commission does not accept this settlement agreement without modification, this settlement agreement shall be withdrawn and shall not constitute any part of the record in this proceedings or be used for any other purpose whatsoever.

k. The signatories recommend that the Commission issue its Order Approving Settlement Agreement in the form attached as Exhibit E.

l. Section 81 of the Administrative Procedures Act of 1969 is waived by the signatories.

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EXHIBIT A

SEMCO ENERGY GAS COMPANY
CASE NO. U-13496
REVISED DEPRECIATION SCHEDULE

Account	Plant Balance	Average Service Life	Remaining Life	Net Salvage	Depreciation Rate	Computed Depreciation Expense	Per Study Depreciation Expense	Difference
Underground Storage Plant								
35100	\$ 830,133	20.4	13.03	-5.00%	2.56%	\$ 21,251	\$ 21,251	\$ -
35200	\$ 6,334,416	19.9	13.80	-3.00%	2.74%	\$ 173,563	\$ 173,563	\$ -
35210	\$ 1,093,862	20.6	12.71	0.00%	2.62%	\$ 28,659	\$ 28,659	\$ -
35300	\$ 472,961	24.3	10.16	-5.00%	2.44%	\$ 11,540	\$ 11,540	\$ -
35400	\$ 2,713,950	15.1	14.82	0.00%	4.01%	\$ 108,829	\$ 108,829	\$ -
35500	\$ 1,864,710	13.0	16.30	-5.00%	3.53%	\$ 65,824	\$ 65,824	\$ -
Total Underground Storage	\$ 13,310,032				3.08%	\$ 409,666	\$ 409,666	\$ -
Transmission Plant								
36520	\$ 95,021	32.4	19.90	0.00%	1.75%	\$ 1,663	\$ 1,663	\$ -
36600	\$ 1,965,710	4.0	31.09	-5.00%	3.04%	\$ 59,758	\$ 59,758	\$ -
36700	\$ 15,395,607	14.5	36.35	-20.00%	2.42%	\$ 372,574	\$ 372,574	\$ -
36900	\$ 4,251,143	6.9	24.31	-10.00%	3.30%	\$ 140,288	\$ 140,288	\$ -
Total Transmission Plant	\$ 21,707,481				2.65%	\$ 574,283	\$ 574,283	\$ -
Distribution Plant								
37000	\$ 5,115	39.4	-	0.00%	0.00%	\$ -	\$ -	\$ -
37420	\$ 2,098,322	12.6	37.74	0.00%	2.08%	\$ 43,645	\$ 43,645	\$ -
37500	\$ 598,222	18.9	20.20	-7.00%	3.37%	\$ 20,160	\$ 20,160	\$ -
37620	\$ 61,330,357	26.4	25.53	-14.78%	2.75%	\$ 1,686,555	\$ 2,532,944	\$ (846,389)
37640	\$ 81,900,942	9.1	40.98	-14.78%	1.73%	\$ 1,416,104	\$ 2,121,234	\$ (705,130)
37800	\$ 6,469,042	11.6	21.25	-35.00%	3.68%	\$ 238,061	\$ 238,061	\$ -
37900	\$ 4,121,523	10.6	24.99	-20.00%	3.57%	\$ 147,138	\$ 147,138	\$ -
38020	\$ 8,020,019	31.2	16.56	-22.16%	5.34%	\$ 428,385	\$ 684,108	\$ (255,723)
38040	\$ 76,929,445	9.3	33.73	-19.21%	2.45%	\$ 1,884,786	\$ 2,931,012	\$ (1,046,226)

SEMCO ENERGY GAS COMPANY
CASE NO. U-13496
REVISED DEPRECIATION SCHEDULE

Account	Plant Balance	Average Service Life	Remaining Life	Net Salvage	Depreciation Rate	Computed Depreciation Expense	Per Study Depreciation Expense	Difference
38100	\$ 19,449,030	14.3	27.86	1.00%	2.48%	\$ 482,336	\$ 482,336	\$ -
38110	\$ 14,140,304	2.9	17.06	0.00%	5.38%	\$ 760,748	\$ 760,748	\$ -
38200	\$ 14,727,359	12.5	29.30	-20.00%	2.93%	\$ 431,512	\$ 431,512	\$ -
38210	\$ 2,638,961	2.8	17.14	-10.00%	5.89%	\$ 155,435	\$ 155,435	\$ -
38300	\$ 6,073,530	13.0	29.53	0.00%	2.54%	\$ 154,268	\$ 154,268	\$ -
38500	\$ 2,242,311	11.4	22.88	-15.00%	3.39%	\$ 76,014	\$ 76,014	\$ -
Total Distribution Plant	\$ 300,744,482				2.64%	\$ 7,925,147	\$ 10,778,615	\$ (2,853,468)
General Plant								
39000	\$ 5,976,266	11.5	21.85	5.00%	2.96%	\$ 176,897	\$ 176,897	\$ -
39010	\$ 54,233	14.5	13.25	0.00%	5.21%	\$ 2,826	\$ 2,826	\$ -
39100	\$ 415,302	10.9	8.20	3.00%	5.29%	\$ 21,969	\$ 21,969	\$ -
39100	\$ 242,999	10.7	5.05	0.00%	9.82%	\$ 23,863	\$ 23,863	\$ -
39110	\$ 7,472,463	4.2	3.85	0.00%	14.06%	\$ 1,050,628	\$ 1,050,628	\$ -
39120	\$ 2,055,794	4.2	3.95	0.00%	12.16%	\$ 249,985	\$ 249,985	\$ -
39140	\$ 759,208	2.3	5.80	0.00%	12.47%	\$ 94,673	\$ 94,673	\$ -
39300	\$ 123,326	19.3	7.83	0.00%	4.64%	\$ 5,722	\$ 5,722	\$ -
39400	\$ 2,751,005	9.3	12.09	0.00%	6.60%	\$ 181,566	\$ 181,566	\$ -
39410	\$ 986,617	7.5	10.05	0.00%	17.10%	\$ 168,712	\$ 168,712	\$ -
39600	\$ 317,178	16.1	10.24	3.00%	3.74%	\$ 11,862	\$ 11,862	\$ -
39700	\$ 2,433,577	3.8	13.58	0.00%	7.10%	\$ 172,784	\$ 172,784	\$ -
39800	\$ 199,871	9.0	5.03	3.00%	7.56%	\$ 15,110	\$ 15,110	\$ -
Total General Plant	\$ 23,787,839				9.15%	\$ 2,176,597	\$ 2,176,597	\$ -
Total Utility Plant	\$ 359,549,834			-13.44%	3.08%	\$ 11,085,693	\$ 13,939,161	\$ (2,853,468)