STATE OF MICHIGAN

MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES

FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the Matter of the Application of DTE Gas Company for Approval of a Gas Cost Recovery Plan, 5-year Forecast and Monthly GCR Factors for the 12-Month Period ending March 31, 2021.	)))))	Case No. U-20543

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above matter on January 5, 2021.

Exceptions, if any, must be filed with the Michigan Public Service Commission, 7109 West Saginaw, Lansing, Michigan 48917, and served on all other parties of record on or before January 26, 2021, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before February 9, 2021.

At the expiration of the period for filing exceptions, an Order of the Commission will be issued in conformity with the attached Proposal for Decision and will become effective unless exceptions are filed seasonably or unless the Proposal for Decision is reviewed by action of the Commission. To be seasonably filed, exceptions must reach the Commission on or before the date they are due.

MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES
For the Michigan Public Service Commission

Sally L. Wallace

Digitally signed by: Sally L. Wallace
DN: CN = Sally L. Wallace email = wallaces2@michigan.gov C = US O = MOAHR OU = MOAHR - PSC
Date: 2021.01.05 10:06:31 -05'00'

Sally L. Wallace
Administrative Law Judge

January 5, 2021
Lansing, Michigan

STATE OF MICHIGAN

MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES

FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

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PROPOSAL FOR DECISION

I.

PROCEDURAL HISTORY

On December 23, 2019, DTE Gas Company (DTE Gas) filed an application, with supporting testimony and exhibits, requesting approval of a gas cost recovery (GCR) plan and factors for the 12-month period ending March 31, 2021. In addition, DTE Gas filed a five-year forecast for 2020-2025. In its application, DTE Gas requested approval to implement a maximum base GCR factor of $2.43 per thousand cubic feet (MCF) of gas, which can be increased by a contingency factor based on increases in New York Mercantile Exchange (NYMEX) gas commodity prices, resulting in a new maximum GCR factor. In addition, DTE Gas proposes to implement a supplier of last resort (SOLR) reservation charge in the amount of $0.42 per Mcf that will be billed to GCR customers, and a reservation charge billed to Gas Customer Choice (GCC) customers of $0.28 per Mcf.

A prehearing conference was held on February 26, 2020, at which DTE Gas and the Commission Staff (Staff) appeared. Petitions to intervene filed by the Department of the Attorney General (Attorney General) and the Residential Customer Group were granted. A protective order was entered on March 17, 2020.

Consistent with an amended schedule, Staff and the Attorney General filed testimony on July 9, 2020, and DTE Gas filed rebuttal testimony on August 10, 2020. The Attorney General filed a motion to strike certain rebuttal testimony and exhibits on August 17, 2020. DTE Gas did not contest the motion, and it removed the testimony and exhibits at issue.[1]

A hearing was held on August 27, 2020, at which one company witness was cross-examined. The remaining testimony was bound into the record, and exhibits admitted, without the need for witnesses to appear.[2]

On September 21 and October 7, 2020, DTE Gas, Staff, and the Attorney General filed briefs and reply briefs, respectively. The record in this case is comprised of 274 pages of transcript and 39 exhibits admitted into the record.

II.

OVERVIEW OF THE RECORD

A. DTE Gas

DTE Gas presented the testimony of six witnesses.

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[1] See, 2 Tr 29-30.
[2] Due to the COVID-19 pandemic emergency, the evidentiary hearing was conducted via videoconference.

Eric P. Schiffer, Senior Gas Supply and Planning Analyst for DTE Gas,[3] presented the company's gas supply plan for April 1, 2020 through March 31, 2025, including the GCR plan year and the five-year forecast. Mr. Schiffer testified that DTE Gas's purchasing strategy includes a mix of fixed-price supply and index price supply, with price volatility mitigated through the implementation of volume cost averaging (VCA).[4] Mr. Schiffer also discussed the company's price forecasting method, its approach to gas supply purchasing, transportation changes, and the company's total supply requirements for the plan year of 129.6 billion cubic feet (Bcf) of gas at a cost of $374 million including transportation costs of $62 million.[5] Finally, Mr. Schiffer testified that DTE Gas's supply strategy for the five-year forecast is "essentially consistent with the strategy used for the April 2020-March 2021 period including a projection of gas purchases and transportation costs."[6]

Mr. Schiffer sponsored Exhibits A-7 (Fixed Price Purchase (FPP) Guidelines); A-8 (Projected NYMEX Basis and Supply Basin Prices); A-9 (Summary of Transportation Contracts); A-10 (Projected Purchase Volumes and Costs, excluding Transportation); Revised Exhibit A-11 (Projected Transportation Utilization, Reservation Costs, and Usage Costs); Exhibits A-12 (Projected Total Delivered Costs Including Transportation); A-25 (Historical Back case of NYMEX Prices); A-27 (FPP Program Analysis); and A-29 (NYMEX Monthly Settlement History).

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[3] Mr. Shiffer's revised direct, supplemental direct, revised rebuttal testimony, cross-examination, redirect testimony, and recross are transcribed at 2 Tr 33-116.
[4] 2 Tr 35.
[5] Id. at 36.
[6] Id.

George H. Chapel, Manager, Market Forecasting, for DTE Gas,[7] presented the company's market forecast for 2020-2025, including expected demand, customer count forecast, GCC projection, the company's peak-day load requirement, and Energy Waste Reduction impacts to the company's projections. Mr. Chapel sponsored Exhibits A-1 (Market Outlook- Weather Normalized Sales and Customers); A-2 (Market Forecast Analysis- Forecasted GCR Volumes); A-3 (Market Forecast- Forecasted GCR Number of Customers); A-4 (April 2020-March 2025 Total Market Requirements); A-5 (Mean Peak Day Temperature by District Peak Day Load by Area); and A-6 (Historical Normalized Annual Sales (GCR and GCC)).

Lucian Bratu, a Senior Gas Supply & Planning Analyst in Gas Supply and Planning for DTE Gas,[8] described the company's operational plan for the plan year and forecast, including its normal weather operating plan and the colder and warmer than normal (CTN/WTN) operating plans. In addition, Mr. Bratu described DTE Gas's storage operation plan, GCR/GCC storage allocation, and other operational changes. Mr. Bratu sponsored Exhibits A-13 (Normal Weather Source and Disposition); A-14 (Storage Capacity and Utilization); A-15 (Peak Day Supply Mix); A-16 (CTN Storage Balances); A-17 (CTN Weather Source and Disposition); and A-18 (WTN Source and Disposition).

Timothy J. Krysinski, Principal Project Manager in DTE Energy's Regulatory Affairs Gas Strategy group,[9] provided an overview of federal regulatory issues that affect DTE Gas and the company's activities aimed at minimizing costs for gas

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[7] Mr. Chapel's direct testimony is transcribed at 2 Tr 121-140.
[8] Mr. Bratu's direct testimony is transcribed at 2 Tr 142-163.
[9] Mr. Krysinski's direct testimony is transcribed at 2 Tr 165-180.

transportation. Mr. Krysinski also provided certain transportation cost assumptions used to develop projected gas costs. Mr. Krysinski sponsored Exhibit A-19 (Forecast ANR, Viking, Great Lakes, Panhandle, NEXUS, Vector, and DTE Gathering Rates).

Jennifer C. Schmidt, a Principal Project Manager in Regulatory Affairs in DTE Energy Corporate Services,[10] addressed the calculation of DTE Gas's monthly GCR factor; the contingency factor mechanism and its implementation; the five-year projected cost of gas; and the administration of the company's SOLR charge. Ms. Schmidt sponsored Exhibits A-20 (Derivation of April 2020 through March 2021 GCR Factor); A-21 (Forecasted Cost of Gas April 2020 – March 2025); A-22 (Calculation of [last in first out] LIFO Rate and Storage Costs); A-23 (Proposed Monthly GCR Factor Ceiling Price Adjustment (Contingency) Mechanism Tariff Sheet); A-24 (Calculations and Derivation of Contingent Factor +$1 and +$2); and A-26 (Calculation of Reservation Charge Applied to GCC and GCR Customers).

Larisa Abayev, Manager, Project Planning & Asset Prioritization for DTE Gas,[11] testified regarding design and peak day equipment and facility operations, system connections and supply diversity, contingency options for normal weather, and considerations for increased reliability of the company's system. Ms. Abayev sponsored Confidential Exhibit A-30 (Primary Gas Transmission System Map).

B. Staff

Staff provided the testimony of Nyrhe Royal, a Senior Public Utilities Engineer in the Commission's Regulated Energy Division.[12] Ms. Royal testified that Staff reviewed

[10] Ms. Schmidt's direct testimony is transcribed at 2 Tr 182-195.
[11] Ms. Abeyev's direct testimony is transcribed at 2 Tr 197-209.
[12] Ms. Royal's testimony can be found at 2 Tr 244-272.

DTE Gas's filing, and she described Staff's approach to evaluating the company's GCR plan and forecast. Ms. Royal explained that Staff reviewed the DTE Gas plan for consistency with prior Commission orders, and it assessed the reasonableness and prudence of any modifications. Ms. Royal specifically discussed Staff's support for the company's proposal to streamline the process for determining GCR factor adjustments using the contingency factor matrix. Ms. Royal also indicated Staff's support for the company's proposed SOLR charge and the company's response to the additional peak day/worst case scenario requested in an order issued in this case on September 11, 2019.[13]

Ms. Royal testified that, including the transportation costs associated with both NEXUS transportation contracts as part of GCR costs for the plan year, was reasonable. However, consistent with the May 8, 2020 order in Case No. U-20235, and because DTE Gas is currently transporting larger volumes of gas on NEXUS compared to DTE Electric, the actual costs of transportation on the NEXUS pipeline should be evaluated in the reconciliation in this case. DTE Gas should also be directed to demonstrate its compliance with the pricing provisions of the Code of Conduct.[14]

Finally, Ms. Royal noted that in Case No. U-20210, DTE Gas's 2019-2020 GCR reconciliation, Staff raised concerns with costs associated with DTE Gathering's transportation contract with AEP, which have persisted in this case.

In summary, Ms. Royal testified that:

> Staff is recommending that the Commission approve the following for the period from April 1, 2020 through March 30, 2021: (1) the base gas cost

[13] 2 Tr 253-256, 262-266.
[14] Id. at 256-261.

> recovery factor of $2.43 per Mcf that can be adjusted to a new maximum allowable GCR factor using the Company's proposed streamlined monthly process and NYMEX-based contingency factor matrix and approves a SOLR reservation charge of $0.42 per Mcf that is billed to GCR customers while a SOLR reservation charge billed to GCC customers will be $0.28 per Mcf, to be reflected in DTE Gas's monthly gas customer billings; (2) the five-year forecast; and (3) all other requests.[15]

C. Attorney General

Sebastian Coppola, an independent business consultant with expertise in utility matters testified on behalf of the Attorney General.[16] Mr. Coppola addressed what he found was an excessive cost for pipeline capacity incurred by DTE Gas. Mr. Coppola sponsored Exhibits AG-1 (Pipeline Capacity Cost Comparison for DTE Gas and [Consumers Energy] CECo); AG-2 (Citygate Purchases DTE Gas vs. CECo); and AG-3 (DTE Response—Pipeline Cost Reduction and Citygate Strategy).[17]

III.

DISCUSSION

A. Legal Standards

Pursuant to 1982 PA 304 (Act 304), the Commission has the authority to "incorporate a gas cost recovery clause in the rates or rate schedule of a gas utility." MCL 460.6h(2). To implement such a clause, a gas utility must annually file a gas cost recovery plan for a 12-month period that includes a proposed gas cost recovery factor and a five-year forecast of its customers' gas requirements and the company's plans to meet those requirements. MCL 460.6h(3)-(4).

[15] 2 Tr 269.
[16] Mr. Coppola's direct testimony can be found at 2 Tr 213-223.
[17] The Attorney General's exhibits also include Exhibits AG-4 through AG-9 (Discovery Responses), which were admitted at the hearing.

After reviewing the projections and proposals for the plan year under several factors enumerated in MCL 460.6h(6), including the volume, cost, and reliability of supplies, and whether the utility has taken appropriate legal and regulatory steps to minimize the cost of gas, the Commission determines whether the decisions underlying the plan are reasonable and prudent. The Commission then issues a final order that may "approve, disapprove, or amend the gas recovery plan accordingly." MCL 460.6h(6). In addition, the 5-year forecast is evaluated for a determination of whether future recovery of certain costs is, based on present evidence, unlikely (Section 7 warning). MCL 460.6h(7).

B. Uncontested Matters

The parties do not contest: (1) the proposed GCR factor of $2.43 per Mcf; (2) the SOLR charge of $0.42 per Mcf for GCR customers or the reservation charge of $0.28 per Mcf for GCC customers; (3) the simplified contingent factor adjustment mechanism proposed by DTE Gas; or (4) the reasonableness of DTE Gas's GCR plan for 2020-2021, including the company's CTN, WTN, and worst-case scenario plans. This PFD therefore finds that DTE Gas's 2020-2021 GCR plan, monthly factors, contingency mechanism, and other charges should be approved.

Staff raises an issue concerning AEP contract costs, which it argues should be addressed in the company's reconciliation of this GCR plan. Staff also recommends that, although the company's NEXUS pipeline costs should be approved here, DTE Gas should also be required to demonstrate its compliance with the pricing provisions of the Code of Conduct in the reconciliation of this plan, noting the significant amounts currently transported on the pipeline for gas service.

The Attorney General asserts that the company's plan and five-year forecast project firm pipeline transportation costs of approximately $60 million per year, an amount that far exceeds transportation costs incurred by Consumers Energy, a comparable-sized utility. The Attorney General attributes these higher costs to DTE Gas's extensive reliance on firm purchases, rather than citygate acquisition, and the escalation in transportation costs associated with the NEXUS pipeline. The Attorney General therefore recommends that the Commission issue a Section 7 warning indicating that some transportation costs may not be recoverable if DTE Gas fails to provide a comprehensive analysis of its interstate pipeline contracts, costs, and strategies, along with an analysis of increased citygate purchases, in the company's next GCR plan case.

These issues are addressed below.

C. Contested Issues

As outlined above, Staff raises an issue concerning payments to DTE Gathering for the AEP interconnect receipt point. According to Ms. Royal, the errors Staff identified with respect to the AEP contract in Case No. U-20210, DTE Gas's 2019-2020 GCR reconciliation, have continued in this case. Relying on Article VII, ¶ 7.3 of the Gas Transportation Agreement, Ms. Royal explained:

> In his supplemental direct testimony, DTE Gas witness Eric P. Schiffer discusses the Company paying DTE Gathering a monthly fee of $800 for the AEP's Gaylord interconnect receipt point. It is Staff's opinion that DTE Gathering is charging the Company over three times more for its AEP interconnection point monthly fee than what the Commission approved in its Order in Case No. U15 17530. According the Order in Case No. U-17530, DTE Gathering should be charging the Company $225 each month for the AEP Gaylord interconnection receipt point fee. The reduction of the Great Lakes Gas Transmission (Great Lakes) usage costs can be found

> on lines 32, 41 and 42 of Exhibit S-1 as compared to those same lines of Revised Exhibit A-11.
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> * * *
>
> It is Staff's position that the monthly receipt point fee for AEP should be $225 until at least 2027.[18]

In its brief, Staff points out that due to the timing of this case and the company's previous GCR reconciliation, adjustments to the AEP receipt point fee should be addressed in the 2020-2021 reconciliation of this plan.

DTE Gas maintains that the costs at issue are appropriate and were included in a settlement agreement approved on December 7, 2017 in Case No. U-18152. Nevertheless, the company concurs that the Commission's decision in Case No. U-20210 will control the outcome of this specific matter in the reconciliation of this GCR plan.[19]

The PFD agrees that issues concerning the costs for the AEP interconnect should be revisited in the reconciliation proceeding for this plan case. Although DTE Gas requests that the full costs of the AEP transportation contract be approved here, because the adjustment does not affect the GCR factor, no recommendation with respect to approval (or disapproval) of the AEP cost is necessary.

In response to the recommendation concerning the need to demonstrate compliance with the Code of Conduct, DTE Gas maintains that the Commission has approved the NEXUS contract and TEAL amendment as reasonable and in compliance

[18] 2 Tr 270-271.
[19] DTE reply brief, p.12.

with the Code of Conduct. The company asserts that no new evidence was presented here calling into question the reasonableness of the contracts.[20]

In response, Staff agrees that the merits of the NEXUS contracts need not be revisited, however:

> DTE Gas should . . . not be treated any differently than the electric company of DTE Energy, DTE Electric. The Commission has already directed DTE Electric to show compliance with the pricing provisions in the Code of Conduct regarding the NEXUS contracts in Case No. U-20221, DTE Electric Company's 2019 power supply cost recovery (PSCR) plan case, and Staff believes the same should happen with DTE Gas. Indeed, the Company is currently getting more than two times the volume from the NEXUS contracts compared to DTE Electric. If the Commission is concerned about the NEXUS contracts and compliance with the Code of Conduct for DTE Electric; then Staff believes that DTE Gas should ensure compliance with the pricing provisions of the Code of Conduct of both NEXUS and TEAL pipelines (2 TR 260-261.) After DTE Gas has shown compliance with the Code of Conduct, and the Commission agrees that the presentation is reasonable and prudent, then the discussion can be scaled back in future GCR reconciliation proceedings.[21]

In the May 8, 2020 order in Case No. U-20221, after reviewing the arguments of the parties and the ALJ's determination that prior orders concerning the NEXUS contract did not address the pricing provisions of the Code of Conduct, the Commission found:

> The Commission agrees that while DTE Electric is not required to relitigate the original NEXUS agreement decided in the February 7 order, the company does have an ongoing obligation to demonstrate compliance with the pricing provisions of the Code of Conduct in the reconciliation, which in turn will provide the Commission with the required information to determine the amount of affiliate transaction costs DTE Electric may recover. Furthermore, DTE Electric must demonstrate compliance with the Code of Conduct when new evidence or a showing of changed circumstances applies to a question of fact. *Consumers Energy Co v Pub*

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[20] As the Attorney General points out on page 7 of her reply brief, DTE Gas's response, somewhat confusingly, is directed at her and not at Staff who actually raised the Code of Conduct issue in this proceeding.
[21] Staff reply brief, p. 2.

> *Serv Comm*, 268 Mich App 171, 177-178 n. 3; 707 NW2d 633 (2005). Having considered the parties' arguments, the record, and the ALJ's recommendations regarding the Code of Conduct issue, the Commission agrees with the ALJ's reasoning and adopts the findings and recommendations of the PFD.[22]

In DTE Gas's last GCR plan case, Case No. U-20235, the Commission issued a Section 7 warning with respect to the Clarington receipt point, finding:

> While approving the plan and factors proposed in this case, the Commission finds that such a caution is necessary with respect to the five-year forecast and the Clarington receipt point. The Attorney General provided evidence showing that, contrary to the company's estimates, the incremental cost of the Amendment may be $8.4 million over the contracted four years. 2 Tr 229. Specifically, DTE Gas was unable to support its own projections of the benefits of the Amendment and so its alleged cost savings could not be validated. 2 Tr 231-232; Exhibits AG-1 through AG-3. The company failed to provide information that would allow the projected $4.8 million in alleged net cost savings to be verified, and, when asked to support the incremental price, only alluded to these same net cost savings which themselves were not supported. Id. With such a record, the Commission finds that a caution with respect to future amounts associated with the Amendment is necessary. These costs will be examined in each reconciliation, where the utility will need to provide adequate support for the reasonableness and prudence of the amounts associated with the NEXUS Agreement and Amendment.[23]

And, most recently, in the December 9, 2020 order in Case No. U-20203, pp. 27-28, the Commission found:

> The Commission is mindful that NEXUS was in-service for a mere two months at the end of the annual reconciliation period in this case and that market conditions can fluctuate over time. Such near-term fluctuations need not always warrant an immediate response. Nonetheless, there is compelling information that the conditions present when DTE Electric first entered the contract have changed and as a result the company purchased far less gas from NEXUS. DTE Electric attempted to mitigate this by adding the Clarington receipt point through the TEAL amendment, yet this change came at an incremental cost. When examining the underlying transportation rate of $0.695/Dth and the incremental rate of

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[22] Order, pp. 16-17.
[23] Order, p. 6 (fn omitted).

$0.15/Dth for TEAL, the Commission finds that DTE Electric has not demonstrated the reasonableness of the combined transportation rate of $0.845/Dth given the volumes utilized nor has the company demonstrated it is taking adequate steps to renegotiate the agreement for the benefit of ratepayers given changing market dynamics. This level of due diligence is especially important given the affiliate relationships involved. The Commission deferred to this reconciliation proceeding the reasonableness of the $0.695/Dth NEXUS rate and has not previously approved the TEAL amendment. Although the Commission finds that the TEAL amendment helped mitigate some of the losses experienced at Kensington, it came at an incremental cost. The underlying base rate was not altered through these negotiations or other efforts despite conditions materially changing, prompting the amendment. Under the circumstances, with DTE Electric using only a fraction of the gas from NEXUS to supply its power plants while still paying transportation charges assuming 100% utilization of the contracted amount, the Commission finds that it is appropriate to cap recovery at the $0.695/Dth rate included in the original contract approved by the Commission. DTE Electric has not shown that the total amount, with the incremental expenses for the TEAL amendment, is reasonable. Rather, DTE Electric falls back on the outdated cost-benefit study used to support the original contract. While the Commission realizes the complexity of attempting to isolate the effects of NEXUS on MichCon hub prices, DTE Electric did not present any new evidence on NEXUS's impact on current pricing dynamics at the MichCon hub and the connection to PSCR costs based on actual fuel procurement to serve DTE Electric's power plants during the reconciliation period.

* * *

Turning to Code issues, the Commission does not find that a previously approved long-term affiliate contract would repeatedly need to be examined under Code rules. Notwithstanding, the Commission finds that the TEAL amendment would trigger the market pricing test for an affiliate transaction pursuant to Rule 8(4). The record has information on gas futures prices and various pipeline arrangements supplied by intervenors but these are not suitable comparisons for determining market prices for the underlying contract of this type or the amendment. This lack of a market price comparison—despite these being long-standing provisions with the Commission—also supports the determination to disallow the incremental $0.15/Dth for the TEAL amendment.3 Tr 64, 131; Exhibit MEC- 28; MEC's initial brief, pp. 49-52; MEC's exceptions, pp. 32-33; May 8 order, pp. 5-10.

In summary, the NEXUS volumes and rate were justified based on 100% utilization of fuel being used at DTE Electric's power plants. Actual utilization was far less. DTE Electric is requesting—without new data or justification—for customers to pay the original transportation expense for

> the full contracted volumes, plus an incremental amount to mitigate the higher-than-expected pricing at the original Kensington receipt point. DTE Electric has not demonstrated that the combined rate with the TEAL amendment is reasonable, or that it is taking reasonable and prudent actions to minimize fuel expenses under the underlying contract in light of the market conditions. Given the record in this proceeding, the Commission finds the appropriate remedy at this time is to limit recovery of the transportation rate to $0.695/Dth.

In light of the Commission's ongoing concerns about the actual costs of the NEXUS contract and TEAL amendment, this PFD finds Staff's position persuasive. As Ms. Royal pointed out, DTE Gas is currently transporting significantly more gas on the NEXUS and TEAL pipelines for gas service, compared to the amount DTE Electric transports for electric service, although this may change in the future. It is therefore reasonable for DTE Gas to comply with the same demonstration of compliance with the pricing provisions of the Code of Conduct that the Commission requires of DTE Electric.

With respect to her recommendation concerning the evaluation of transportation contracts, the Attorney General argues that DTE Gas's transportation costs have increased significantly over the previous five years, to the point where transportation costs for DTE Gas are almost three times what Consumers Energy pays for transportation annually. She attributes this to the increased cost of transportation on NEXUS, coupled with the fact that DTE Gas, unlike Consumers Energy, secures the great majority of its supply through firm transportation contracts, rather than citygate purchases.

The Attorney General cites revised Exhibit A-11, which shows DTE Gas's firm pipeline capacity amounts totaling 400 thousand dekatherms (MDth) per day during the winter, and 330 MDth per day during the summer, at a cost of approximately $60 million. The Attorney General notes that in the company's five-year forecast does not project any changes to the annual cost of transportation, adding that this is a $14 million increase, or 30%, above the cost of pipeline capacity in the 2015-2016 GCR year for slightly less capacity.[24] The Attorney General points to Mr. Coppola's analysis that shows that Consumers Energy, a comparable if not slightly larger gas utility, "is able to serve its gas sales market with 375 MDth, total, of firm interstate transportation capacity year-round at an annual cost of $17 million[,]" a reduction of $37 million over the past 10 years.[25]

In Exhibit AG-1, Mr. Coppola showed that for the 2020-2021 GCR plan year, DTE Gas's monthly pipeline capacity costs are on average 273% higher than Consumers Energy's actual costs for the 2019-2020 plan year, for nearly the same amount of capacity. Mr. Coppola pointed to the increased pipeline capacity costs resulting from DTE Gas's contract with NEXUS for 75 MDth per day beginning in November 2018, noting:

> This capacity replaced an equal amount of capacity previously contracted with other interstate pipelines, but at a higher cost. The Company's expectation was, and still is, that over the long-term it would be able to purchase lower cost Marcellus/Utica natural gas and offset the higher NEXUS cost. However, to date those savings have not materialized.[26]

Mr. Coppola also highlighted the company's strategy that relies more on interstate pipeline capacity for gas supply, rather than citygate purchases. Citing Exhibit AG-2, Mr. Coppola testified that in the 2018-2019 plan year:

> DTE Gas purchased 29% of its gas supply at its citygate. In contrast, CECo purchased 55% of its gas supply at its citygate. Although the difference in strategy is obvious across all months, it is more pronounced during the winter months. From October to March, DTE Gas relies

[24] Attorney General brief, p. 4.
[25] Id. at 5, citing Case No. U-20541, direct testimony of Michael Ross, pp. 21, 24.
[26] 2 Tr 220.

> minimally on citygate purchases, while CECo relies on citygate purchases for approximately 50% of its total gas purchases.[27]

Discussing the discovery response in Exhibit AG-3, Mr. Coppola testified that DTE Gas has not evaluated a strategy to reduce its pipeline capacity costs, although it does annually benchmark the practices of other Michigan gas utilities. Mr. Coppola testified that because the benchmark analysis was not provided, the scope of the analysis is unknown.

The Attorney General points to Exhibit AG-4, which is a GCR plan review conducted by DTE Gas that evaluates and compares approaches to gas supply acquisition by other Michigan gas utilities. According to the Attorney General:

> On page 7 of the document the Company identified three major "learnings and recommendations." The third recommendation acknowledges that other utilities are migrating away from Fixed Transportation (FT) contracts and utilizing more citygate gas purchases. The associated internal Company recommendation is for a meeting with the gas system planning department to consider that strategy, specifically with regard to design day requirements. The AG points out here that it appears the Company's internal recommendation is in line with Mr. Coppola's proposal that Mr. Schiffer objects to in rebuttal. This incongruity is worth noting as, internally, DTE appears to agree with the AG's conclusion that the Company should do an evaluation of alternatives to its current interstate pipeline capacity strategy.[28]

Next, the Attorney General contends that although the company provided an extensive explanation of how it evaluates replacing transportation capacity when a contract ends, the company's approach does not consider possible cost reductions from decreasing firm capacity and increasing citygate purchases.[29]

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[27] Id. at 221.
[28] Attorney General brief, p. 8.
[29] Id. at 9.

The Attorney General argues that DTE Gas's concerns about reliability generally, and specifically concerning the January 2019 fire at the Ray compressor station, are misplaced, noting that the Ray fire "was a physical interruption in being able to withdraw gas from storage. It did not have anything to do with having more or less transportation capacity signed up."[30] The Attorney General also posited that the supply interruption on the Viking pipeline in 2014 "could have arisen whether or not DTE had a certain amount of firm transportation[,]" adding, "[a]long with the unavailable citygate gas cited by Mr. Schiffer, the firm transportation that DTE contracted for also was not available. So this was not a case where having more firm transportation 'bailed DTE out,' or even a case where having more firm transportation would have bailed the Company out."[31]

The Attorney General again compares DTE Gas's approach to supply acquisition to its closest peer utility, Consumers Energy, highlighting the fact that Consumers was able to manage gas delivery during extreme weather events and pipeline interruptions despite contracting for significantly less pipeline capacity. Finally, the Attorney General asserts that the declining cost of the gas commodity, from $3.88 to $2.22 per Dth from 2015-2016 to 2020-2021, does not include the cost of transportation, and:

> [O]ther utilities in Michigan, such as Consumers, would also have experienced this decline in commodity prices by virtue of their geographic proximity. Therefore, the AG argues that the difference in GCR costs to customers still comes down to DTE Gas having higher fixed pipeline transportation costs than Consumers, by approximately $40 million, as demonstrated by Mr. Coppola in his direct testimony and exhibits.[32]

In response, DTE Gas maintains that its pipeline transportation costs are reasonable and prudent. DTE Gas asserts that although transportation costs have

[30] Id. at 12-13.
[31] Attorney General's brief, p. 13.
[32] Id at 14-15.

increased, overall GCR costs have not. DTE Gas points to average gas commodity costs in the 2015-2016 plan year of $3.88 per Mcf, compared to projected costs of $2.88 per Mcf for the 2020-2021 plan year. DTE Gas argues that increased reliance on transportation has led to diversified supply, mitigation of price risk, and access to lower cost gas from the Appalachian region. With respect to Mr. Coppola's cost comparison to Consumers Energy, DTE Gas asserts:

> [I]t is also important to consider each company's GCR factors. DTE Gas provided this information to the AG in discovery and discussed how DTE Gas's and CECo's GCR factors have been trending downward since 2009-2010 on average on a similar trend. For the GCR period that we are currently in, the average GCR factor for DTE Gas was $3.09, and for CECo it was $2.77 (2 T 115). Although, CECo's GCR factor has been slightly lower for the last several years, it has not always been lower than DTE Gas's GCR factor. In 2010-2015 DTE Gas's GCR factor was lower. In other years, CECo's GCR factor was lower (2 T 115). DTE Gas has an overall philosophy to try to reduce volatility for its customers and considering DTE Gas's GCR factor within the last several years, DTE Gas's factors tend to have less volatility, as compared to CECo. Therefore, DTE Gas's GCR customers can better anticipate and budget for their gas costs (2 T 115).[33]

DTE Gas explains that the company has contracted for 400 MDth per day of pipeline capacity for the winter season, whereas Consumers Energy has contracted for 275 MDth of capacity per day during the same period. DTE Gas asserts that by having more firm transportation capacity it will be better able to serve its customers under extreme winter weather scenarios when demand is especially high. Alternatively, if DTE Gas does not have sufficient firm supply, and instead relies more on citygate purchases, the company claims that it could be subject to maximum pipeline tariffs or insufficient supply during extreme cold temperatures.

[33] DTE Gas reply brief, p. 4.

DTE Gas points to the Attorney General's acknowledgement that she also questioned whether Consumers Energy's reliance on citygate purchases was too risky in Case No. U-20233. DTE Gas notes that in the order in that case, the Commission found that Consumers Energy's gas planning and procurement strategies were reasonable and prudent. DTE Gas asserts, however, that simply because the Commission found that more reliance on citygate supply was reasonable for Consumers Energy, it does not render the company's plan, which relies more on firm purchases, unreasonable or imprudent.

DTE Gas argues that an additional evaluation of its transportation contracts, costs, and strategies is unnecessary because the company already undertakes an extensive analysis of its contracts, costs, and strategies several times a year, explaining:

> First, the Gas Supply team, which includes witnesses Mr. Chapel, Mr. Bratu, and Mr. Schiffer in the GCR case, annually review the other regulated gas companies in Michigan to learn more about each company's philosophies or gain insight into other differences between the companies' strategies related to gas supply sources and purchasing. Second, the Gas Supply reviews its conclusions with senior management in a discussion about whether DTE Gas should update its GCR Plan to incorporate any new information learned during this review. The Company engages in detailed discussions about its philosophies to determine whether they continue to make sense considering the changing natural gas environment. The Company's GCR Plan is not a single or two-year plan; it is a long-term philosophy on how to provide customers with reliable natural gas at reasonable prices (2 T 83). Third, the Company conducts an annual discussion and evaluation of the 400 MDth/day of flowing supply required for a design day. Fourth, the Company again reviews it practices and philosophy for purchasing firm transportation capacity every time a pipeline contract is set to expire (2 T 83).
>
> When a pipeline contract is set to expire, the Company employs a three-step process to review that contract. The first step is evaluating operational needs and considering whether the pipeline serves a region of DTE Gas's service territory served by a single source. The Company also

> considers if renewing the contract will continue to maintain the diversity of supply that aligns with the Company's philosophy, or alternatively, if not renewing the contract will allow the Company to expand its diversity of supply by acquiring different capacity consistent with the Company's overall philosophy (2 T 83). The next step is utilizing Landed Cost Analysis (LCA) to determine least supply cost. The Company's management reviews the LCA and the Gas Supply groups' recommendations. Finally, DTE Gas undertakes contract negotiations with various pipeline companies and the Company considers whether a proposed contract includes favorable terms for its customers (2 T 84). Price is not the only factor that DTE Gas utilizes in making decisions related to acquisition of pipeline capacity. The Company also looks closely at operational needs and believes that having 400 MDth/day of pipeline supply on a design day provides the reliability its customers need (2 T 84). In addition, the Statewide Energy Assessment (SEA) report requested by Governor Whitmer, provided the opportunity for DTE Gas to explain to the MPSC what DTE does to ensure the reliability and sufficiency of gas supply to its customers.[34]

DTE Gas largely justifies its approach to supply acquisition on grounds that: (1) more firm pipeline capacity results in more reliability of supply; and (2) firm supply reduces price volatility. Neither of these explanations fully support the company's approach. While there are certainly differences in pipeline receipt points and storage capacity among the various regulated gas utilities in Michigan, DTE Gas's reason for relying on firm supply for reliability purposes is not well demonstrated by the record in this case. Although reliability of supply is certainly relevant to the evaluation of the company's plan and forecast, there is a point where the return on investment in reliability (via increased firm transportation) is diminished, especially in a state with abundant storage and access to multiple interstate pipelines transporting gas from various supply basins. Moreover, as the Attorney General points out, the company's 2020-2021 GCR comparison notes that: "Other companies are migrating away from FT

[34] DTE Gas reply brief, pp. 8-9.

capacity and utilizing more city gate purchases. Meet with system planning to determine if this would be [sic] hinder our ability to meet design day requirements."[35] This suggests that the issue that the Attorney General raises is also of some concern to experts within the company.

Similarly, the company's claim that firm supply reduces price volatility for customers was not shown here, although it could have been demonstrated as part of a benchmarking analysis comparing GCR costs among other gas utilities over time. Thus, although finding that a Section 7 warning is not necessary, this ALJ agrees with the Attorney General that a more in-depth explanation and evaluation of the company's reliance on fixed transportation capacity should be filed as part of DTE Gas's next GCR plan case.

IV.

CONCLUSION

This PFD recommends that the Commission adopt the following findings of fact and conclusions of law:

(1) DTE Gas's GCR plan for 2020-2021 is reasonable and prudent and should be approved.

(2) DTE Gas should be authorized to implement a GCR factor of $2.43 per Mcf, which may be adjusted consistent with the simplified contingent factor mechanism shown in Exhibit A-23 (Tariff D-4.00).

(3) DTE Gas should be authorized to include a SOLR charge of $0.42 per Mcf for GCR customers and a reservation charge of $0.28 per Mcf for GCC customers to be reflected in the company's monthly billings.

(4) Issues concerning the appropriate GCR costs for the AEP transportation contract and the company's compliance with the pricing provisions of the

[35] Exhibit AG-4, p. 17

Code of Conduct for the NEXUS and TEAL pipelines should be addressed in Case No. U-20544, DTE Gas's 2020-2021 GCR reconciliation.

(5) While a Section 7 warning is not recommended, DTE Gas should be directed to provide more insight into its decision to rely extensively on firm gas supply in its next GCR plan case.

MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES
For the Michigan Public Service Commission

Sally L. Wallace

Digitally signed by: Sally L. Wallace
DN: CN = Sally L. Wallace email = wallaces2@michigan.gov C = US O = MOAHR OU = MOAHR - PSC
Date: 2021.01.05 10:06:52 -05'00'

Sally L. Wallace
Administrative Law Judge

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