May 12, 2016

Mary Jo Kunkle  
Executive Secretary  
Michigan Public Service Commission  
6545 Mercantile Way  
Lansing, MI 48911

Dear Ms. Kunkle:

RE: MPSC Case No. U-17941

Enclosed for filing in the above-captioned case please find the Attorney General’s Direct Testimony and Exhibits, together with a proof of service. This filing is being submitted electronically pursuant to the Commission's Paperless Electronic Filings Program.

Sincerely,

Michael E. Moody (P51985)  
Assistant Attorney General  
Environment, Natural Resources and Agriculture Division  
(517) 373-7540

MEM/wjc  
Enclosures  
c: All Parties
PROOF OF SERVICE - U-17941

The undersigned certifies that a copy of the Attorney General’s Direct Testimony and Exhibits was served upon the parties listed below by e-mailing the same to them at their respective e-mail addresses on the 12th day of May, 2016.

____________________________________
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Michael Moody

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In the matter of the application of
dT E G A S C O M P A N Y for approval of
Gas Cost Recovery Plan, 5-year Forecast
and Monthly GCR Factor for the 12 Months
ending March 31, 2017

Direct Testimony
And Exhibits
of
Sebastian Coppola

On behalf of
Attorney General Bill Schuette

May 12, 2016
Qualifications

Q. PLEASE STATE YOUR NAME, OCCUPATION AND ADDRESS.
A. My name is Sebastian Coppola. I am an independent energy business consultant. My office is located at 5928 Southgate Rd., Rochester, Michigan 48306.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.
A. I am a business consultant specializing in financial and strategic business issues in the fields of energy and utility regulation. I have more than thirty years of experience in public utility and related energy work, both as a consultant and utility company executive. I have testified in several regulatory proceedings before the Michigan Public Service Commission (MPSC or Commission) and other regulatory jurisdictions. I have prepared and/or filed testimony in rate case proceedings, revenue decoupling reconciliations, gas conservation programs, Gas Cost Recovery (GCR) cases and Power Supply Cost Recovery (PSCR) cases. As accounting manager and later financial executive for two regulated gas utilities with operations in Michigan and Alaska, I have been intricately involved in regulatory proceedings related to gas cost recovery cases, gas purchase strategies, rate case filings and power plant cost analysis. I have also supported other witnesses in testimony before the MPSC in various rate setting and other regulatory proceedings.

Q. PLEASE LIST SOME OF THE MORE RECENT CASES YOU HAVE PARTICIPATED IN BEFORE THE MPSC AND OTHER REGULATORY AGENCIES.
A. Here is a partial list of the most recent regulatory cases in which I have participated:

- Filed testimony on behalf of the Michigan Attorney General in DTE Gas 2015 gas general rate case U-17999 on several issues, including projected revenue, operations and maintenance costs, capital expenditures, RDM program, cost of capital and other items.


- Filed testimony on behalf of the Michigan Attorney General in CECo 2016 PSCR Plan case U-17918.

- Filed testimony on behalf of the Michigan Attorney General in CECo 2014-2015 GCR Plan reconciliation case U-17334-R.

- Filed testimony on behalf of the Michigan Attorney General in DTE Electric (DTEE) 2016 PSCR Plan case U-17920.


- Filed testimony on behalf of the Michigan Attorney General in CECo 2015 gas general rate case U-17882 on several issues, including operations and maintenance costs, capital expenditures, AMI/AMR program, cost of capital and other items.

- Filed testimony on behalf of the Michigan Attorney General in CECo Gas Choice and End-User Transportation tariff changes case U-17900.

- Analyzed the gas rate case filings of Michigan Gas Utilities Corp. (MGUC) in Case U-17880 and assisted the Michigan Attorney General in settlement of the case.

- Filed testimony on behalf of the Michigan Attorney General in CECo 2014 Power Supply Cost Recovery (PSCR) reconciliation case U-17317-R.

- Filed testimony on behalf of the Michigan Attorney General in DTE Gas Company (DTE Gas) 2013-2014 GCR Plan reconciliation case U-17131-R.

- Filed testimony on behalf of the Michigan Attorney General in DTEE 2014 electric Rate Case U-17767 on several issues, including operations and maintenance costs, capital expenditures, AMI program, cost of capital and other items.

- Filed testimony on behalf of the Michigan Attorney General in DTE Gas 2015-2016 GCR Plan case U-17691.

- Filed testimony on behalf of the Illinois Attorney General in Ameren Illinois Company’s 2015 general rate case on operation and maintenance costs in Docket 15-0142.
Filed testimony on behalf of the Michigan Attorney General in CECo 2014 electric Rate Case U-17735 on a several issues, including sales, operations and maintenance costs, capital expenditures, cost of capital, AMI program, revenue decoupling and infrastructure cost recovery mechanisms.

Filed testimony on behalf of the Michigan Attorney General in CECo 2015-2016 GCR Plan case U-17693.

Filed testimony on behalf of the Michigan Attorney General in MGUC 2015-2016 GCR Plan case U-17690.

Filed testimony on behalf of the Michigan Attorney General in CECo 2015 PSCR Plan case U-17678.

Analyzed the electric rate case filings of Northern States Power in Case U-17710 and Wisconsin Public Service Company U-17669, and assisted the Michigan Attorney General in settlement of these cases.

Filed testimony on behalf of the Michigan Attorney General in Consumers Energy Company (CECo) 2013-2014 GCR Plan reconciliation case U-17133-R.

Filed testimony on behalf of the Michigan Attorney General in Michigan Gas Utilities Corporation (MGUC) 2013-2014 GCR Plan reconciliation case U-17130-R.

Filed testimony on behalf of the Michigan Attorney General in SEMCO 2013-2014 GCR Plan reconciliation case U-17132-R.

Filed testimony on behalf of the Michigan Attorney General in CECo 2014 gas general rate case U-17643.

Filed testimony on behalf of the Illinois Attorney General in Wisconsin Energy merger with Integrys on the Peoples Gas and Coke Company’s Accelerated Main Replacement Program in Docket 14-0496.

Filed testimony on behalf of Citizens Against Rate Excess in Wisconsin Public Service Company’s 2013 Power Supply Cost Recovery (PSCR) plan reconciliation case U-17092-R.


Filed testimony on behalf of the Michigan Attorney General in CECo 2014 OPEB Funding case U-17620.


Appendix A elaborates further on my qualifications in the regulated energy field.
Prepared Direct Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
A. I have been asked by the Michigan Department of Attorney General to perform an independent analysis of DTE Gas Company’s (DTE Gas or the Company) GCR Plan for the 12-month period extending from April 2016 through March 2017. This testimony presents a report of that analysis with related recommendations.

Q. WHAT TOPICS ARE YOU ADDRESSING IN YOUR TESTIMONY?
A. I will be addressing the following topics in this case:

1. The ANR transportation agreement to the Alpena gate station
2. The NEXUS pipeline transportation capacity
3. The Use of a Third Party Storage Parking Service
4. The methodology to calculate the Commodity GCR Factor and the Capacity Reservation Charge

The absence of a discussion of other matters in my testimony should not be taken as an indication that I agree with those aspects of DTE Gas’s GCR plan filing. My testimony is, instead, a consequence of focusing on priority issues within the available resources.

Q. IS YOUR TESTIMONY ON THESE TOPICS ACCOMPANIED BY EXHIBITS?
A. Yes. I have included the following exhibits to accompany this testimony:

1. Exhibit AG-1 DTE Gas Response to on ANR-Alpena Contract
2. Exhibit AG-2 DTE Gas Response on Updated NEXUS Testimony
Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE TOPICS YOU IDENTIFIED ABOVE.

A. In summary, my conclusions and recommendations are as follows:

1. The Company is attempting to recover costs, through the GCR mechanism, that properly belong in base rates as ordered by the Commission in Case No. U-16999. I recommend that the Commission should remove the $951,518 of ANR-Alpena costs from the total GCR plan costs proposed by the Company. Furthermore, the Commission should instruct the Company that these costs should be excluded and are not recoverable in any future GCR plan or reconciliation proceedings.

2. The Company has not adequately proven that it has fully explored all available options to transport Marcellus-Utica gas into Michigan at the least possible cost. My recommendation is that the Commission should reject the Company’s proposed purchase of 75,000 Dth/day of transportation capacity from the NEXUS pipeline.

3. DTE Gas plans to incur $576,630 in costs to purchase Firm Parking Service from a third party to improve gas deliverability from storage and meet peak winter demand when the Company provides the same service to off-system customers. The purchase of this third-party Parking Service may not be necessary. The Commission should issue a warning to the Company that costs related to this service may be disallowed in the GCR reconciliation if found they could have been avoided or were incurred imprudently.
4. The Company uses a very complex approach to calculate the GCR factor and Reservation Charge for the plan year which is prone to error. I recommend a more conventional and straightforward calculation which is utilized by the other major Michigan gas utilities subject to the GCR clause.

The remainder of my testimony provides further details and support to these summary conclusions and recommendations.

**ANR Pipeline – Alpena Transportation**

**Q. PLEASE BRIEFLY DESCRIBE THE TRANSPORTATION AGREEMENT THAT DTE GAS HAS IN PLACE TO TRANSPORT GAS TO THE ALPENA GATE STATION.**

**A.** In December 2014, DTE Gas entered into a transportation agreement (Contract #122065) with ANR Pipeline to deliver up to 50,000 Dth of natural gas to the Company’s Alpena gate station. According to the Company, the contract also allows for sourcing of gas supply from the ANR Alliance interconnect. This contract replaced the capability of a similar contract with ANR Pipeline (Contract #117263), which expired in December 2013, to move gas from the Company’s Woolfolk station to Alpena.

While the previous contract allowed for transportation capacity of 50,000 Dth per day during the winter season and 20,000 Dth/day for the summer period of April through October, the new contract added 30,000 Dth/day of transportation capacity for the summer period. Thus, the contract now provides for transportation capacity of 50,000 Dth per day throughout the year.

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1 DTE Gas witness Robert Lawshe direct testimony at page 33.
The ANR-Alpena transportation contract was addressed in the Company’s last General Rate Case U-16999. In that case, the Company proposed that the cost of the ANR-Alpena transportation (Contract #117263) should be removed from the GCR cost recovery mechanism and included as an O&M expense in base rates. The Company’s reasoning for removing this cost from the GCR was that the ANR-Alpena transportation in effect should be considered an extension of its own transmission system in order to connect its storage facilities at the Woolfolk station to the Alpena gate station. The parties of the rate case settlement agreement agreed to this change and the Commission approved it in its order dated December 20, 2012.

Q. DOES THE 2016-2017 GCR PLAN COMPLY WITH THE COMMISSION ORDER OF DECEMBER 20, 2012?

A. No. Although on pages 33 and 34 of his direct testimony, Company witness Robert Lawshe states that pipeline transportation costs related to contract #122065 were not included in the projected cost of gas for the 2016-2017 GCR plan year, in fact a portion of the costs related to this contract are included in the plan case.

In a footnote to Exhibit A-9, the Company discloses that the cost related to 30,000 Dth/day of transportation service during the summer period under contract #122065 will be recovered through the GCR mechanism. The 30,000 Dth/day represents the increase in summer transportation that the Company contracted for in December 2013 to replace the expired ANR contract #117263.

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The Company’s position is that the additional 30,000 Dth/day summer capacity should be recovered through the GCR mechanism because it is related to gas purchases transported from the Alliance Pipeline receipt point to the Woolfolk station.3

Q. DO YOU AGREE WITH THE COMPANY’S PROPOSAL TO INCLUDE THE COST OF TRANSPORTATION FOR THE 30,000 DTH/DAY IN THE GCR?

A. No. Contract #122065 is really the same as contract #117263 which it replaced. Subsequent to the Commission order in Case No. U-16999, the Company decided to expand the summer capacity of the ANR-Alpena contract, but that change does not alter the basic purpose the contract between the Company and ANR. The purpose of the transportation agreement is to serve as an extension of the Company’s gas transmission system and that premise has not changed, only the amount of capacity has changed.

In response to a discovery response, included in Exhibit AG-1, the Company describes the gas flows of the transportation service under ANR contract #122065. The discovery response reaffirms the point that the transportation arrangement serves the ultimate purpose of moving gas into the Alpena gate station through various means. The Company has not provided any evidence that the incremental 30,000 Dth/day contracted for under the replacement contract was needed for incremental system supply.

Furthermore, if the Company had a need for such additional transportation capacity, it could have easily signed a separate contract with ANR Pipeline for a specific quantity and a specified receipt and delivery point.

3 DTE Gas witness Walter direct testimony at page 34.
Q. DOES THE COMMISSION ORDER OF DECEMBER 20, 2012 SPECIFY A LIMIT TO THE CAPACITY FOR THE ANR-ALPENA CONTRACT THAT SHOULD BE INCLUDED IN BASE RATES?

A. No. The Commission order does not specify any limits. It simply refers to the inclusion of the ANR-Alpena contract costs in base rates and the agreement from the Company not to seek double recovery of costs. There was no intent expressed or implied by the parties to the general rate case or in the Commission order that if the Company expanded or modified the agreement with ANR that any incremental costs would flow through the GCR mechanism.

Q. WHAT IS THE AMOUNT THAT THE COMPANY SEEKS TO RECOVER THROUGH THE GCR MECHANISM RELATED TO ANR-ALPENA CONTRACT?

A. According to the Company, the cost related to the 30,000 Dth of summer capacity and the usage costs of the volumes forecasted to be transported are reflected in page 1 of Exhibit A-11 with a description of ANR Northern. The total from the amounts shown on lines 31 and 42 of the exhibit is $951,518.

Q. WHAT IS YOUR CONCLUSION AND RECOMMENDATION?

A. The Company is attempting to recover through the GCR mechanism costs that properly belong in base rates as ordered by the Commission in Case No. U-16999. My recommendation is that the Commission should remove the $951,518 of ANR-Alpena costs from the total GCR plan costs proposed by the Company. Furthermore, the

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4 DTE Gas discovery response AGDG-1.46.
Commission should instruct the Company that these costs should be excluded and are not recoverable in any future GCR plan or reconciliation proceedings.

**NEXUS Pipeline Capacity**

**Q. PLEASE BRIEFLY DESCRIBE THE NEXUS PIPELINE CAPACITY PROPOSAL.**

**A.** Through the direct testimony of witness Robert Lawshe and Michael Sloan, the Company has requested that the Commission approve the purchase of 75,000 Dth per day of capacity from the NEXUS Gas Transmission (“NEXUS”) pipeline beginning with the start of operation in the fall of 2017 or later date. The 75,000 Dth/day capacity contract would allow transportation of natural gas from the Marcellus-Utica shale basins to Michigan and displace capacity on existing contracts with other pipelines. The proposed contract is for 15 years.

The testimony filed by Mr. Lawshe and Mr. Sloan in this case is essentially the same testimony they filed in the 2015-2016 GCR Plan Case No. U-17691 with some updated information. Exhibit AG-2 includes discovery responses from both witnesses identifying the key differences in the testimony between the two cases. In this regard, my testimony will also closely parallel the testimony I filed in Case No. U-17691.

NEXUS is a 250 mile pipeline from eastern Ohio to southeastern Michigan. An affiliated company of DTE Gas, DTE Pipeline Company owns 50% of the project with the other 50% percent owned by an affiliate of Spectra Energy. The pipeline has an initial capacity to transport 1.5 billion cubic feet per day (Bcf/d) of natural gas to utilities,
industrial customers and power plants in areas of Ohio, Michigan and Ontario. DTE Gas’s proposed capacity purchase represents 5% of the pipeline’s total capacity.

In their testimony, Company witnesses Lawshe and Sloan discuss the potential cost savings that could accrue to the customers of DTE Gas and consumers in the State of Michigan from the construction of this pipeline and the access provided to currently lower-priced gas supply from the Marcellus-Utica gas basins. They have projected potential benefits to DTE Gas GCR customers of $847 million over a 15-year period from November 2017 to March 2032 and $2.9 billion for all Michigan consumers if the NEXUS pipeline is built and DTE Gas is allowed to contract for the 75,000 Dth/day of capacity on the pipeline. These potential financial benefits assume that the Rover Pipeline is not built and only the NEXUS pipeline is built. If both of them are built and bring natural gas to Michigan, then the assumed financial benefits would be much lower at $375 million for DTE Gas customers and $1.7 billion for Michigan consumers. In addition, they point to other potential benefits which could enhance the value of storage and transportation assets of DTE Gas and other Michigan gas utilities.5

Q. WHAT IS YOUR ASSESSMENT OF THE COMPANY’S PROPOSAL?

A. Generally, I agree that access to the Marcellus-Utica gas basins could be beneficial to the customers of DTE Gas and other Michigan utilities. However, the Company’s proposal is deficient for not fully considering alternative pipeline suppliers. Additionally, in my opinion the cost savings that will occur over the 15-year period from 2017 to 2032 are overstated and speculative.

5 DTE Gas witness Lawshe direct testimony at page 44-45 and witness Sloan direct testimony at page 24.
Q. PLEASE EXPLAIN WHY YOU BELIEVE THE COMPANY’S PROPOSAL IS DEFICIENT.

A. It is apparent from the testimony of Messrs. Lawshe and Sloan that the Company spent considerable effort working with its affiliate, NEXUS pipeline, to design a capacity purchase agreement that potentially captures discounted rates. However, the Company did not enter into any serious negotiations with the two major competitors to NEXUS, the ANR East Pipeline and Rover Pipeline, to establish whether or not it could obtain the same or better preferential rates and terms to the NEXUS deal. In its financial analysis to establish the cost of the NEXUS capacity versus the other two pipelines, the Company used standard published rates posted by the other two pipelines.

In testimony filed by Mr. Lawshe in Case No. U-17691, the Company also points to a 20-year commitment and a higher capacity requirement as reasons for rejecting the other alternatives as less appealing. Again, without engaging into serious negotiations, it is not possible to determine if those terms could have been modified to suit DTE Gas’s needs at comparable or better rates than NEXUS. The issue of whether a 20-year term versus a 15-year term really makes that much difference is somewhat academic if the price is right, and also given that capacity arrangements are often renewed at negotiated rates usually below FERC levels once the initial term expires.

In response to discovery, the Company stated that it first became aware of the ANR East and Rover pipeline projects in late June to early July 2014. According to the Company, it had some discussions with representatives of the Rover Pipeline project on July 1, 2014 and with representatives of the ANR East Pipeline Project on July 9, 2014. From
the Company’s discovery responses, it does not appear that subsequent meetings were held after these first meetings. DTE Gas signed a Precedent Agreement with the NEXUS partnership sometime in July 2014. However, the signed contract provided by the Company is not dated.\(^6\) Exhibit AG-3 provides the discovery responses establishing the chronology of events mentioned above.  

It is also important to note that the 2013 Precedent Agreement filed as Exhibit A-30 in this case, which Mr. Lawshe states in the table on page 51 of his testimony was signed in December 2013, does not reflect a December date. The Agreement only shows the year 2013. Moreover, the Agreement bears only Mr. Stiers’ signature on behalf of DTE Gas and does not appear to have been agreed to and signed by the other parties to the Agreement. It is also revealing that in its amended application for the 2014-2015 GCR Plan Case U-17332 filed on February 10, 2014, the Company did not mention in filed testimony that it had signed or agreed to a Precedent Agreement for capacity on the NEXUS pipeline. In fact, on page 5 of his supplemental testimony Mr. Lawshe stated:  

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“DTE Gas is exploring the possibility of a 15-year transportation contract with NEXUS Gas Transmission to transport up to 75 MDth/d of Utica and Marcellus shale production gas from the Appalachian Basin in Eastern Ohio to Michigan beginning in November 2017.”
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This leads me to believe that there was no commitment made or agreement reached in December 2013. The information trail does not seem to reflect an actual commitment or  

\(^6\) DTE Gas discovery response to 17691 AG/DG-1.33. The Company also stated in response to 17691 AG/DG-1.34b that it had initially entered into the Precedent Agreement in December 2013 but the agreement was modified and resigned to allow for the exit of Enbridge, Inc. from the NEXUS partnership (See Exhibit AG-3 for the response to the discovery request on this matter).
binding agreement that should have prevented the Company from engaging in serious
negotiations with other parties during the summer of 2014.

From the information available, it is clear that no real effort was made to undertake a
healthy competitive process to fully screen the best deal for GCR customers. It is unusual
and even imprudent for the Company to enter into a multi-year agreement with an
affiliated company without undertaking a more rigorous bidding process with other
known pipeline projects before filing a request for recovery of capacity costs in a GCR
plan proceeding.

For example, in response to a data request, the Company calculated that the ANR East
Pipeline project could result in a lower cost for the purchase of 75,000 Dth/day of
capacity if the Company were able to negotiate a capacity rate at least equivalent to Tier
II Foundation Rates. As shown in Exhibit AG-4, the annual savings could have been in a
range of $3.2 million to $4.8 million. Given that DTE Electric also has agreed to the
purchase of an additional 75,000 Dth/day of capacity from NEXUS, the total capacity of
150,000 Dth/day for the two affiliated companies could have commanded a significant
rate discount from ANR East equal to or approaching Foundation Rate levels.\(^7\) The
Company provided this same reasoning for justifying the granting of Anchor customer
status to DTE Gas and DTE Electric and for obtaining preferential pricing and terms.

Without the Company undertaking a rigorous negotiating process and providing clear
and indisputable evidence of the superiority of its proposal, it is not possible to endorse
the NEXUS capacity purchase as the best available deal for customers.

\(^7\) DTE Gas response to discovery request 17691 AG/DG-1.35b&c.
Q. PLEASE EXPLAIN WHY YOU BELIEVE THE COMPANY’S PROJECTED COST SAVINGS ARE OVERSTATED.

A. In reviewing Mr. Sloan’s calculation of the cost savings, it is evident that the entire cost savings impinge on the assumption that gas prices in the Marcellus-Utica basins will remain lower than prices in the other gas basins where the Company currently purchases natural gas. This assumption goes against the basic laws of economics. Gas prices, like most other commodities, typically move toward an equilibrium point as gas producers and marketers in all producing areas will re-price their product in order to compete to retain or gain market share.

On the other hand, if producers in other basins were able to maintain higher prices, it would accord producers in the Marcellus-Utica basins the opportunity to increase their prices up to the equivalent delivered price paid by utilities and other gas buyers in gas consuming areas of the country. It would be irrational for producers in the Marcellus-Utica basins to under-price their product and keep prices low in the long-term once they have gained sufficient market share.

Mr. Sloan’s analysis shows that the price of Marcellus-Utica gas accessed by either NEXUS-only or NEXUS and the Rover Pipeline would increase over time but would always remain significantly below the price of gas in other gas basins in North America accessed by other pipelines during the next 15 years. The premise of Mr. Sloan’s conclusion is that not sufficient take-away pipeline capacity will be built in the next 15 years and therefore producers will cut their prices to gain an edge in order to use the

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8 Exhibit 35.2 page 6 and Exhibit A-35.5, page 18
available capacity. This is not a credible scenario. Although I understand Mr. Sloan has
developed a sophisticated price forecasting model, the results of his model go against
price economic theory and common sense. Instead, it is more likely that the price
difference will shrink over time so that the delivered cost of gas to Michigan from
competing pipelines will approach zero. This is not to say that there may not be price
inefficiencies in the short-term that should not be exploited. However, this would occur
whether the Company contracts for pipeline capacity with NEXUS or other pipelines that
have access to the Marcellus-Utica region.

Q. COULD THE OTHER PIPELINES COMPETING WITH NEXUS PROVIDE
THE SAME OR BETTER COST SAVINGS TO DTE GAS CUSTOMERS AND
OTHER MICHIGAN CONSUMERS?

A. Yes. The testimony of Messrs. Lawshe and Sloan is skewed toward presenting NEXUS
as the best pipeline option that would provide lower priced natural gas to Michigan
consumers. However, this is not the case. The Rover pipeline and other pipeline systems
could, and in fact are, bringing lower cost natural gas from the Marcellus-Utica region to
Michigan consumers. The other major gas utilities in Michigan are already purchasing
and transporting Marcellus-Utica gas through existing pipeline connections with
Panhandle Eastern, Trunkline and ANR.

In fact, in its 2016-2017 GCR plan filing in Case No. U-17943, Consumers Energy stated
that it was able to sign capacity with Panhandle Eastern and Trunkline connecting with
the REX pipeline to transport up to 235,000 Dth/day during the summer and 200,000
Dth/day in the winter of Marcellus Utica gas at transportation prices lower than in the past.9

It appears that DTE Gas is the only major gas utility in Michigan which has not been able to make this happen. Instead, the Company seems committed to supporting a new pipeline owned by an affiliated company that will increase annual transportation costs for GCR customers by millions of dollars.

Q. HAS THE COMPANY PROJECTED A LOWER COST OF GAS IN THE FIVE YEAR PLAN AS A RESULT OF HAVING THE NEXUS CAPACITY AND ACCESS TO LOWER PRICED MARCELLUS-UTICA GAS BEGINNING NOVEMBER 2017?

A. No. When comparing the major components of cost of gas, i.e. pipeline transportation capacity costs and gas commodity costs, for the baseline 2016-2017 GCR period to the 2018-2019 period, which is subsequent to the start of the NEXUS capacity, the cost of both components increases. More specifically, the pipeline capacity reservation costs increase from $42.1 million in 2016-2017 to $56.3 million in 2018-2019 after a full year of capacity reservation charges for NEXUS are reflected in the numbers.10

The commodity cost projections presented by the Company in Exhibit A-12 indicates that the NEXUS pipeline will not have an immediate beneficial impact on GCR cost of gas after we consider the fact that for the next two years the Company has locked in higher prices through its price-hedging program. As indicated earlier, the Company’s expectation is that, over the long-term gas prices will be lower than they would be

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9 Case No. U-17943 David Howard testimony page 21 and Exhibit A-17
10 Comparison of Exhibit A-11, line 34 on page 1 and page 3.
otherwise without the additional gas supply coming from the Marcellus-Utica basins. Although this may be the case, what we know for sure is that transportation capacity costs will go up. Therefore, the trade-off is between a known higher cost today for a potential benefit sometime in the future.

In Case No. U-17920, Mr. Sloan also supported the proposal by DTE Electric to buy 75,000 Dth/day of transportation capacity from NEXUS. In his testimony in that case Mr. Sloan co-sponsored Exhibit A-25 which included the following chart.

The chart illustrates the costs and benefits of the NEXUS pipeline over the 15-year period. Assuming the basis price differential between the Marcellus-Utica Kensington gas receipt point and the MichCon city gate materialize, the benefit cross-over point is some time in 2025. In other words, Mr. Sloan is forecasting that the cost of transportation paid to NEXUS will exceed any gas price advantage for at least the first 8
years of the 15-year period. Mr. Sloan’s projections assume that lower cost of gas
benefits will begin to exceed the cost transportation after 2025. I believe, the probability
that the forecasted prices and benefits will materialize 10 to 15 years from now is very
low and speculative at best. In cross examination by the Attorney General on this same
subject in Case No. U-17920, Mr. Sloan admitted as much.

Q. WHAT IS YOUR CONCLUSION AND RECOMMENDATION?

A. As I indicated earlier in my testimony, there may be potential cost savings if the
Company expands GCR gas purchases into the Marcellus-Utica basins, albeit not to the
levels forecasted by the Company. However, the question is whether NEXUS or some
other pipeline is the best option to transport those gas supplies to Michigan. In my
opinion, the Company has not adequately proven that it has fully explored all available
options to transport Marcellus-Utica gas into Michigan at the least possible cost.

My recommendation is that the Commission should reject the Company’s proposed
purchase of 75,000 Dth/day of transportation capacity from NEXUS. There is not
sufficient evidence that the Company explored all available options and entered into
serious negotiations with alternative suppliers to determine the best available rates and
terms.

Q. IF THE COMMISSION REJECTS THE NEXUS CAPACITY PURCHASE
PROPOSAL AND THE COMPANY DECIDES NOT TO PROCEED, WOULD
THE COMPANY VIOLATE THE TERMS OF THE AGREEMENT ENTERED
INTO WITH NEXUS AND SUFFER DAMAGES?
A. No. Under Section 7 (b) (1) of the Precedent Agreement between the two companies, the
agreement is subject to DTE Gas receiving approval for full recovery of the capacity
reservation charges contracted with NEXUS in the GCR factor.

**Firm Parking Service**

Q. PLEASE BRIEFLY DESCRIBE THE FIRM PARKING SERVICE COST INCLUDED IN THE 2016-2017 GCR PLAN.

A. As described on page 31 of Mr. Lawshe’s direct testimony, in July 2015, DTE Gas
purchased a firm Parking Service wherein the service provider injected 2,170,000 Dth of
gas into the DTE Gas system during the month of December 2015 at a rate of 70,000 Dth
per day and withdraws the 2,170,000 Dth over the summer period from April 2016 to
October 2016 a daily rate of 10,141 Dth. For this service the Company will pay the
service provider a total amount of $576,530 during the months of April to October 2016.

According to Mr. Lawshe’s testimony, the Parking service was the most reasonable and
prudent alternative available to achieve the storage deliverability requirement and meet
the peak-day needs of GCR and GCC customers during the winter of 2015-2016.

Q. WHAT CONCERNS DO YOU HAVE WITH THE PARKING SERVICE ARRANGEMENT?

A. I am not convinced that involving a third party to provide this service and paying a fee of
more than half a million dollars was necessary. In fact, I am perplexed why the
Company used a third party provider instead of utilizing its own storage capacity
dedicated to Midstream services to achieve the desired reliability and peak day
requirements. As part of its Midstream services, the Company provides services similar to Parking service under its Park and Loan services. Therefore, it would seem logical that before providing Loan and Park service for others the Company would reserve a portion of the storage capacity for its GCR and GCC customers when it becomes apparent that additional storage deliverability is necessary.

The only conclusion I can reach is that the Company did not want to lose the revenue earned from providing Park and Loan services to others and instead found it more financially advantageous to continue those services while arranging for a similar service with a third party and charging GCR and GCC customers for that service.

During the current general rate case proceeding, the Company disclosed that it had provided Park and Loan services in the amount of $6.9 million in 2015 and has forecasted revenue of $7.2 million for 2016. In other words, the Company had sufficient storage and system capacity to provide Loan and Park services to off-system customers at a level much higher than it contracted for under the Firm Parking Service arrangement with a third party and for which it plans to charge GCR and GCC customers in the coming year.

Q. WHAT IS YOUR CONCLUSION AND RECOMMENDATION?

A. It appears that the Firm Parking Service arrangement was not necessary and may have been done simply to allow the Company to earn revenues that it would have otherwise

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11 Case No. U-17999 Exhibit AG-8.
forfeited if it had dedicated the needed storage and system capacity to GCR and GCC customers in order to achieve the required storage deliverability and peak day demand.

My recommendation is that the Commission issue a warning to the Company that it may disallow recovery of the Firm Parking Service costs if they are found to be unreasonable or imprudently incurred.

**GCR Factor Calculation**

Q. **PLEASE BRIEFLY DESCRIBE THE CONCERNS YOU HAVE WITH THE METHODOLOGY THE COMPANY USES TO CALCULATE THE PLAN YEAR GCR FACTOR AND PIPELINE RESERVATION CHARGE.**

A. The Company uses primarily three schedules to calculate the GCR Factor and Pipeline Reservation Charge for the upcoming plan year. In Exhibit A-20 and A-21, the Company summarizes the annual cost of purchases and related volumes. It then proceeds to make volume and dollar adjustments for beginning period and ending period unbilled volumes and dollars. These adjustments are difficult to trace and validate, and may not accurately capture the unbilled volume and cost changes between beginning and ending periods. Lastly, at the bottom of Exhibit A-20, the Company removes the costs relating to the Pipeline Reservation Charge to determine a gas commodity GCR factor of $3.44.

In Exhibit A-28, the Company follows a similar process to determine the Pipeline Reservation Charge. This entire procedure of determining the commodity cost GCR factor and the Pipeline Reservation Charge is too convoluted and can be significantly simplified by using a more straightforward and conventional approach.
Q. **DO YOU HAVE A SIMPLER APPROACH THAT YOU RECOMMEND?**

A. Yes. In Exhibit AG-5, I have presented in a single schedule with all the monthly information necessary to calculate both the gas commodity GCR factor and the Pipeline Reservation Charge. On lines 2-7, I begin with the gas supply volumes delivered and adjust those volumes for gas to/from storage, Company use, lost and unaccounted for gas (LAUF), and gas in kind. I follow on lines 9-12 with billed unbilled sales volumes for GCR and GCC customers and I ensure that the GCR sales volumes match the GCR supply volumes calculated just above.

In the next section on lines 14-27, I show the cost of gas to be sold distinguishing between fixed costs, to be used for calculation of the Pipeline Reservation Charge, from volumetric gas commodity costs used to calculate the GCR factor. After adjusting for costs applicable to gas to/from storage, Company Use, LAUF gas and gas in kind, I determine the cost of gas applicable to GCR sales for calculation of the gas commodity GCR factor.

On Lines 29-33, I show the information used to calculate the Pipeline Reservation Charge and the resulting revenue. Lines 35-40 show the gas commodity costs and the calculation of the related GCR factor. Lastly, lines 44-46 show the monthly over/under-recovery amounts and the balance at the end of the period validating that the commodity GCR factor and Pipeline Reservation Charge fully recover the related costs for the year.

The key advantages of the approach or calculation methodology I have shown in Exhibit AG-5 are that all the numbers are traceable to source data prepared by other witnesses,
the numbers and calculations are all visible on one schedule and the results validate the fact that all the forecasted costs are recovered by the proposed gas commodity GCR factor and the Pipeline Reservation Charge.

Q. DOES YOUR APPROACH AND CALCULATIONS INDICATE A POTENTIAL FLAW WITH THE METHODOLOGY USED BY THE COMPANY?

A. Yes. Exhibit AG-5 shows that the planned gas commodity GCR factor for the 2016-2017 period should be $3.5124 based on the same source data used by the Company. The Company’s calculation shows a proposed GCR factor of $3.44 on line 24 of Exhibit A-20. Because of the convoluted calculations performed in Exhibit A-20 and A-21, I cannot determine the reason for this difference. The difference seems to reflect the deficiency of the Company’s approach. Similarly, my calculation of the Pipeline Reservation Charge shows a slightly higher number than what the Company calculated. I have calculated a charge of $0.2880 versus the Company’s calculation of $0.28.

It is important to note that volumes and costs included in Exhibit AG-5 were taken directly from the Company’s filed exhibits with no adjustments applied to those numbers.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that in rebuttal testimony the Company accept the calculation methodology I have presented in Exhibit AG-5. If the Company does not accept this methodology, I recommend that the Commission direct the Company to use my proposed methodology or a similar approach that is simpler and more straightforward than the approach it currently uses. Furthermore, I recommend that the Company set both the gas commodity
GCR factor and the Reservation Charge to four decimal places. This is a convention used by the other three major gas utilities in Michigan. The more precise factor and charge minimize unnecessary over/under-recovery amounts throughout the year.

Q. ARE THERE OTHER ISSUES YOU WANT TO RAISE?

A. Yes. In response to a discovery request, the Company noted that the fractional multiplier used in page 2 of Exhibit A-23 to determine the GCR Incremental Contingency Factor is incorrect and should be 0.36 instead of 0.316. This error was discovered when I requested the Company to provide the calculation supporting the number which, I will note, I never received with the Company’s response to discovery.

I recommend that the Company file an updated Exhibit A-23 in rebuttal testimony with the corrected commodity GCR factor, corrected fractional multiplier and contingency incremental amounts. Furthermore, I recommend that the Company include a schedule in its filed exhibits showing how the fractional multiplier was calculated in order to allow parties to the GCR plan proceeding to validate the calculation.

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A. Yes, it does. However, I reserve the right to amend, revise and supplement my testimony to incorporate new information that may become available.
Appendix A – Qualifications of Sebastian Coppola

Mr. Sebastian Coppola is an independent energy business consultant and president of Corporate Analytics, Inc., whose place of business is located at 5928 Southgate Rd., Rochester, Michigan 48306.

EMPLOYMENT BACKGROUND

Mr. Coppola has been an independent consultant for more than 10 years. Before that, he spent three years as Senior Vice President and Chief Financial Officer of SEMCO Energy, Inc. with responsibility for all financial operations, corporate development and strategic planning for the company’s Michigan and Alaska regulated and non-regulated operations. During the period at SEMCO Energy, he had also responsibility for certain storage and pipeline operations as President and COO of SEMCO Energy Ventures, Inc. Prior to SEMCO, Mr. Coppola was Senior Vice President of Finance for MCN Energy Group, Inc., the parent company of Michigan Consolidated Gas Company.

During his 24-year career at MCN and MichCon, he held various analytical, accounting, managerial and executive positions, including Manager of Gas Accounting with responsibility for maintaining the accounting records and preparing financial reports for gas purchases and gas production. In this role, he had also responsibility for preparing Gas Cost Recovery (GCR) reconciliation analysis and reports, and supporting preparation of testimony for the cost of gas reconciliation proceedings before the MPSC. Over the years, Mr. Coppola also held the positions of Treasurer, Director of Investor Relations, Director of Accounting Services, Manager of Corporate Finance, and Manager of Customer Billing. In many of these positions he was intricately involved in defining gas
purchasing strategies, rate case analysis, cost of capital studies and other regulatory proceedings

ENERGY INDUSTRY AND REGULATORY EXPERIENCE

As a business consultant, Mr. Coppola specializes in financial and strategic business issues in the fields of energy and utility regulation. He has more than thirty years of experience in public utility and related energy work, both as a consultant and utility company executive. He has testified in several regulatory proceedings before State Public Service Commissions. He has prepared and/or filed testimony in electric and gas general rate case proceedings, power supply and gas cost recovery mechanisms, revenue and cost tracking mechanisms/riders and other regulatory proceedings. As accounting manager and later financial executive for two regulated gas utilities with operations in Michigan and Alaska, he has been intricately involved in gas cost recovery and reconciliation cases, gas purchase strategies and rate case filings.

Mr. Coppola has more than 15 years of experience in the area of gas supply and regulatory proceedings. He has led or participated in the financial operations, gas supply planning and/or gas cost recovery arrangements of two major gas utilities in Michigan and in Alaska. He has prepared testimony in multiple electric and gas general rate cases, Power Supply Cost Recovery (PSCR) and Gas Cost Recovery (GCR) proceedings, and other regulatory cases on behalf of the Michigan Attorney General, Citizens Against Rate Excess (CARE), the Public Counsel Division of the Washington Attorney General, the Illinois Attorney General and the Ohio Office of Consumers Counsel in electric and gas utility rate cases, including AEP Ohio, Ameren-Illinois Utilities, Avista, Consumers Energy, Detroit Edison, MichCon (DTE Gas), Michigan Gas Utilities Corp, PacifiCorp,

As accounting manager and later financial executive for two regulated gas utilities, he has been intricately involved in gas purchase strategies and CGR reconciliation cases. He has had direct responsibility for preparing GCR reconciliation analysis and reports, and supporting preparation of testimony for the cost of gas reconciliation proceedings before the Michigan Public Service Commission (MPSC). He is intricately familiar with the power supply and gas cost recovery mechanisms, gas supply and pricing issues, and regulatory issues faced by utilities.

In his role as Treasurer and Chairman of the MCN/MichCon Risk Committee from 1996 through 1998, Mr. Coppola was involved in reviewing and deciding on the appropriate gas purchase price hedging strategies, including the use of gas future contracts, over the counter swaps, fixed price purchases and index price purchases.

In March 2001, Mr. Coppola testified before the Michigan House Energy and Technology Subcommittee on Natural Gas Fixed Pricing Mechanisms. Mr. Coppola frequently participates in natural gas issue forums sponsored by the American Gas Association and stays current on various energy supply issues through review of industry analyst reports and other publications issued by various trade groups.

➤ Specific Regulatory Proceedings And Related Experience:

- Filed testimony on behalf of the Michigan Attorney General in DTE Gas 2015 gas general rate case U-17999 on a several issues, including
revenue, operations and maintenance costs, capital expenditures, RDM program, cost of capital and other items.

- Filed testimony on behalf of the Michigan Attorney General in CECo 2016 PSCR Plan case U-17918.
- Filed testimony on behalf of the Michigan Attorney General in CECo 2014-2015 GCR Plan reconciliation case U-17334-R.
- Filed testimony on behalf of the Michigan Attorney General in DTE Electric (DTEE) 2016 PSCR Plan case U-17920.
- Filed testimony on behalf of the Michigan Attorney General in CECo 2015 gas general rate case U-17882.
- Filed testimony on behalf of the Michigan Attorney General in CECo Gas Choice and End-User Transportation tariff changes case U-17900.
- Analyzed the gas rate case filings of Michigan Gas Utilities Corp. (MGUC) in Case U-17880 and assisted the Michigan Attorney General in settlement of the case.
- Filed testimony on behalf of the Michigan Attorney General in CECo 2014 Power Supply Cost Recovery (PSCR) reconciliation case U-17317-R.
- Filed testimony on behalf of the Michigan Attorney General in DTE Gas Company (DTE Gas) 2013-2014 GCR Plan reconciliation case U-17131-R.
- Filed testimony on behalf of the Michigan Attorney General in DTEE 2014 electric Rate Case U-17767 on a several issues, including operations and maintenance costs, capital expenditures, AMI program, cost of capital and other items.
- Filed testimony on behalf of the Michigan Attorney General in DTE Gas 2015-2016 GCR Plan case U-17691.
o Filed testimony on behalf of the Illinois Attorney General in Ameren Illinois Company’s 2015 general rate case on operation and maintenance costs in Docket 15-0142.

o Filed testimony on behalf of the Michigan Attorney General in CECO 2014 electric Rate Case U-17735 on a several issues, including sales, operations and maintenance costs, capital expenditures, cost of capital, AMI program, revenue decoupling and infrastructure cost recovery mechanisms.

o Filed testimony on behalf of the Michigan Attorney General in CECO 2015-2016 GCR Plan case U-17693.

o Filed testimony on behalf of the Michigan Attorney General in MGUC 2015-2016 GCR Plan case U-17690.

o Filed testimony on behalf of the Michigan Attorney General in CECO 2015 PSCR Plan case U-17678.

o Analyzed the electric rate case filings of Northern States Power in Case U-17710 and Wisconsin Public Service Company U-17669, and assisted the Michigan Attorney General in settlement of these cases.

o Filed testimony on behalf of the Michigan Attorney General in CECO 2013-2014 GCR Plan reconciliation case U-17133-R.

o Filed testimony on behalf of the Michigan Attorney General in MGUC 2013-2014 GCR Plan reconciliation cases U-17130-R.

o Filed testimony on behalf of the Michigan Attorney General in SEMCO Energy Gas (SEMCO) 2013-2014 GCR Plan reconciliation case U-17132-R.

o Filed testimony on behalf of the Michigan Attorney General in CECO 2014 gas general rate case U-17643.

o Filed testimony on behalf of the Illinois Attorney General in Wisconsin Energy merger with Integrys on the Peoples Gas and Coke Company’s Accelerated Main Replacement Program Docket 14-0496.

o Filed testimony on behalf of Citizens Against Rate Excess in Wisconsin Public Service Company’s 2013 Power Supply Cost Recovery (PSCR) plan reconciliation case U-17092-R.


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Appendix A
Sebastian Coppola
Qualifications
o Filed testimony on behalf of the Michigan Attorney General in CECo 2014 OPEB Funding case U-17620.


o Filed testimony for Citizens Against Rate Excess in Wisconsin Public Service Company’s 2014 Power Supply Cost Recovery (PSCR) plan case U-17299.

o Filed testimony in March 2013 on behalf of the Michigan Attorney General in CECo’s electric Rate Case U’-15645 on remand from the Michigan Court of Appeals for review of the Automatic Metering Infrastructure (AMI) program.

o Filed testimony for Citizens Against Rate Excess in Upper Peninsula Power Company’s 2012 PSCR plan case U-17298.

o Filed testimony on behalf of the Michigan Attorney General in MGUC 2012-2013 GCR Reconciliation case U-16920-R.

o Filed testimony on behalf of the Michigan Attorney General in DTE Gas Company 2012-2013 GCR Reconciliation case U-16921-R.

o Filed testimony on behalf of the Michigan Attorney General in CECo 2012-2013 GCR Reconciliation case U-16924-R.

o Filed testimony on behalf of the Michigan Attorney General in SEMCO 2012-2013 GCR Reconciliation case U-16922-R.

o Filed testimony for Citizens Against Rate Excess in Upper Peninsula Power Company’s 2012 Power Supply Cost Recovery (PSCR) reconciliation case U-16881-R.

o Filed testimony in Puget Sound Energy’s 2013 Power Cost Only Rate Case on behalf of the Public Counsel Division of the Washington Attorney General in Docket No. UE-130167 on the power costs adjustment mechanism.

o Filed testimony in PacifiCorp’s 2013 General Rate Case on behalf of the Public Counsel Division of the Washington Attorney General in
Docket No. UE-130043 on power costs, cost allocation factors, O&M expenses and power cost adjustment mechanisms.

- Filed testimony on behalf of the Michigan Attorney General in CECo’s 2012 electric Rate Case U-17087 on a several issues, including cost of service methodology, rate design, operations and maintenance costs, capital expenditures and infrastructure cost recovery mechanism and other revenue/cost trackers.
- Filed reports on gas procurement and hedging strategies of four gas utilities before the Washington Utilities and Transportation Commission on behalf of the Washington Attorney General – Office of Public Counsel in April 2013.
- Filed testimony on behalf of the Michigan Attorney General in MGUC and SEMCO 2011-2012 GCR Plan reconciliation cases U-16481-R and U-16483-R.
- Filed testimony in MichCon’s 2012 gas Rate Case U-16999 on a several issues, including sales volumes, revenue decoupling mechanism, operations and maintenance costs, capital expenditures and infrastructure cost recovery mechanism.
- Filed testimony on behalf of the Washington Attorney General – Office of Public Counsel on executive and board of directors’ compensation in the 2012 Avista general rate case.
- Filed testimony for Citizens Against Rate Excess in Upper Peninsula Power Company’s 2011 Power Supply Cost Recovery (PSCR) reconciliation case U-16421-R.
- Filed testimony on behalf of the Ohio Office of Consumers Counsel in AEP Ohio’s power supply restructuring case in June 2012.
- Filed testimony on behalf of the Michigan Attorney General in MGUC and SEMCO 2012-2013 GCR Plan cases U-16920 and U-16922.
Filed testimony for Citizens Against Rate Excess in Upper Peninsula Power Company’s 2012 PSCR plan case U-16881.

Filed testimony for Citizens Against Rate Excess in Wisconsin Public Service Corporation’s 2012 PSCR plan case U-16882.

Filed testimony for the Michigan Attorney General in CECo’s gas business Pilot Revenue Decoupling Mechanism in case U-16860.

Filed testimony for the Michigan Attorney General in Consumers Energy Gas 2011 Rate Case U-16855 on several issues, including sales volumes, operations and maintenance cost, employee benefits, capital expenditures and cost of capital.

Filed testimony for the Michigan Attorney General in Consumers Energy Gas 2011 Rate Case U-16855 on several issues, including sales volumes, operations and maintenance cost, employee benefits, capital expenditures and cost of capital.

Filed testimony for the Michigan Attorney General in SEMCO and MGUC 2010-2011 GCR Plan reconciliation cases U-16147-R and U-16145-R.

Filed testimony for the Michigan Attorney General in Consumers Energy 2011 electric Rate Case U-16794 on several issues, including electric sales forecast, revenue decoupling mechanism, operations and maintenance cost, employee benefits, capital expenditures and cost of capital.

Filed testimony for the Michigan Attorney General in CECo’s electric business Pilot Revenue Decoupling Mechanism in case U-16566.

Filed testimony on behalf of the Michigan Attorney General in SEMCO and MGUC 2011-2012 GCR Plan cases U-16483 and U-16481.

Filed testimony for the Michigan Attorney General in Detroit Edison 2010 electric Rate Case U-16472 on several issues, including revenue decoupling mechanism, operations and maintenance cost, executive compensation and benefits, capital expenditures and cost of capital.

Filed testimony for the Michigan Attorney General in SEMCO 2009-2010 GCR reconciliation case U-15702-R.

Filed testimony for Michigan Attorney General in MGUC 2009-2010 GCR reconciliation case U-15700-R.

Filed testimony for Michigan Attorney General, in Consumers Energy Gas 2010 Rate Case U-16418 on several issues, including sales volumes, operations and maintenance costs, capital expenditures and cost of capital.
o Filed testimony for Michigan Attorney General, in SEMCO 2010 Rate Case U-16169 on several issues, including sales volumes, rate design, operations and maintenance cost, executive compensation and benefits, capital expenditures and cost of capital.

o Filed testimony, for Michigan Attorney General in Consumers Energy 2009 electric Rate Case U-16191 on several issues, including sales volumes, revenue decoupling mechanism, operations and maintenance cost and capital expenditures.

o Filed testimony for Michigan Attorney General, in MichCon 2009 gas Rate Case U-15985 on several issues, including sales volumes, revenue decoupling mechanism, operations and maintenance cost, capital expenditures and cost of capital.

o Filed testimony for Michigan Attorney General and was cross-examined in Consumers Energy 2009 gas Rate Case U-15986 on several issues, including sales volumes, revenue decoupling mechanism, operations and maintenance cost, capital expenditures and cost of capital.

o Prepared testimony and assisted the Michigan Attorney General in discussions and settlement of SEMCO and MGUC 2010-2011 GCR Plan cases U-16147 and U-16145.


o Prepared testimony and assisted the Michigan Attorney General in discussions and settlement of SEMCO 2008-2009 GCR case U-15452 and reconciliation case U-15452-R.

o Prepared testimony and assisted Michigan Attorney General in discussions and settlement of MGUC 2008-2009 GCR reconciliation case U-15450-R.


o Filed testimony in 2001 before the (RCA) and was cross-examined on the financing plans for the acquisition of Enstar Corporation and the capital structure of SEMCO.

o Developed a cost of capital study in support of testimony by company witness in the Saginaw Bay Pipeline Company rate request proceeding in 1989.

o Prepared testimony for company witness on cost of capital and capital structure in MichCon 1988 gas rate case.

o Filed testimony in MichCon gas conservation surcharge case in 1986-87.

o Testified before MPSC ALJ in MichCon customer bill collection complaints in 1983.

o Participated in analysis of uncollectible gas accounts expense for inclusion in rate filings between 1975 and 1988.

o Participated in analysis of allocation of corporate overhead to subsidiaries and use of the “Massachusetts Formula” at MichCon and at SEMCO in 1975 and 2000.

o Prepared support information on GCR and rate case-O&M testimony at MichCon from 1975 to 1988.

o Filed testimony in MichCon financing orders in 1987 and 1988.

o Participated in rate case filing strategy sessions at MichCon and SEMCO from 1975 to 2001.

o Provided Hearing Room assistance and guidance to counsel on financial and policy issues in various cases from 1975 to 2001.

EDUCATIONAL BACKGROUND

Mr. Coppola did his undergraduate work at Wayne State University, where he received the Bachelor of Science degree in Accounting in 1974. He later returned to Wayne State University to obtain his Master of Business Administration degree with major in Finance in 1980.
Question: Refer to Mr. Lawshe’s testimony on page 26, lines 14 to 22. Please:

d. Please provide the delivery and receipt points related to the ANR Alpena Contract 122065 capacity and explain in detail how gas flows through the connecting pipelines and Company transmission system.

Answer: As explained in the testimony of R.G. Lawshe on page 26, lines 10 through 22, and on page 27, line 24, through page 28, line 5, the receipt point for the ANR Alpena Contract No. 122065 is at the Alliance interconnect between ANR and Alliance Pipeline located near Chicago, Illinois, and the delivery point is the Alpena interconnect between ANR and DTE Gas in Clare County, Michigan. The gas flows from the higher pressure Alliance Pipeline system into the lower pressure ANR transmission system at the Alliance interconnect, and an equivalent quantity of gas flows from the higher pressure ANR transmission system into the lower pressure DTE Gas transmission system at the Alpena interconnect. Alternatively, at the request of DTE Gas, the gas flows from the higher pressure Alliance Pipeline system into the lower pressure ANR transmission system at the Alliance interconnect, and an equivalent quantity of gas flows from the higher pressure ANR transmission system into the lower pressure DTE Gas transmission system at the Woolfolk interconnect, also known as Detroit A&B, located in Mecosta County, Michigan. As another alternative, at the request of DTE Gas, the gas flows from the higher pressure DTE Gas transmission system into the lower pressure ANR transmission system at the Woolfolk interconnect, and an equivalent quantity of gas flows from the higher pressure ANR transmission system into the lower pressure DTE Gas transmission system at the Alpena interconnect.
Question: Refer to Mr. Lawshe’s direct testimony on the NEXUS Gas Transmission and the Company’s proposed purchase of 75,000 Dth/d of transportation capacity. Please:

a. Identify how this testimony varies from the testimony filed by Mr. Lawshe in Case No. U-17691 with regard to costs, benefits and other significant aspects of the proposed purchase of the capacity.

Answer: The costs for the reservation charge remains unchanged at $0.695/Dth. The fuel % in U-17691 was projected to be 1.22% while the fuel rate filed in U-17941 was projected to be 1.51%, based on initial drafts of the FERC filing. The final fuel % in the documents filed with the FERC was 1.32%.

The financial benefit amounts provided to DTE Gas GCR Customers and to all Michigan natural gas customers have been adjusted based on the updated study provided by ICF as the projected NYMEX forward curve and basis prices have evolved.
Question: Refer to page 4, lines 15-18, of Mr. Sloan’s direct testimony. Please explain how this testimony varies from the testimony filed by Mr. Sloan in Case No. U-17691 with regard to costs, benefits and other significant aspects of the analysis and conclusions reached.

Answer: Mr. Sloan’s direct testimony in Case No. U-17941 is similar to his testimony in Case No. U-17691. The methodology used in the analysis is generally unchanged other than a broad update in the market forecasts and assumptions related to the NEXUS Pipeline.

Due to further definition of pipeline expansion options between the Marcellus/Utica and Michigan markets, the number of alternative pipeline expansion scenarios has been reduced, and the remaining pipeline expansion scenarios have been more clearly defined.

- The “No Pipe Added” scenario in U-17941 generally corresponds to the “No New Capacity” scenario in U-17691
- The “NEXUS Without Rover” Scenario in U-17941 generally corresponds to the 1.50 BCFD scenario in U-17691.
- The “Rover Only” Scenario in U-17941 generally corresponds to the 3.25 Bcfd scenario in U-17691
- The “NEXUS With Rover” Scenario in U-17941 generally corresponds to the 4.75 Bcfd scenario in U-17691, although the results of the NEXUS with Rover Scenario are compared to the Rover Only scenario rather than the No New Capacity scenario.

In U-17941, Mr. Sloan did not conduct a scenario corresponding to the 2.00 Bcfd scenario in U-17691.

U-17941 is based on an updated natural gas price forecast reflecting lower natural gas price expectations relative to U-17691, which lowered overall DTE Gas supply costs in the updated analysis. The table below compares the overall DTE Gas supply portfolio costs projected in the two cases:
Change in the Calculation of the DTE Gas Supply Portfolio Costs Between U-17691 and U-17941

<table>
<thead>
<tr>
<th>Incremental Amount of Pipeline Capacity Built from Eastern Ohio to Michigan</th>
<th>DTE Gas Supply Portfolio Cost (Million $) if DTE Holds NEXUS Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>No New Capacity / No New Capacity</td>
<td>na</td>
</tr>
<tr>
<td>1.50 BCFD / Nexus Only</td>
<td>$14,355</td>
</tr>
<tr>
<td>2.00 BCFD</td>
<td>$14,336</td>
</tr>
<tr>
<td>3.25 BCFD / Rover Only</td>
<td>$14,334</td>
</tr>
<tr>
<td>4.75 BCFD / Nexus and Rover</td>
<td>$14,258</td>
</tr>
</tbody>
</table>

U-17691

U-17941

na

$11,025

na

$10,722

1/ November 2017 through October 2032.

2/ Including gas purchase costs, pipeline capacity costs, pipeline commodity costs, and pipeline fuel costs.

The basic conclusions of the analysis remain unchanged, although values have changed due to the changes in the forecast. The update to ICF’s natural gas market forecast resulted in an increase in the value of building and contracting for NEXUS Capacity. The changes are shown in the table above:
Question: Refer to page 41, lines 13-25, of Mr. Lawshe’s direct testimony. Please:

d. When did the Company’s gas supply and purchasing management personnel become aware of the existence of the ANR East and Rover projects?

Answer: Late June and early July 2014.
Question: Refer to page 41, lines 13-25, of Mr. Lawshe’s direct testimony. Please:

c. Was the Company aware of the Rover and ANR East pipeline projects before entering into the July 23, 2014 precedent agreement? If yes, did the Company enter into discussions or negotiations and requested those companies to provide a price quote and other terms for a 75,000 Dth/d transportation capacity arrangement to transport Marcellus-Utica gas to the DTE Gas gate station receipt point? If no, explain why not.

Answer: Yes, DTE Gas was aware of the Rover and ANR East projects by July 23, 2014; however, as stated in response to question 1.34b above, DTE Gas had already reached an agreement with NEXUS in December 2013. Yes, DTE Gas did have discussions and met with representatives of both the Rover and ANR East pipeline projects on or around July 2014 and reviewed presentations, price quotes and other terms offered by those parties for transportation capacity arrangements to transport Marcellus-Utica gas to the DTE Gas Gas system. However, the analysis provided in response to question 1.34f indicated that the NEXUS project was still the best choice for DTE Gas customers, and the price quote and other terms offered by Rover and ANR East pipeline projects for 75,000 Dth/d transportation capacity for a 15 year term were more expensive than the NEXUS project.
Question: Refer to page 41, lines 13-25, of Mr. Lawshe’s direct testimony. Please:
e. Did anyone from the ANR East and Rover pipeline projects contact DTE Gas’ supply management personnel about their interest in contracting for transportation capacity on either of those two pipelines? If yes, on what dates, and what was discussed and resolved?

Answer: Yes. Representatives from Energy Transfer Partners visited DTE Gas personnel on July 1st 2014 to discuss the proposed Rover Pipeline project and representatives from ANR Pipeline visited DTE Gas personnel on July 9th to discuss the proposed ANR East Pipeline Project. The terms of the respective open seasons were discussed at each of these meetings.
Question: Refer to page 41, lines 13-25, of Mr. Lawshe’s direct testimony. Please:

b. On line 20, Mr. Lawshe states that the precedent agreement offered by NEXUS was accepted in December 2013. On page 40, line 24-25, Mr. Lawshe states that the Company entered into a precedent agreement dated July 23, 2014. Which one of these two dates is correct?

Answer: Both dates are correct. DTE Gas originally executed the Precedent Agreement with the NEXUS Partnership in December 2013. The NEXUS partnership at that time consisted of Spectra Energy Transmission, LLC, Enbridge Inc., and DTE Pipeline Company. When Enbridge left the partnership, the document was updated to reflect the change in the partnership status and then fully executed by all parties in July 2014.
Question: Refer to page 24, Table 6 on line 1, of Mr. Sloan’s direct testimony. Please:

   a. Provide the calculations for the numbers shown in the table in Excel with the support data, formulas and links intact.

Answer: See data file “ICF Response to AG Interogatories 48-62.xls, worksheet 62” for the data and calculations behind Table 6.
Table 6 - Comparison of Proposed NEXUS, Rover, and ANR East Pipeline Costs

<table>
<thead>
<tr>
<th></th>
<th>Reservation Cost (75,000 Dthd) ($)</th>
<th>Usage Cost @ 100% Load Factor ($)</th>
<th>15 Year Total Cost ($)</th>
<th>Annual Cost ($)</th>
<th>Annual Cost over NEXUS ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEXUS</td>
<td>$285,540,750</td>
<td>$31,469,467</td>
<td>$317,010,217</td>
<td>$21,134,014</td>
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<tr>
<td>Rover</td>
<td>$328,680,000</td>
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<td>$374,875,974</td>
<td>$24,991,732</td>
<td>$3,857,717</td>
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<tr>
<td>ANR East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leesville</td>
<td>$279,378,000</td>
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<td>$330,652,080</td>
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<td>Clarington</td>
<td>$316,354,500</td>
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<td>$3,374,558</td>
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<tr>
<td>ANR East Tier I</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation Rates</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Leesville</td>
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Note: Fuel charge in usage cost for Rover and ANR is based on cost of gas into NEXUS.

Capacity (Dth/Day) 75000
Days 5,478
Dth Throughput 410,850,000
Average Receipt Point Gas Price (November 2017 to October 21) $6.18
Comparison Of Alternative Pipeline Options from the Utica/Marcellus to DTE Gas

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1 Draft letter from NEXUS to Mark Stiers, DTE Gas Company, September 1, 2014. Provided to ICF by DTE Gas.
4 Fuel percentage reflects the best current estimate. Where a range is provided (Rover), the fuel percentage represents the mid point of the
5 Fuel cost of $6.18 represents the average cost of gas at the NEXUS receipt point from November 2017 to October 2032.
6 Total cost based on 100 percent load factor utilization.
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**Source:** 1-Exhibit A10, 2-Exhibit A24, p.3

**3-Exhibit A-4, p.1, 4-Exhibit A-13, p.1**

**5-Exhibit A-11, 6-Exhibit A-12 - Line 15.**

**System Avg. Cost of Gas**

**Total Cost of Gas** $464,191,633 Line 21

**Pipeline Reservation Charge** $0.2880

**Base GCR Factor** $1.8004