

Founded in 1852
by Sidney Davy Miller

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May 28, 2019

Ms. Kavita Kale
Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
Lansing MI 48917

Re: SEMCO Energy Gas Company
Case No. U-20479

Dear Ms. Kale:

Enclosed for electronic filing please find SEMCO Energy Gas Company's Rate Case Summary. Also enclosed is a Proof of Service showing electronic service upon the parties in SEMCO Gas's prior rate cases, Nos. U-16169 and U-14893.

Should you have any questions, please kindly advise.

Very truly yours,

Miller, Canfield, Paddock and Stone, P.L.C.

By: _____
Sherri A. Wellman

cc w/enc: Steve McLean
Jennifer Dennis

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

| | | |
|--|---|------------------|
| In the matter of the application of |) | |
| SEMCO ENERGY GAS COMPANY |) | |
| for authority to increase its rates for the |) | Case No. U-20479 |
| distribution and transportation of natural gas |) | |
| <u>and for other relief.</u> |) | |

RATE CASE SUMMARY

In order to comply with the Rate Case Filing Requirements (“Requirements”) put forth pursuant to the July 31, 2017 Order issued by the Michigan Public Service Commission (“MPSC” or the “Commission”) in Case No. U-18238, SEMCO ENERGY Gas Company (“SEMCO Gas” or the “Company”) herein submits its required Rate Case Summary. As stated in the Requirements, this summary is informational only and shall not be considered final or binding.

The Company’s most recent general rate case, Case No. U-16169, was filed in June 2010 with a test year beginning January 1, 2011. Among others, one of the primary drivers and outcomes for this rate case was to combine the Company’s MPSC and Battle Creek Divisions. SEMCO Gas requested that the Commission grant a rate increase to support a total revenue increase of \$19,847,589 for the projected test year. All parties entered into a settlement agreement, and on January 6, 2011, the Commission approved an annual revenue increase of \$8.1 million, as well as a new accelerated Main Replacement Program (“MRP”) which allowed for a surcharge to collect an additional \$4.4 million per year. The Company’s MRP has since

been revised through Commission order with a revised average revenue requirement equal to \$8.4 million per year collected through customer surcharges. The MRP, in its current state, will expire in 2020. The U-16169 Order also approved a return on equity of 10.35% resulting in an overall rate of return equal to 7.19%.

The Company's direct case in support of rate relief in Case No. U-20479 is expected to be filed May 31, 2019. Rate relief is based on a projected 2020 test year, with new rates effective no earlier than January 1, 2020. The need for rate relief is driven primarily by infrastructure investment to increase reliability and safety. In addition, the current rate case filing is driven by the conclusion of the Company's current MRP. As the result of settlement negotiations for Case No. U-17842, the revised MRP, the Company agreed that it would not file for another extension/revision to the MRP without first coming in to set new rates. Key drivers and their respective revenue impact are outlined in Tables 1 and 2 below.

| Key Drivers: Revenue Impact | | | Table 1 |
|-----------------------------|----------------------------------|---|---------|
| | Drivers | Revenue Requirement Impact (\$ Millions) | |
| a. | Rate Base | \$48.7 | |
| b. | Operating Expense | \$16.0 | |
| c. | Sales Revenue and Other | -\$23.9 | |
| d. | Calculation C U-20311 | -\$2.7 | |
| e. | Total Revenue Requirement Impact | \$38.1 | |

| Key Drivers: Rate Base (000) | | | Table 2 |
|------------------------------|----------------------|------------------|--|
| | Drivers | Rate Base Impact | Rev. Requirement Impact (Return on, Return of, and Property Tax) |
| a. | Last Rate Case Order | \$408,379 | \$62,965 |
| b. | Utility Plant | 415,938 | 64,041 |
| c. | Depreciation Reserve | (92,421) | (14,230) |
| d. | Working Capital | (7,360) | (1,133) |
| e. | Requested Rate Base | 724,537 | 111,643 |

SEMCO Gas is requesting new rates to address a projected \$38,114,307 revenue deficiency, a cumulative increase of approximately 14%. See Table 3 below for the impact by rate class and rate schedule. There are no significant changes to the Company's Cost of Service Study ("COSS"), however, there are some changes to rate design. SEMCO Gas proposes to introduce a Low-Income Assistance Credit, made possible through 2016 PA 341, as a way to assist some of the Company's most vulnerable customers. The credit will be disbursed across all rate classes and impacts the rate design. Additionally, SEMCO Gas is proposing an alternative Revenue Decoupling Mechanism ("RDM") as permitted by 2016 PA 342. As an alternative to the traditional model, the proposed RDM increases revenue stability by moving a portion of revenue collected through the variable distribution charge to the fixed customer charge for eligible customer classes. The Company uses an inflation factor of 2.28% for the test year. SEMCO Gas is requesting a return on equity of 10.5% resulting in an overall rate of return equal to 7.04%.

| | | |
|--|--------------------------------------|------------------|
| Michigan Public Service Commission | | Table 3 |
| SEMCO ENERGY Gas Company | | Case No. U-20479 |
| Proposed Rate Increase by Rate Class | | |
| | | |
| Line | | Total |
| <u>No.</u> | <u>Rate Class Description</u> | <u>Increase</u> |
| | | % |
| | | |
| | Residential Service | |
| 1 | Residential Meter | 14 |
| 2 | Total Residential Service | 14 |
| | | |
| | General Service | |
| 3 | Small Service GS-1 | 12 |
| 4 | Medium Service GS-2 | 8 |
| 5 | Large Service GS-3 | 7 |
| 6 | Total General Service ⁽¹⁾ | 9 |
| | | |
| 7 | Total Gas Sales | 12 |
| | | |
| | Transportation ⁽¹⁾ | |
| 8 | Small Transport TR-1 | 23 |
| 9 | Medium Transport TR-2 | 40 |
| 10 | Large Transport TR-3 | 57 |
| 11 | Total Transportation | 37 |
| | | |
| 12 | Total Service (Delivery & Fuel) | 14 |
| | | |
| Notes | | |
| ⁽¹⁾ Transportation increases do not include Cost of Gas ("COG") | | |

In addition to the alternative RDM, unique to this filing will be the Company's proposed Infrastructure Reliability Improvement Program ("IRIP"). An accelerated program similar to the Company's MRP, IRIP will target key system and supply vulnerabilities as addressed through the MPSC's 2019 Statewide Energy Assessment.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
SEMCO ENERGY GAS COMPANY)
for authority to increase its rates for the)
distribution and transportation of natural gas)
and for other relief.)

Case No. U-20479

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Kimberly S. Fox, being first duly sworn, deposes and says that on May 28, 2019, she served an electronic copy of **SEMCO Energy Gas Company's Rate Case Summary** upon the parties listed on the attached Service List, at the e-mail addresses listed therein:

Kimberly S. Fox

Subscribed and sworn before me
on this 28th day of May, 2019.

Allison Kellogg, Notary Public
State of Michigan, Shiawassee County
My Commission Expires: 09/03/2025
Acting in the County of Ingham

SERVICE LIST for U-20479

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