

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

August 23, 2006

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

Re: In the matter of the Application of Michigan Consolidated Gas Company  
For Ex Parte Approval of the Sale of Excess System Gas Supply and  
Related Accounting Changes Resulting from Enhancements made to its Gas  
Storage System  
MPSC Case No. U-14800

Dear Ms. Kunkle:

Attached for electronic filing in the above-captioned matter is Michigan Consolidated Gas Company's Application for Ex Parte Approval of the Sale of Excess System Gas Supply and Related Accounting Changes Resulting from Enhancements made to its Gas Storage System along with a Proof of Service.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Richard P. Middleton

RPM/kbt  
Attachments  
cc: Service List

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the Application of )  
Michigan Consolidated Gas Company for )  
Ex Parte approval of the Sale of Excess ) Case No. U-14800  
System Gas Supply and Related Accounting )  
Changes Resulting from Enhancements made )  
To its Gas Storage System )

**MICHIGAN CONSOLIDATED GAS COMPANY’S APPLICATION  
FOR APPROVAL TO SELL EXCESS SYSTEM SUPPLY ASSOCIATED WITH  
THE EXPANSION OF ITS GAS STORAGE FACILITIES**

In this Application Michigan Consolidated Gas Company (“MichCon”, “Company” or “Applicant”) requests that the Michigan Public Service Commission (“Commission”) issue an ex parte order providing the Company with the authority necessary to sell, at prevailing market rates, 4 Bcf of Native Base Gas.<sup>1</sup> This Native Base Gas is currently held in the Belle River Mills Storage field and will become available for sale as a result of a planned permanent 17 Bcf gas storage decrement made possible through the addition of new gas storage facilities that will enhance the operational profiles of the Company’s West Columbus and Belle River Mills gas storage fields. When the new facilities are completely installed, MichCon’s customers will benefit through improved storage system operations and flexibility.

The new facilities will also provide significant financial benefits to MichCon’s customers through a combination of lower costs of gas supply, and reductions in overall future revenue requirements. These financial benefits will not only help offset future general service rate increases,

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<sup>1</sup> Base gas is the minimum volume of gas required in a gas storage field to maintain sufficient pressure to operate the field and recover the working gas. “Native” base gas is base gas that existed in the field at the time the gas storage field was originally certificated and developed.

but also provide MichCon with an increased opportunity to earn its authorized return on equity. In support of its Application MichCon states as follows:

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

2. MichCon operates a natural gas system that integrates transmission, distribution pipelines, and numerous gas storage fields. A number of MichCon’s gas storage fields are located in the southeastern portion of the lower peninsula of Michigan. MichCon has performed an analysis of its gas storage field operations and determined that operations at two fields, West Columbus and Belle River Mills, should be enhanced through investment in new facilities. Specifically, MichCon intends to invest a combined total of \$76.4 million in new facilities at its Belle River Mills and West Columbus gas storage fields.

3. West Columbus, located in St. Clair County Michigan, was certificated as a gas storage field pursuant to the November 2, 1967 Commission Order in Case No. U-2901. West Columbus has a current total storage capacity of 26.9 Bcf consisting of 4.4 Bcf of base gas and 22.5 Bcf of working gas.<sup>2</sup> Based on an analysis of field operations MichCon plans to invest \$15.3 million in the West Columbus gas storage field consisting of various station modifications, some additional wells, and a

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<sup>2</sup> Working gas is the volume of gas which can be cycled, injected into and withdrawn from, a natural gas storage field, and used as a source of supply.

24 inch 2.85 mile loop of the existing West Columbus gathering system.<sup>3</sup> Construction of the facility improvements to the West Columbus gas storage field began in 2006, and will conclude with the drilling of new wells in 2007.<sup>4</sup>

4. Belle River Mills, located in St. Clair County, Michigan, was certificated as a gas storage field pursuant to the August 6, 1964 Commission Order in Case No. U-1716. The Belle River Mills field has a total gas storage capacity of 76.1 Bcf consisting of 29.2 Bcf of native base gas and 46.9 Bcf of working gas. Based on an analysis of field operations MichCon plans to invest \$61.1 million in the Belle River Mills field. This investment will consist of additional horsepower, a new high capacity dehydration plant, additional new horizontal wells, an interconnection with the existing gathering system and various station modifications. Construction of the facility improvements to the Belle River Mills gas storage field began in the first quarter of 2006 with the drilling of the first four horizontal wells, and will conclude in the fourth quarter of 2007 with the installation of a dehydration plant and additional compression.<sup>5</sup>

5. These facility improvements represent a significant financial benefit for customers and the Company. Currently, MichCon maintains 13 Bcf of gas in inventory to insure that it has sufficient deliverability to meet its late winter season (March and early April withdrawals) requirements. By making the storage field investments described in the paragraphs above, this gas will become available

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<sup>3</sup> MichCon will be requesting MPSC ex parte approval to construct the new 24 inch 2.85 mile gathering loop at West Columbus in a separate filing that MichCon expects to make shortly after filing this Application. Construction of this loop will provide MichCon with a number of operational benefits in addition to the ability to decrement gas storage and gain access to native base gas at Belle River Mills for sale to non-GCR customers.

<sup>4</sup> Other than the permits related to construction of the 24 inch West Columbus loop which will be discussed in MichCon's subsequent Act 9 filing, the planned improvements at the West Columbus storage field require no additional permits, grants or approvals because these facility improvements will take place on land already owned by the Company, and have no impacts that require other approvals.

<sup>5</sup> MichCon is currently working to secure the necessary air permits associated with construction of the new dehydration plant and installation of the two compressors, and the necessary well permits for the 7 new horizontal wells. The station modifications and gathering system loop require no additional permits, grants or approvals because these facility improvements will take place on land already owned by the Company, and have no impacts that require other approvals.

for cycling.<sup>6</sup> In addition, the storage field improvements at the Belle River Mills facility will allow deeper cycling of that field allowing the Company access to 4 Bcf of Native Base Gas. To access this previously unavailable Native Base Gas MichCon proposes to make, in total, a 17 Bcf decrement to its system-wide gas storage accounts. Specifically, MichCon proposes to make an 8 Bcf decrement to storage in 2006, and plans to make decrements of 5 Bcf and 4 Bcf in 2007 and 2008 respectively. The 2006 and 2007 decrements represent previously non-cycled working gas totaling 13 Bcf. The 2008 decrement represents a 4 Bcf reduction to Native Bas Gas in the Belle River Mills storage field. Moreover, the improved operations at MichCon’s gas storage fields will provide permanent opportunities to utilize the available storage space for GCR customers and/or sell more third party gas storage services.

6. MichCon proposes to provide the entire financial benefit of the 13 Bcf non-cycled working gas decrements<sup>7</sup> to its gas sales or GCR customers. At the time this Application was filed with the Commission, the 13 Bcf portion of the decrement would provide gas cost savings to GCR customers as set forth in the table below:

<u>Year</u>	<u>Decrement (Bcf)</u>	<u>Average Cost/Mcf</u>	<u>Avoided Cost/Mcf</u>	<u>GCR Savings</u>
2006	8.0 Bcf	\$ 6.09	\$ 6.88	\$ 6,320,000
2007	<u>5.0 Bcf</u>	<u>\$ 4.50</u>	<u>\$ 8.86</u>	<u>\$ 21,800,000</u>
Total	13 Bcf	\$ 5.48	\$ 7.64	\$ 28,120,000

7. In addition to the one time GCR benefit from the 13 Bcf decrement, MichCon customers will also benefit from the use of 17 Bcf of additional storage space which can potentially help reduce gas costs for GCR customers and/or provide new opportunities to sell gas storage service

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<sup>6</sup> Although the investments are field specific, the working gas in storage is recorded for accounting purposes on a system-wide basis.

<sup>7</sup> The projected decrements assume normal weather and reservoir operation is experienced over the associated periods.

to third parties thus improving MichCon’s opportunity to achieve its authorized return without increasing general service rates.

8. To fully depict the benefits to MichCon’s customers requires a review of the rate base implications and associated revenue requirement impacts of these proposed facilities.

	Rate Base Impact	Annual Revenue Requirement Impact
Rate Base Impacts:		
Storage Decrement of 17 Bcf	(\$72.5)	
Capital Investment in Storage Facilities	\$76.4	
Net Rate Base Increase	3.9	
Associated Return on Rate Base @9.78%		\$ 0.4
Incremental Depreciation & Property Tax Expense		\$ 4.8
Less: Incremental Storage Benefit (17 Bcf @ \$1.00) <sup>8</sup>		\$ (17.0)
<b>Total Annual Revenue Requirement Impact</b>		<b>\$ (11.8)</b>

In summary the benefits to MichCon’s customers described above, include gas cost reductions in 2006 and 2007 of \$ 28.1 million, plus an estimated annual revenue requirement reduction of \$11.8 million, which will be realized upon implementation of MichCon’s next general rate increase.

9. The storage facility enhancements discussed in this Application will not in anyway jeopardize deliverability or reliability of gas supply to GCR customers. GCR customers will be protected on a peak day because the planned deliverability used to meet GCR customer requirements from storage will remain unchanged due to the field enhancements. However, the storage field enhancements will reduce the targeted gas storage balances by 8 Bcf that MichCon identified in its GCR plan application, and subsequent Settlement Agreement, already filed with the Commission in

<sup>8</sup> Whether the 17 Bcf of additional storage is used for GCR customers or is sold to third parties, the value can be represented by the spread between summer and winter gas prices. Based on the historical price spreads and current projections of future spreads, the value of this storage is in the range of \$0.60 to \$1.47/Mcf.

Case No. U-14717. The GCR plan for the 2007/08 GCR period, to be filed later this year, will reflect the further reduction to targeted storage balances of 5 Bcf in the 2007/2008 GCR year.

10. The remaining 4 Bcf of the proposed 17 Bcf decrement is currently Native Base Gas at the Belle River Mills gas storage field. By making the storage field enhancements MichCon will be able to permanently cycle its Belle River Field deeper reaching and cycling Native Base Gas. MichCon is requesting Commission approval to sell the 4 Bcf of Native Base Gas from Belle River Mills to non-GCR customers at market prices pursuant to contracts executed subsequent to the Commission’s order approving this application for which gas will be delivered between February 2008 and May 2008. MichCon proposes and seeks Commission authority to keep the entire financial benefit of these sales. At the time this Application was filed with the Commission the estimated financial benefit to the Company would be as set forth below:

<u>Year</u>	<u>Decrement (Bcf)</u>	<u>Cost /Mcf</u>	<u>Mrkt Price</u>	<u>Company Impact</u>
2008	4 Bcf	\$0.32	\$10.62	\$ 41.2 million

11. Commission approval is required in order sell the 4 Bcf of Native Base Gas at market rates to non-GCR customers. Sales of natural gas by MichCon are subject to the Company’s existing GCR clause implemented and approved by the Commission pursuant to the provisions of MCL 460.6h et seq. The basis upon which MichCon can sell excess gas supply to non-system customers requires an examination of, and interaction of, several MichCon tariffs with Act 304.

12. MichCon’s gas cost recovery clause was adopted with Commission approval pursuant to the requirements of MCL 460.6h et seq. (“Act 304”). MichCon’s MPSC Tariff No. 4, Section B10 describes the authority given to the Company to sell gas at the Commission approved GCR maximum factor to its gas sales customers. Under the provisions of Act 304 MichCon annually files a gas supply plan indicating source and disposition of all gas sales to customers, and estimates of the gas supplies

necessary to meet projected customer demands. Under this statutory scheme and the attendant Commission regulation, all of MichCon gas sales must be made at or below the then current Commission approved maximum GCR rate.

13. MichCon also has a Controlled Service tariff that has been approved by the Commission, MichCon's MPSC Tariff Section B3. The authority granted under Tariff B3 is intended to provide the Company with the ability to control customer access to available gas supply particularly when available gas supplies might be overtaxed due to unanticipated customer attachments of new gas burning equipment, or when the Company's ability to contract for sufficient gas supply to meet its projected demand is impaired due to operational changes or unexpected market conditions. As part of its B3 authority MichCon has also been given authority to sell excess system supply subject to certain limitations. MichCon's Tariff Section B3 (E) provides:

**“(E) Restricted Sales**

If a Controlled Service situation is in effect, and as a result of warmer-than-normal weather, or other factors, the Company has system supply volumes in excess of its immediate gas sales load, the Company may sell such excess gas to *customers* other than *gas sales customers*. However, the availability of system supply gas *for sale* to non-system supply customers is conditioned on and subject to:

- (a) The designation of all sales of excess system supply as super-interruptible load subject to Curtailment Priority Five of Rule B4.
- (b) Commission approval of non-tariff sales on a special contract basis, limited as to time and volume.”

14. As explained in this Application the 13 Bcf of previously un-cycled working gas and the 4 Bcf of Native Base Gas were previously necessary to meet MichCon's peak day supply obligations to GCR customers. The planned improvements to MichCon's gas storage facilities will, when constructed, maintain the Company's ability to meet its gas supply requirements to its GCR



customers, while providing the GCR customers the benefit derived from the 13 Bcf decrement and the future use and/or sale of the additional 17 Bcf of storage space. Therefore, upon Commission approval of this Application, the Company will declare that a limited B3 (E) Controlled Service condition will occur as a result of the planned gas storage investments and the associated 17 Bcf gas storage decrement. In particular, 4 Bcf of Native Base Gas at Belle River gas storage field will be deemed excess system supply available for sale to non-GCR customers, which upon Commission approval of this Application will be available for sale to non-GCR customers at market prices pursuant to contracts executed subsequent to the Commission's order approving this application for which gas will be delivered between February 2008 and May 2008.

15. MichCon also requests that the Commission find that approval of MichCon's proposals will create only a limited Controlled Service Condition. Specifically, MichCon requests that the Commission determine that during this controlled service condition neither new customer attachments nor the Company's ability to meet gas supply requirements of its system-sales customers will be affected.

16. MichCon believes that it is reasonable and in the public interest that the Commission allow the Company to retain the financial benefits of the 4 Bcf of Native Base Gas sales given the substantial GCR customer benefits these capital improvements provide.

17. In order to properly maintain the Company's financial records MichCon is also requesting Commission approval of certain accounting practices associated with the proposals contained in this Application. Pursuant to the MPSC Uniform System of Accounts for Major and Non-Major Gas Utilities, MichCon holds Native Base Gas in account 117. Through the sale of Native Base Gas volumes as described in this Application, MichCon proposes to credit Account 117 for the historical cost of such Native Base Gas volumes sold, valued at the weighted average cost. MichCon

also proposes to record the difference between the sales price and historical cost in Account 421 – Gain of disposition of property, as prescribed by the Uniform System of Accounts. MichCon therefore requests Commission approval of the following accounting entries associated with the sale of 4 Bcf of Native Base Gas:

DR: Account 131 – Cash (total sales proceeds)

CR: Account 117 – Non Current Gas Inventory (4 Bcf times average cost of .32 cents)

CR: Account 421 – Gain on the Sale of Assets (net gain realized on the sale of 4 Bcf of Native Base Gas)

18. In this Application, MichCon does not seek approval of any costs that will result in an increase in the rates of any customers. Commission approval of the proposals contained in this Application will in fact ensure that the substantial, immediate and long-term benefits, described in this Application, are delivered to MichCon’s customers. Therefore, the relief sought in this Application is reasonable and in the public interest and the Commission may grant the relief sought by MichCon without notice or hearing as provided by MCL 460.6a.

19. Not only is ex parte approval appropriate, it is also in the public interest for the Commission to engage in immediate and expedited review of MichCon’s Application. In recent years natural gas prices have been extremely volatile.<sup>9</sup> This volatility makes management of gas supplies more challenging and increasingly dependent on assessing the best time in which to lock-in prices to secure gas supplies. The expansion and improvements discussed in this Application will result in a 17 Bcf decrement that will benefit Michigan’s GCR customers through a reduction in gas costs and/or the sale of storage service to third parties. While the future of natural gas prices is always open to debate, MichCon maintains that the public interest will best be served by prompt Commission action that confirms that availability of this space and affords the opportunity to manage prices and price spreads.

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<sup>9</sup> See for example MPSC Case Nos. U-13902 and U-14401 where recent NYMEX prices run-ups are discussed in detail.

More importantly, prompt expedited Commission approval will allow GCR customers greater price certainty over a portion of their gas supply for the next GCR plan period.

WHEREFORE, Michigan Consolidated Gas Company respectfully requests that the Commission conduct an expedited review of the proposals contained in this Application and Attachments and issue an ex parte order that:

- (i) Finds it is reasonable prudent and in the public interest for MichCon to make a total gas storage decrement of 17 Bcf consisting of an 8 Bcf decrement in 2006, a 5 Bcf decrement in 2007 and final decrement of 4 Bcf in 2008;
- (ii) Finds it is reasonable and prudent for MichCon to provide its GCR customers with the financial benefit of 13 Bcf of the proposed gas storage decrement and use the 17 Bcf to reduce future gas costs and/or make sales of additional gas storage services to third parties;
- (iii) Finds that a limited Tariff B3 Controlled Service situation exists through May 31, 2008 and during this Controlled Service situation it is reasonable and prudent for MichCon to be granted the authority to make gas sales of 4 Bcf to non-system supply customers at market prices pursuant to contracts executed subsequent to the Commission's order approving this application for which gas will be delivered between February 2008 and May 2008.;
- (iv) Finds it is reasonable, prudent and in the public interest for MichCon to retain all of the financial benefit of the special gas sales contracts;

(v) Approves the following accounting entries for the sale of the Native Base Gas:

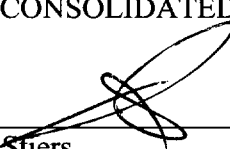
DR: Account 131 – Full sales proceeds  
CR: Account 117 – Average cost of native base gas  
CR: Account 421 – Net gain realized on the sale

(vi) Granting such other and further relief as it may find appropriate.

Respectfully submitted,

MICHIGAN CONSOLIDATED GAS COMPANY

By: \_\_\_\_\_

  
Mark Stiers  
Vice President of Gas Supply and Control  
2000 2<sup>nd</sup> Avenue, 2382 WCB  
Detroit, Michigan 48226

Date: August 23, 2006

By: \_\_\_\_\_  
Its Attorney  
Richard P. Middleton (P41278)  
2000 Second Avenue, 688 WCB  
Detroit, Michigan 48226  
(313) 235-3647

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the Application of )  
Michigan Consolidated Gas Company for )  
Ex Parte Approval of the Sale of Excess ) Case No. U-14800  
System Gas Supply and Related Accounting )  
Changes Resulting from Enhancements made )  
to its Gas Storage System )

**PROOF OF SERVICE**

STATE OF MICHIGAN )  
 ) ss.  
COUNTY OF WAYNE )

Jennifer Evans, being duly sworn, deposes and says that on the 23<sup>rd</sup> day of August, 2006, she served a copy of Michigan Consolidated Gas Company's Application for Ex Parte Approval of the Sale of Excess System Gas Supply and Related Accounting Changes Resulting from Enhancements made to its Gas Storage System, along with a Proof of Service upon the attached service list via electronic mail.

\_\_\_\_\_  
JENNIFER EVANS

Subscribed and sworn to before  
me this 23<sup>rd</sup> day of August, 2006

\_\_\_\_\_  
Notary Public

**SERVICE LIST**  
**MPSC CASE NO. U-14800**  
**August 23, 2006**

**MICHIGAN PUBLIC SERVICE**  
**COMMISSION STAFF**

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