STATE OF MICHIGAN

MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES

FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of DTE Gas Company for reconciliation of its gas cost recovery plan (Case No. U-20543) for the 12 months ended March 31, 2021.	))))	Case No. U-20544

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 September 2, 2022.

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 September 23, 2022, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before October 7, 2022.

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

Martin D. Snider

Digitally signed by: Martin D. Snider
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Date: 2022.09.02 07:43:26 -04'00'

Martin D. Snider
Administrative Law Judge

September 2, 2022
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 June 29, 2021, DTE Gas Company (DTE Gas) filed its application, (Application) testimony and exhibits requesting reconciliation of its GCR revenues and expenses for the 12-month period beginning April 1, 2020, and ending March 31, 2021 ("GCR Year"). DTE Gas's application was supported by the direct testimony and exhibits of DTE Gas witnesses Lucian Bratu, Timothy J. Krysinski, Eric P. Schiffer, Gandolfo Lore, and Matthew DeCourcey.

On July 20, 2021, Attorney General Dana Nessel filed a Notice of Intervention.

On July 30, 2021, the Michigan Public Service Commission issued a Notice of Hearing which set a date for a prehearing of September 1, 2021.

On August 17, 2021, the Retail Energy Supply Association (RESA) filed Petition to Intervene. Also on August 17, 2021, DTE Gas filed the Revised Direct Testimony and Exhibits of Lucian Bratu.

On September 1, 2021, Administrative Law Judge (ALJ) Martin D. Snider convened a properly noticed prehearing. During the prehearing, RESA's Petition to Intervene was granted and the parties mutually agreed on a schedule. On September 2, 2021, the ALJ issued a Scheduling Memo which incorporated the schedule approved during the pre-hearing.

On February 25, 2022, DTE Gas filed the testimony of Sherri M. Moore which adopted the previously filed testimony and exhibits from Eric. P. Schiffer and the testimony from Kenneth A. Sosnick which adopted the previously filed testimony and exhibits of Matthew J. DeCourcy.

On March 2, 2022, the ALJ issued a Protective Order.

On March 31, 2022, Staff filed the testimony and exhibits of witness Diane M. Martin and the testimony and exhibits of witness Nyhre U. Royal. Also, on March 31, 2022, the AG filed the testimony and exhibits of Sebastian Coppola.

On April 28, 2022, DTE Gas filed the rebuttal testimony and exhibits of witnesses Larisa Abayev, the rebuttal testimony and exhibits of witness Lucian Bratu, the rebuttal testimony and exhibits of Bradley J. Leiter, the rebuttal testimony and exhibits of witness Sherri M. Moore, and the rebuttal testimony of Kenneth A. Sosnick.

On June 9, 2022, an evidentiary hearing was convened. The parties mutually agreed to waive cross examination of all witnesses, to bind into the record all testimony and stipulated to admission of all exhibits. The following testimony was bound into the record and the following exhibits were admitted to the record:

DTE Gas

Lucian Bratu	Revised Direct and Rebuttal Testimony
	Exhibits: A-8, A-9, A-10, A-11, A-12, A-13, Revised A-27, A-31, A-32, A-33, A-34, A-35, A-36, A-37, A-38.
Timothy J. Krysinski	Direct Testimony
	Exhibits: A-14
Gandofo LoRe	Direct Testimony
	Exhibits: A-15, A-16, A-17, A-18 A-19
Larisa Abayev	Rebuttal Testimony
	Exhibits: A-41
Bradley J. Leiter	Rebuttal Testimony
	Exhibits: A-42
Sherri M. Moore	Direct and Rebuttal Testimony
	Exhibits: A-1, A-2, A-3, A-4, A-5, A-6, A-7, A-20, A-21, A-22, A-23, A-24, A-25, A-26 A-27, A-28 A-39, A-40, A-43, A-44, A-45, A-46 A-47, A-48, A-49, A-50, A-51
Kenneth A. Sosnick	Direct and Rebuttal Testimony
	Exhibits: A-29 Revised, A-30.

Staff Witnesses and Exhibits

Diane M Martin	Direct Testimony
	Exhibits: S-1 and S-2.
Nyrhe U. Royal	Direct Testimony
	Exhibits: S-3, S-4, S-5, S-6, S-7, S-8, S-9, S-10 S-11

AG

Sebastian Coppola | Direct Testimony

Exhibits: AG-1, AG-2, AG-3, AG-4, AG-5, AG-6, AG-7, AG-8, AG-9, AG-10, AG-11, AG-12, AG-13, AG-14, AG-15, AG-16, AG-17, AG-18, AG-19, AG-20, AG-21, AG-22, AG-23, AG-24. AG-25.

RESA

No Testimony. No exhibits.

On July 13, 2022, DTE Gas, Staff and AG filed Initial Briefs. On August 3, 2022, DTE and the AG filed Reply Briefs.

The record consists of 430 transcript pages and 87 exhibits.

II.

BACKGROUND

DTE Gas (DTE) is a subsidiary of DTE Energy Company, a Michigan corporation with its principal offices located at One Energy Plaza, Detroit, Michigan 48226. DTE Gas is a public utility, subject to the jurisdiction of the Michigan Public Service Commission (Commission), engaged in the acquisition, storage, transportation, distribution and sale of natural gas and other related services to 1.3 million residential, commercial, and industrial customers within the State of Michigan.

Act 304 provides the Commission's authority to conduct a prospective review of a gas utility's annual GCR plan in a GCR gas supply and cost review (GCR Plan) proceeding. See MCL 460.6h(5). During a GCR Plan proceeding the gas utility must present its 12-month plan for obtaining gas supply in a reasonable and prudent manner.

See MCL 460.6h(3). Additionally, during a GCR plan proceeding the gas utility must also present a 5-year forecast of the gas requirements of its customers, its anticipated sources of supply, projections of gas costs, relevant major contracts, and major gas supply arrangements entered into or contemplated. See MCL 460.6h(4). The Commission reviews the reasonableness and prudence of the gas utility's decisions outlined in its proposed 12-month GCR plan and requested GCR factors and then issues a final order approving, disapproving, or amending the GCR plan. See MCL 460.6h(6). The Commission may in its final order indicate to the gas utility, through a section 7 warning, that certain aspects of its 5-year forecast may not be approved in a future GCR plan proceeding based upon present evidence. See MCL 460.6h(7).

Act 304 grants the Commission the authority to complete an annual retrospective review of expenditures incurred by DTE Gas in its GCR plan through a reconciliation. See MCL 460.6h(12). During a GCR reconciliation proceeding the Commission must reconcile the revenues recorded by DTE Gas pursuant to Commission-approved GCR factor(s) with the amounts expensed and included in the cost of gas sold during the 12-month period subject of the Commission-approved GCR Plan. MCL 460.6h(12). If DTE Gas's costs are greater than the amount recovered through the Commission-approved GCR factor(s), then they are recoverable if those cost were incurred through reasonable and prudent actions that were "not precluded" by the Commission's underlying GCR plan order. See MCL 460.6h (14). If the Commission approved and did not disallow certain portions of DTE Gas's GCR plan, then in the Commission's GCR reconciliation proceeding it is presumed that the Commission-approved GCR plan is reasonable and prudent and that costs incurred during GCR plan period, consistent with Commission-approved GCR plan, are recoverable. See MCL 460.6h(12). If the Commission did not consider an issue in the GCR Plan case, then the Commission must consider the issue in the GCR reconciliation proceeding and determine the reasonableness and prudence of the related expenses incurred by the gas utility. *Id*.

DTE Gas indicated in its Application that for the twelve-month period of April 1, 2020, through March 31, 2021, DTE Gas's total net recoverable gas supply costs for GCR customers were more than its gas supply revenues resulting in an under-recovery of approximately $5.4 million inclusive of interest through March 31, 2021. DTE Gas's reconciliation methodology reconciles the GCR and Reservation Charge revenues and expenses for GCR customers on a combined basis, and the Reservation Charge revenues and expenses for Gas Choice Customers (GCC) are reconciled separately. See Application p 2. DTE Gas indicated in its Application that DTE Gas's reservation costs for GCC customers were less than its Reservation Charge revenues resulting in an over-collection of approximately $2.0 million inclusive of interest through March 31, 2021. DTE Gas's twelve-month GCR reconciliation includes the roll-in of the 2019-2020 net GCR over-recovery of approximately $1 million for GCR customers and an over-recovery of approximately $1.8 million for GCC customers, which is DTE Gas's current position in U-20236, *Id.* DTE Gas's pending 2019-2020 GCR Reconciliation Case. Consistent with the Commission's prospective refund methodology approved in U-10385 ,the 2019-2020 net over-recoveries are included as the beginning balance for each customer class, GCR or GCC, used to calculate interest through March 31, 2021. In its Application, DTE Gas requests that the Commission make the following findings:

- For the twelve-month period ending March 31, 2021, DTE Gas's GCR customers' revenues of $351.9 million inclusive of Reservation Charge revenues, its Net Recoverable Costs of $358.6 million inclusive of approximately $1 million over recovery related to 2019-2020 GCR and expenses, combined with $1.3 million of interest from 2020-2021 GCR, to result in a net under-recovery of $5.4 million for GCR customers that was incurred through reasonable and prudent actions
- For the twelve-month period ending March 31, 2021, DTE Gas's GCC customers Reservation Charge revenues of $6.2 million, GCC customers' $6.1 million in reservation expense, the roll-in of approximately $1.8 million related to the GCC customers' 2019-2020 reconciliation, plus $0.1 million of interest expense combine to result in a net GCC customer over-recovery of $2.0 million.
- The calculated amount of DTE Gas's under-recoveries, together with interest, is correct, and that the disposition of that amount is consistent with the intent and in accordance with the guidelines established by the Commission in its Orders.
- Grant such other relief as deemed necessary.

See Application p 3.

III.

<u>POSITIONS OF THE PARTIES</u>

<u>DTE Gas</u>

DTE Gas witness Sherri Moore testified regarding DTE Gas's gas supply purchases that affected the April 2020 through March 2021 operational year and the actions that DTE Gas took while implementing its 2020-2021 GCR Plan (Plan). More specifically witness Moore testified that:

- DTE Gas Supply volumes were approximately 1.1 Bcf greater than Plan at a cost that was $5.0 million less than Plan, due to gas prices and lower transportation costs than Plan partially offset by greater GCR market requirements. See 2 TR-39-40.
- DTE Gas followed its fixed-price guidelines and achieved its targeted 75% fixed-price coverage ratio at the time of filing its Plan case in December 2019.
- The fixed-price supplies, which were executed at market prices at the time of contracting, and at the time of delivery were above that of published spot index prices by approximately $0.298/Dth (Exhibit A-2, page 12, col. (n), line 53 / line 9), for a total cost of $31 million (Exhibit A-2, page 12, col. (n), line 53) due to unpredictable lower spot index prices. Through monthly evaluations of market conditions DTE Gas ensured that the number, timing, and size of its monthly fixed-price purchases were reasonable and prudent transactions to secure price stability, thereby ultimately providing price protection, price certainty, and affordability for the GCR customers. See 2 TR 40-46.
- Interstate transportation costs were approximately $1.5 million lower than Plan primarily due to credits received on Panhandle Pipeline related to Winter storm URI and unplanned capacity release credits. See 2 TR-74-75.
- DTE's Gas Plan did not have any interstate contracts expiring during the reconciliation period. As identified in its GCR Plan Case Filing (U-20543), DTE Gas replaced 60 Mdth/d (winter only) on Panhandle Eastern Pipeline with 60 Mdth/d (winter only) on ANR, contract 132461.

- DTE Gas has an interconnect contract with MGAT to flow gas at the AEP Interconnect and it is utilizing this contract to create savings for its customers as compared to previously DTE Gas held firm transportation on the Great Lakes Gas Transmission (GLGT). In 2018 DTE Gas allowed the GLGT contract to expire. Details of the reconciliation 1of those costs, and the benefits of the contract are included in this filing. See 2 TR 49-59.: 2 TR 76-78.
- In response to the Commission's Orders in U-20210 and U-20243, the DTE Gas provided additional supporting evidence for the NEXUS contract (including the TEAL amendment) including an updated independent analysis of the benefits of the capacity contract. See 2 TR 59-72.
- Consistent with its Plan and prior Commission orders, DTE Gas purchased 0.5 MMDth of gas supply from its affiliate DTE Michigan Gathering Company (MGAT or MichCon Gathering) for a cost of $1.1 million at a price equal to the MichCon Monthly City Gate Spot Index, at an annual average price of approximately $2.10/Dth. As part of the VCA program and spot index purchases, DTE Gas purchased from its affiliate, DTE Energy Trading (DTEET), 5.4 Bcf of gas supply for a cost of $12.6 million. See 2 TR 76-78.

Witness Moore sponsored the following Exhibits:

A-1 NYMEX and Published Market Index Prices

A-2 Fixed Price Purchases

A-3 Term and Spot Purchases by Location, Supplier and Deal No.

A-4 Total Purchases by Production Month

A-5 Transportation Summary by Production Month

A-6 Cashout Summary by Production Month

A-7 Affiliate Purchase Summary

A-20 $800 Meter Invoice Example

A-21 $900 Meter Invoice Example

A-22 $225 Meter Invoice Example

A-23 U-17530 3-6-14

A-24 MGAT AEP 40104 Delivery Point Agreement dated 8.30.2017

A-25 MGAT 62078 DTE Gas ASA Nov 2014

A-26 Technology and Efficiency Gains Create A New Normal For U.S

A-28 Pipeline Utilization

<u>Moore Rebuttal</u>

Witness Moore provided rebuttal testimony to rebut AG witness Coppola's testimony regarding the following:

- The proposed disallowance of NEXUS transportation costs and related gas supply costs from the Kensington and Clarington gas supply areas. See 2 TR 81- 114.
- The proposed disallowance of costs for the purchase of gas supply from DTE Energy Trading, Inc. See 2 TR 114 - 120
- The proposed disallowance of the cost for purchasing the gas supply physical call option to backstop a potential failure of the dehydration equipment at the Belle River Mills supply facility. See 2 TR 120- 126.

Witness Moore sponsored the following rebuttal exhibits:

A-39 U-20544 AGDG 1.35e February 2021

A-40 U-17941 Exhibit A-44 - Lebanon Reversal Open Season Bid

A-43 U-20210 Rebuttal Exhibit A-20 Nexus vs Teal

A-44 U-20210 Rebuttal Exhibit A-22 Summary of Gas Cost Spreadsheets

A-45 U-20210 Rebuttal Exhibit A-23 Cell References to AG Nexus vs Teal

A-46 U-20210 Rebuttal Exhibit A-21 Nexus vs Teal Ties 3rd party support

A-47 Teal vs Nexus A20M21 Savings 6 A-48 20236 DTEAG1_13 Response (1)

A-49 U-20544 AGDG-3.109

A-50 DTE Gas natural gas purchases for January 2014

A-51 DTE Gas daily spot purchases at MichCon citygate in 2013-2014 winter

NEXUS transportation costs and related gas supply costs from the Kensington and Clarington gas supply areas

DTE Gas does not agree with the AG's recommended $6.9 million disallowance which the AG claims were imprudently incurred. DTE Gas in multiple prior cases before the Commission (U-17691, U 17941, U-18152, U-18412, U-20210, U-20235, U-20236, U-20543, U-20544, and U-20810) has shown that the NEXUS pipeline provides additional low-cost supply to GCR customers. Witness Moore testified that the NEXUS, a new greenfield pipeline, was built to bring additional supply and diversity of supply to Michigan. The pipeline was expected to, and did, put downward pressure on gas prices within the State of Michigan, and provided additional benefits to DTE Gas customers. See 2 TR 82. The costs associated with the NEXUS contract have been litigated repeatedly before the Commission in U-17691, U 17941, U-18152, U-18412, U-20210, U-20235, U-20236, U-20543, U-20544, and U-20810. The AG through witness Coppola's testimony raises no new facts or changed circumstances that would require a new review of this settled issue. In the Commission's order in U-20235 on pages 5 – 6, the Commission rejected nearly identical arguments the AG made in that case, stating, "On this record, the Commission is not persuaded that it is appropriate to benchmark a previously approved long-term contract against short-term prices…" 2 TR 82-83. Given the prior NEXUS related Commission orders DTE Gas does not believe that relitigating the contracting of NEXUS capacity is relevant in this case. AG witness Coppola's testimony refers to the long-term contract the Commission approved in U-20235 and includes no new arguments that require the Commission in this reconciliation case to revisit a resolved issue.

Witness Moore testified that AG witness Coppola's Exhibit AG-1 shows incorrectly that the overall cost of $3.10 per Dth for NEXUS including transportation costs is higher than the other major gas supply sources. Witness Coppola's AG-1 analysis includes transportation costs resulting in his reported NEXUS $3.10 per Dth rate. Witness Moore testified that transportation costs are sunk costs, much in line with the Commission's Order in U-20235 on pages 5 – 6, where the Commission rejected arguments made by the AG in that case, stating, "On this record, the Commission is not persuaded that it is appropriate to benchmark a previously approved long-term contract against short-term prices…"

Witness Moore testified that when DTE Gas sources supply it evaluates the commodity costs associated with procuring supply on its pipelines, ranks those costs from least to most cost and fulfills the supply needs based on least cost except for instances when there are operational requirements that do not offer sourcing flexibility such as captive markets. Witness Coppola's AG-1 assessment shows the Gas Commodity Costs for NEXUS is $2.03 making it one of the least cost options in the portfolio. See 2 TR 84.

Witness Moore's rebuttal testimony includes Table 1 which shows DTE Gas's analysis used in the February 2021 Gas Supply meeting to source supply for March 2021. DTE Gas first considers its operational requirements and then analyzes the portfolio to procures the least cost source of gas. See 2 TR 85-86. The table reads from least cost to higher cost options, left to right. Column 2 shows that TEAL service – Clarington was the least cost option, followed by NEXUS Kensington Only. AG witness Coppola incorrectly includes the transportation cost in Exhibit AG-1. These costs should not be included because DTE Gas recovers transportation costs through its reservation costs. Transportation costs are an incremental cost to the customer, however, once a contract is obtained for pipeline capacity, that is a fixed and known cost for which DTE Gas may seek recovery. The transportation rate is then reevaluated and reintroduced in Commission proceedings at the time of contract expiration. When a pipeline transportation contract expiration is imminent, DTE Gas evaluates the contract to determine if it is prudent to either renew the existing capacity or seek other alternatives. Witness Moore testified that DTE Gas has used this longstanding practice to optimize its portfolio. DTE Gas sources its supply using Variable costs as shown in Table 1, which is also provided as U-20544 Exhibit 22 A-39 AGDG 1.35e _ February 2021 2 TR 85-86.

In U-20235 on pages 5 – 6, the Commission rejected arguments AG made in that case, which are nearly identical to the AG's arguments in this reconciliation case stating, "On this record, the Commission is not persuaded that it is appropriate to benchmark a previously approved long-term contract against short-term prices…" This reconciliation case is a mechanism to demonstrate the prudency, validity, and the adherence to the 2020-21 GCR Plan and the cost incurred in the time period and is not an opportunity for the AG relitigate NEXUS pipeline decisions that have been litigated for 5+ years. In U-20235, the Commission approved DTE Gas's NEXUS transportation costs "The Commission approves transportation costs of $0.695 per Dth for 75,000 Dth per day of NEXUS pipeline transportation capacity at the Kensington receipt point, and the addition of the Clarington receipt point for an additional $0.15 per Dth for 37,500 Dth per day of transportation capacity for the plan year" .Witness Moore testified that DTE Gas sourced its supply in a reasonable and prudent manner consistent with the Commission's approval in U-20235. Therefore, the Commission should reject the AG's recommended disallowance. 2 TR 86-87.

Witness Moore testified that AG witness Coppola incorrectly believes that the prices paid for incremental capacity with a different portfolio would have been different. Witness Coppola is taking known contract rates and the current portfolio and mistakenly assumes that had NEXUS not been entered into the rates would be the same. Witness Coppola does not consider that DTE Gas by accessing increased volume lower priced gas from Appalachia, decreases the costs of all supply sources, benefits to DTE Gas customers and all consumers of natural gas in the State of Michigan. See 2 TR 87-88.

Witness Coppola admitted in his testimony that excluding the cost of pipeline transportation, the cost of commodity gas purchases was lower at Kensington and Clarington than at other gas purchase locations, but he believes that the lower prices did not offset the NEXUS transportation cost $0.695 per Dth from Kensington and $0.845 from the Clarington purchase locations. Witness Coppola failed to consider the lowering of prices due to the increased supply of lower priced case provided by the NEXUS pipeline. 2 TR 89-91.

Witness Moore testified that DTE Gas does not agree with AG witness Coppola's "belief that DTE Gas supported the greenfield NEXUS pipeline with a large capacity purchase commitment because at that time it was a project partially owned and sponsored by an affiliated company. See 2 TR 91-93.Witness Moore testified that when evaluating the NEXUS pipeline DTE Gas evaluated all gas supply sources and chose the lowest cost source of gas supply that is also reliable. These issues were first addressed in U-17131 and more recently in U-20235. In U-20235 on pages 5 – 6, the Commission rejected nearly identical arguments the AG made in that case, stating, "On this record, the Commission is not persuaded that it is appropriate to benchmark a previously approved long-term contract against short-term prices…' See 2 TR 93-94.

DTE Gas does not agree with AG witness Coppola's belief that the $4.8 million cost savings attributable to the NEXUS agreement is based on flawed assumptions. Witness Moore described in detail the data DTE Gas used to determine the expected TEAL Amendment savings of $4.8 million. Witness Moore testified that DTE Gas provided this analysis in U-20210 Exhibits A-20, A-22 and A-23 and provided the analysis again in this proceeding. Exhibit A-43, A-44, A-45 show the data the DTE Gas used to determine the expected savings. Exhibit A-20 is a cost of gas spreadsheet, or COG model, based on a combination of third-party data and DTE Gas's knowledge and experience. U-20544 Exhibit A-46 (U-20210 Rebuttal Exhibit A-21) is a similar spreadsheet; however, it utilizes third-party support for all the data locations and was utilized after the decision was made to validate DTE Gas's decision. Exhibit A-22 summarizes the two spreadsheets and compares the two. Exhibit A-23 replaces the data from Exhibit A-22 (summary of the two models) with cell references to explicitly show the calculations supporting the cost savings and the source of the data in each cell.

Witness Moore testified that Exhibit A-20 is a spreadsheet which identifies costs associated with acquiring gas supply, including the 37,500 Dth/d TEAL capacity, and excluding it. These costs include all transportation charges (fixed capacity charges and variable commodity costs) along with actual commodity costs (including fuel). In the section NEXUS only, the total costs are $1.510 billion (totaled in Exhibit A-6, row 21, column b). In the section that follows, it shows that the total costs are $1.505 billion (totaled in Exhibit A-22, row 21, column c). Using A-23 as a guide, cell B2 shows the total savings of $4.8 million in Exhibit A-20 (also found on Exhibit A-22, row 21, column d). The spreadsheet inputs include commodity prices at the various locations, by month (as prepared by Witness Bratu) at the time the decision was being made and operational requirements. The spreadsheet was optimized to source the required supply based on operational requirements and then lowest cost. Unlike supply decisions, the spreadsheet optimization includes both fixed and variable costs See 2 TR 98-99.

Witness Moore testified that Exhibit A-20 utilized price curves from AMEREX, price curves from the Intercontinental Exchange (ICE), and the remaining prices are based on the Gas Supply team’s industry knowledge combined with conversations with suppliers familiar with the various regions. Exhibit A-23 shows which source is applicable to which specific data. Witness Moore testified that Exhibit A-21 is a spreadsheet that identifies all the costs associated with acquiring gas supply, including the 37,500 Dth/d TEAL capacity, and excluding it. These costs include all transportation charges (fixed capacity charges and variable commodity costs) along with actual commodity costs (including fuel). In the

NEXUS only section, the total costs are $1.480 billion (totaled in Exhibit A-6 22, row 43, column b). In the section that follows it shows that the total costs are $1.475 billion (totaled in Exhibit A-22, row 43, column c). Using A-23 as a guide, cell B2 shows the total savings of $4.3 million in Exhibit A-20 (also found on exhibit A-22, row 43, column d).

Witness Moore testified that Exhibit A-21 initially utilized price curves from AMEREX. However, after the original analysis, DTE Gas acquired a subscription to S&P Market Intelligence, which provides over the counter (OTC) price curves. This subscription allows DTE Gas to review historical forward curves. DTE Gas re-ran the analysis using AMEREX and these third-party curves from September 14, 2018, which resulted in a projected savings of $4.3 million. Exhibit A-23 shows the source for each data point.

Witness Moore testified that while it is not appropriate to judge the reasonableness and prudence of a decision based on hindsight, the TEAL capacity did reduce the DTE Gas's customers' costs by $2.3 million during this 2020-2021 reconciliation period. Exhibit A-47 Table 3 shows that the savings would have been even greater at approximately $5M if DTE Gas had to move purchases to City gate absent the TEAL contract. See 2 TR 101.

Witness Moore testified that Exhibits A-20 and A-21 show that if you compare the projected costs of both portfolios, one with and one without TEAL, at the time DTE Gas evaluated the TEAL amendment, the cost of the portfolio with the $0.695 and the additional $0.15 decreased by $4.3 - $4.8 million over the term of the amendment. DTE Gas executed the TEAL amendment to achieve those savings. 2 TR 108.

Witness Moore testified that DTE Gas should not be disallowed $6,880,876 of gas supply costs in this GCR reconciliation. She believes that DTE Gas has demonstrated that the NEXUS capacity transportation contract enabled DTE Gas to procure lower cost supply and a diversification of supply which increased system reliability as demonstrated in February 2021 when the region experienced extreme colder than normal temperatures. There were no price run ups at the Michcon City Gate and DTE Gas was able to provide safe, affordable, reliable, and uninterrupted service utilizing the NEXUS contract. The contract has performed as expected and the associated are costs were reasonable and prudent and should be allowed. 2 TR 114.

<u>DTE Energy Trading Gas Purchase and Belle River Failure</u>

Witness Moore testified that contrary to AG witness Coppola's belief, DTE Gas purchases from Michcon Gathering purchases are common. In U-15451-R, MichCon purchased a total of 6 3.3 MMDth of gas from DTE Energy Trading at a total cost of $24.4 million. In U-15701-R, MichCon purchased a total of 0.5 MMDth of gas from DTE Energy Trading at a total cost of $1.7 million. 2 TR 115. DTE Gas purchased gas from DTE Energy Trading to meet MichCon's supply requirements to serve GCR customers. Witness Moore testified that DTE Gas has internal and external oversight, procedures, policies, regulations, codes of conduct, standard work instructions, training, compliance, and ethical standards, for the conduct of its business. The following are some of the controls in place to monitor affiliate transactions:

- Gas supply buyers strictly adhere to standard work instructions to prevent financial misconduct including a review and sign off of all purchases by the Manager of Gas Supply and review and sign off of all purchases in excess of $10 million by the Vice President of Gas Supply.

- A timely, transparent, competitive purchasing process, which states that "For its supply needs, the Company generally solicits at least three verbal bids from its list of creditworthy suppliers from the supply area that is required. DTE Gas will then enter transactions with the providers of the lowest bid or bids.
- Review by PricewaterhouseCoopers, DTE Gas external auditors, to ensure affiliate transactions and DTE Gas's general business, comply with the Sarbanes Oxley Act and Financial Accounting Standards
- DTE Energy Inc.'s Enterprise Risk Management organization reviews and provides input on DTE Gas's purchase programs and processes.
- An internal audit department to oversee DTE Gas's dealings and compliance with the DTE Energy Way and ethical business practices.

2 TR 116

Witness Moore testified that all the above practices were followed with the DTE Gas DTE Energy Trading transaction DTE Gas Deal #7303492, received two other competing bids at a higher price and properly chose the lower priced DTE Energy Trading price bid. This demonstrates that DTE Gas adhered to its affiliate transaction guidelines. *Id.*

Regarding witness Coppola's concerns that the other gas purchases shown in Exhibit A-7, the Bid Sheets for each transaction do not show any other competitive bids and simply states that no other offers were received. Witness Moore testified that DTE Gas issued a Request for Proposals (RFP), and no bids were submitted by a gas supplier. Witness Moore testified that DTE Gas has no control over the submission of bids. DTE Gas solicited bids from various suppliers in accordance with the standardized protocol and the only bid received in the instance referenced by Witness Coppola was from DTE Energy Trading. 2 TR 117. DTE Gas analyzed the bid pricing which was a lower cost than our next alternative supply source, which made it a prudent purchase in the supply stack. Witness Moore testified that DTE Gas always takes the quotes received and compares pricing with the economic, least cost sourcing options, except in instances of operational requirements. Exhibit A-49 provides a discovery response to the AG which details the analysis used to determine whether the bid price was reasonable and prudent. See 2 TR 118. Witness Moore testified that DTE Gas followed all required protocols related to the DTE Gas DTE Energy Trading purchase to determine the purchase as reasonable and prudent. Therefore, DTE Gas believes the AG's proposed disallowance is without merit and should not be adopted by the Commission.

AG's Alleged Uncompetitive Gas Purchases

Witness Moore responded to AG witness Coppola's conclusion that witness Coppola that several of DTE gas purchases were made from a single supplier with no competitive bids provided by other suppliers. Witness Coppola also believes that many of the Bid Sheets show that no supply was available from other suppliers, or no offers were made. Witness Moore testified that when multiple bids are not received, DTE Gas analyzes the offers received and compare them to the other supply sources. If the bid is economical when compared to other sourcing alternatives, consistent with the DTE Gas's purchasing protocol DTE Gas treats the bid as valid bid and sources supply if the bid is the least cost option. 2 TR 119.

Witness Coppola testified that he discovered that several of the gas purchases were made from a single supplier with no competitive bids provided by other suppliers and that many Bid Sheets show that no supply was available from other suppliers, or no offers were made. Witness Moore testified that the documentation shows offers were received. The offers were done on the same day at the same time, and the market is the market. Witness Moore testified that many DTE Gas suppliers obtain quotes from the same markets resulting in the consistency of the offers received. 2 TR 119.

Witness Coppola concluded that given the limited amount of information and the lack of competitive bids, the agreed to gas prices cannot be considered fair and reasonable and recommends the Commission disallow $826,118 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation. Witness Moore testified that DTE Gas disagrees with this recommendation, Witness Moore testified that DTE Gas purchasing is transparent and adheres to DTE Gas established purchasing protocol for sourcing supply regardless of the supply source. DTE Gas evaluated its supply options and procured the least cost, reliable supply sources in all instances in this and all other GCR years. Witness Moore recommends that the Commission should not adopt AG witness Coppola's recommended disallowance. 2 TR 120.

Gas Purchases in January 2014

DTE Gas witness Moore responded to AG witness Coppola's testimony that Coppola's testimony on page 78 lines 1-5 that suggests "the Company was able to procure a large quantity of natural gas in the daily spot market at the MichCon citygate" in January 2014. Witness Moore testified that DTE Gas agrees with witness Coppola's testimony that in January 2014 DTE Gas purchased natural gas in the daily spot market at MichCon citygate, however DTE Gas does not agree that the quantity of gas that DTE

Gas purchased was “a large quantity.” Witness Moore then provided testimony to clarify DTE Gas position. See 2 TR 121-126.

Witness Moore testified that witness Coppola testimony ignores the market limitations and the daily quantity of gas that can physically be delivered at any location, including MichCon citygate, Witness Coppola also ignores the fact that the quantity of gas to be purchased on the daily spot market at MichCon citygate increases, the risk of not being able to find sufficient supply due to extreme weather conditions. DTE Gas witness Bratu’s testimony confirmed that the quantity of gas available to be purchased in the daily spot market at MichCon citygate and physically delivered daily is limited.

Witness Moore testified that the quantity of gas available to be purchased in the daily spot market at MichCon citygate under design day weather conditions is significantly lower than under normal weather conditions. Under extreme weather conditions gas prices go up, which is a direct result of natural gas supply getting scarce. Therefore, witness Moore concluded that witness Coppola’s conclusion that DTE Gas can easily find 236.5 MMcf/d of natural gas to purchase in the daily spot market at MichCon citygate if the dehydration unit at Belle River Mills storage field failed under design day conditions is fundamentally flawed and has no merit. See 2 TR 126.

<u>Lucian Bratu</u>

DTE Gas witness Bratu testified regarding DTE Gas’s actual operations for the April 1, 2020, through March 31, 2021, operational year (Reconciliation Period) and compared actual operations to projected operations as filed in the 2020-21 GCR Plan, U-20543

Witness Bratu testified that DTE Gas expected to begin the 2020-21 GCR Plan year with 11.2 Bcf in GCR/GCC Working Gas on April 1, 2020, with normal weather sendout of 162.7 Bcf, plus the addition of 162.7 Bcf of supply, resulting in an ending normal weather storage balance of 11.2 Bcf of GCR/GCC Working Gas on March 31, 2021.

<u>April to October 2020</u>

- DTE Gas planned to adjust summer GCR and GCC supply (April 2020 through October 2020) in its effort to fill storage to a targeted GCR/GCC storage balance of 70.1 Bcf of Working Gas by October 31, 2020, which includes 5 Bcf for CTN (colder-than-normal) protection.
- Normal weather GCR/GCC summer sendout was expected to be 43.7 Bcf, served by 102.6 Bcf of flowing supply with a 58.9 Bcf storage injections

See 2 TR 138-140

<u>November 20 to March 2021</u>

- Normal weather GCR/GCC winter sendout was expected to be 118.9 Bcf, served by 60.0 Bcf of flowing supply and 58.9 Bcf of storage withdrawal.

See 2 TR 140-143.

<u>Winter 2020-21 Peak Day Operations.</u>

- DTE Gas planned to maintain adequate combined GCR/GCC storage balances throughout the winter months to meet or exceed the minimum storage balances required for design day sendout conditions.

See 2 TR 143

Gas Supply Physical Call Option.

- DTE Gas purchased a Gas Supply Physical Call Option for up to 250,000 Dth/day or 237 MMcf/day for any 10 days in January and February to mitigate a reduction in storage deliverability following a potential failure of the dehydration unit at Belle River Mills storage field and to ensure that sufficient supply is available to serve the GCR and GCC customers if such failure would occur.

See 2 TR 143-159.

Witness Bratu sponsored the following exhibits:

- A-8 Plan vs. Actual Monthly GCR Supply
- A-9 Summary of Operating Season and 12-Month Plan vs. Actual Source and Disposition
- A-10 Graphical Representation of Normal Heating Degree Days vs. Actual Daily Heating Degree Days for Metro Detroit
- A-11 Graphical Representation of Plan vs. Actual GCR and Gas Customer Choice (GCC) Month End Storage Balances
- A-12 Plan vs. Actual Monthly Source and Disposition
- A-13 Plan vs. Actual Peak Day Summary
- A-27 Revised Deliverability Restoration Alternatives for Belle River Mills Dehydration Unit Failure

Rebuttal Lucian Bratu

Witness Bratu provided testimony to rebut (AG) witness Coppola's recommendations that the Commission disallow $250,000 cost for the gas supply physical call option included in the cost of gas in this reconciliation case because according to witness Coppola, DTE Gas did not make a compelling and convincing case that purchasing the gas supply physical call option was necessary and was the best and least costly alternative available to mitigate the effect of a failure of the Belle River Mills supply facility dehydration equipment. Also witness Bratu rebutted AG witness Coppola's recommendation that the Commission remind DTE Gas of its obligations under Act 304 to disclose its gas purchase plans before those plans are implemented. In support of his rebuttal testimony witness Bratu sponsored the following exhibits:

- Exhibit A-31 DTE Gas response to AG's discovery questions AGDG-1.7b and AGDG-3.82b
- Exhibit A-32 SEA-Final Report – excerpts
- Exhibit A-33 Michigan's Governor Whitmer plea for energy conservation
- Exhibit A-34 AG's response letter to the Final Report in Case No. U 20464 - excerpt. Exhibit A-35 Texas Department of State Health Services – February 2021 winter storm related deaths
- Exhibit A-36 DTE Gas response to AG's discovery question AGDG4.140 in Case No. U-20816
- Exhibit A-37 DTE Gas response to AG's discovery question AGDG-1.32 in Case No. U-20816
- Exhibit A-38 Case U-20543 cover letter

Witness Bratu testified that DTE Gas provided sufficient evidence in witness Bratu's revised direct testimony on page 16, line 15 through page 22, line 11 and in the Exhibit A-27 Revised to show that DTE Gas selected the gas supply physical call option because the call option was the most prudent cost effective and most responsible way to mitigate a potential failure of the Belle River Mills storage field dehydration unit in the short term until a permanent solution could be implemented. Witness Bratu testified that DTE Gas considered 15 other potential mitigation measures before purchasing the gas supply physical call option. Witness Bratu's revised direct testimony on pages 18-20 describes in detail 5 strategic alternatives considered to mitigate a potential failure of the dehydration unit at Belle River Mills storage facility . Exhibit A-27 Revised lists all 16 different individual solutions considered to mitigate such failure.

Witness Bratu testified that DTE Gas does not agree with AG witness Coppola's conclusion that the Belle River Mills storage field dehydration unit failure was not imminent and presented no risk to DTE Gas customer gas supply See 2 TR 154-164. Witness Bratu testified that DTE Gas does not agree with witness Coppola's recommendation that DTE Gas should consider daily spot MichCon citygate purchases more reliable because Consumers Energy is purchasing more gas than DTE Gas at MichCon citygate. See 2 TR 164-166.

Witness Bratu testified that DTE Gas analysis of the mitigation options for a Bell River facility failure shows that DTE Gas needed to mitigate the risk of a one-day outage based on average historical data provided in DTE Gas's discovery response to question AGDG-1.48c in U-20816 (see AG Exhibit AG-15 page 5). This response shows that in the past 10 years the dehydration unit at Belle River Mills storage field experienced 6 outages. Of those 6 outages, only one of them lasted for 10 days. Therefore, based on historical events an outage of the dehydration unit at Belle River Mills storage facility has a significantly lower probability to last for 10 days versus lasting for one day. However, such an outage will last for one day every single time. Therefore, the one day used for the analysis illustrated in Exhibit A- 27 Revised is the most likely scenario. See 2 TR 167.

Witness Bratu testified that DTE Gas contacted for a 10-day option because the data regarding past outages shows that 10 days was the worst-case scenario. See 2 TR 168. Witness Bratu testified that DTE agrees with witness Coppola's calculation that if the option were exercised every day for a full year that the cost would be $15,750,000 annually. Witness Bratu testified that DTE Gas's certain cost woold only be $250,000 for the following reasons:

- The gas supply physical call option works like an insurance policy: DTE Gas only pays the $250,000 annual demand fee (the "insurance premium") up front. DTE Gas will only pay more if it calls on the gas supply physical call option to be executed, and only for the quantity of gas that it needs, which can be any quantity up to 236.5 MMcf/d.
- A10-day outage is possible, but it is far more likely that an outage would last fewer than 10 days which would lower the total cost of the gas supply physical call option.
- If the dehydration unit at Belle River Mills storage field fails, then DTE Gas will consider the least costly supply first to cover for the shortage generated by the failure. Therefore, it is not certain that DTE Gas would call for the gas supply physical call option's execution if a less expensive alternative is available at that time.

See 2 TR 169.

DTE Gas does not agree with AG witness Coppola's recommendation that DTE Gas should have assurances that the natural gas contracted under the gas supply physical call option would be "delivered through pre-arranged firm interstate transportation capacity nor does DTE Gas agree with witness Coppola's conclusion that because DTE Gas does not have evidence that the counterparty to the gas supply physical call option has pre-arranged firm interstate transportation capacity to back up the contracted gas volumes, the gas supply physical call option "is not much different than buying gas supply from suppliers in the daily spot market" at MichCon citygate. Witness Bratu testified that having a firm option contract in place ahead of time eliminates that risk and the uncertainty that spot purchases present in finding companies with gas supply available to sell in large enough quantities under an extremely competitive market triggered by extreme weather conditions. See 2 TR 170-171.

Witness Bratu testified that DTE Gas received the following three conforming bids for the option contract. Bid #1 was for 50,000 Dth/d, reservation rate of $0.15/MMBtu, bid #2 was for 30,000 Dth/d, reservation rate of $1.00/Dth and Bid #3 was for 250,000 Dth/d, reservation rate of $0.10/Dth. The winning bid was selected because it as the most competitive. 2 TR 171-172, See Exhibit AG-25.

DTE Gas did not mistakenly select Case #16, which is purchasing the gas supply physical call option versus Case #1, which is purchasing the entire quantity of gas needed at MichCon citygate on the daily spot market. Case #16, which is purchasing the gas supply physical call option, guarantees that the natural gas will be delivered to DTE Gas when needed. Case #1, which is purchasing the entire quantity of gas needed at MichCon citygate on the daily spot market offers no such guarantee. Witness Bratu testified that

DTE Gas selected the call option “because of its cost effectiveness, high reliability, and high flexibility, and because it was the most prudent and responsible alternative by holistically comparing reliability, operational considerations, and costs for all 16 alternatives. See 2 TR 173-174.

Witness Bratu testified that selecting the riskier Case #1, as recommended by witness Coppola, purchasing the entire quantity of gas needed at the MichCon citygate on the daily spot market, would defeat the purpose of mitigating the risk of the Belle River Mills storage failure field because DTE Gas would simply replace one risk with another risk. Purchasing gas supply on the daily spot market at MichCon citygate is cheaper than purchasing a gas supply physical call option but would shift and not eliminate risk. DTE Gas concluded that purchasing the gas supply physical call option was still the better alternative. See 2 TR 174.

Witness Bratu testified that DTE Gas does not agree with AG witness Coppola’s recommendation that the Commission remind DTE Gas about its obligation under Act 304 to disclose its gas purchase plans in the five-year GCR plan case before those plans are implemented. The AG’s recommendation is not consistent with recommendations made by the Commission in its Statewide Energy Assessment – Final Report in U-20464, on page 102 (see Exhibit A-32, page 1), where the commission recommends that:

> In future rate and GCR plan and reconciliation cases the Commission clarifies that: 1) the utilities should consider contingency options for resiliency at key facilities and 2) the Commission Staff should consider these issues and make recommendations to further the safety and reliability

of the state’s natural gas system, including, but not limited to, consideration of more diversified peak day plans.

See Exhibit A-32; 2 TR 176.

AG witness Coppola testified that DTE Gas “failed to disclose its intent to enter into the Call Option beginning with the 2020-2021 GCR plan year” and that “[t]he parties to that proceeding were not afforded the opportunity to weigh in on the validity and reasonableness of DTE Gas’s decision, which affected the GCR cost of gas for the 2020-2021 GCR year.”. Witness Bratu testified that DTE Gas decided to purchase the gas supply physical call option after completing its U-20464 system-wide risk assessment required by the Commission’s Statewide Energy Assessment in the summer of 2020 or 6 months after it filed the 2020-2021 GCR U-20543. – Final Report. Exhibit A-38 shows that DTE Gas filed its 2020-2021 GCR Plan Case U-20543 on December 23, 2019, before the DTE Gas decision to purchase the call option. Exhibit A-25 shows the answers provided by DTE Gas to the AG’s discovery question AGDG-1.33d in U-20816. In that AG discovery response DTE Gas provided the bids for purchasing the gas supply physical call option dated June 22, 2020, and June 24, 2020. Witness Bratu testified that this evidence clearly shows that DTE Gas did not intend to purchase the gas supply physical call option prior to on December 23, 2019, filing its 2020-21 GCR Plan in U-20543. See 2 TR 177.

Witness Bratu testified that contrary to AG witness Coppola’s belief the call option contract was not retroactive to January 1, 2021. AG’s Exhibit AG-13 shows that DTE Gas’s contract for the gas supply physical call option as provided to the AG in the answer to AG’s discovery question 8 AGDG-1.33e in case U-20816 shows on page 2 that the contract is dated 9/9/2020 and on page 4 it shows that the contract was signed by DTE Gas on 9/10/2020 and by the counterparty on 9/14/2020. Because the contract was executed before January 2021 DTE Gas had no reason to conclude that the gas supply physical call option needed to start retroactively to January 2021. See 2 TR 178.

Even though DTE Gas's gas supply physical call option contract was not part of the 2020-2021 GCR Plan that DTE Gas filed in U-20543 and DTE Gas did not amend that plan, DTE Gas had valid reasons to act proactively address the potential Belle River storage facility failure risk that could jeopardize the integrity of its system with serious negative consequences to the safety and well-being of its customers. It would have been unreasonable and imprudent for DTE Gas to identify a system risk and then ignore that risk for an entire year and include a solution to mitigate the risk in its nest GCR plan case. GCR plans are just that plans. Utilities must have the ability to deviate from those plans when the need arises to ensure the integrity and reliability of their systems and to protect their customers. DTE Gas identified a material risk to its system reliability and instead of waiting and hoping that the risk will not materialize, DTE Gas took proactive measures in the form of purchasing the gas supply physical call option to address that risk. The potential failure of the dehydration unit at Belle River Mills storage field is such a risk and the gas supply physical call option is the measure that needed to be timely implemented to mitigate that risk. 2 TR 179.

<u>Timothy Krysinski</u>

DTE Gas witness Krysinski testified regarding the regulatory events and the regulatory actions taken by DTE Gas between April 2020 and March 2021 to minimize costs from its interstate pipeline transporters. Specifically, he testified regarding the following:

- DTE Gas's Federal regulatory policies related to pipeline transporters. See 2 TR 185-186
- The ongoing rate case proceeding of Panhandle Eastern Pipeline Company (Panhandle) or (PEPL); See 2 TR 186-190.
- The settlement reached in the Viking Gas Transmission (Viking) case; See 2 TR 191-193.
- The ongoing Operational Flow Order (OFO) Panhandle waiver case; See 2 TR 193-197. and
- The rates charged by DTE Gas's natural gas pipeline transporters for transport service provided during the reconciliation period. 2 TR 198-199.

Witness Krysinski sponsored exhibit A-14 Applicable Rates of Pipeline Transporters April 2020 to March 2021.

Neither Staff nor the AG are contesting any of the information contained in witnesses Krysinski's testimony.

Gandolfo Lore

Witness Lore testified regarding the monthly derivation of DTE Gas's Gas Cost Recovery (GCR) cost of gas sold, the over/(under) recovery of net recoverable costs, and the applicable interest expense for the months of April 2020 through March 2021.

Witness Lore sponsored the following exhibits:

- A-15 Revised April 2020 through March 2021 GCR Reconciliation
- A-16 Supplemental Data

- A-17 April 2020 through March 2021 GCR Storage Cost Calculation
- A-18 April 2020 through March 2021 GCR Interest Calculation
- A-19 Revised April 2020 through March 2021 Reservation Charge (RC) Reconciliation for Gas Customer Choice (GCC) Customers

Total GCR Cost of Gas Sold

Witness Lore testified that the Total GCR Cost of Gas Sold in the GCR Period was $367 million, shown on Revised Exhibit A-15, page 2, line 11, column n. The Total GCR Cost of Gas Sold consists of purchased gas costs, including storage costs, and costs related to sales with no GCR factor. The Average GCR Cost of Gas Sold based on this total is $2.87 per Mcf, shown on Revised Exhibit A-15 page 2, line 12, column n. The Average GCR Cost of Gas Sold is calculated by dividing the GCR Cost of Gas Sold by the Total GCR Supplies for the year of 128.0 Bcf, shown on Revised Exhibit A-15, page 1, 4 line 7, column n. 2 TR 203-204.

Cost of Purchased Gas

Witness Lore testified that the Cost of Purchased Gas includes all amounts related to the gas that DTE Gas purchases from various suppliers including GCC suppliers, such as the cost of the commodity itself and the transportation costs incurred to bring gas to DTE Gas' system. The Cost of Purchased Gas is $368 million, shown on Revised Exhibit A-15, page 11 2, line 1, column n. The costs related to the gas commodity and transportation, and related volumes are detailed in Exhibit A-16, page 1, lines 1 through 25. See 2 TR 204.

Prior Period Storage Adjustment

Witness Lore testified that DTE Gas made a $1.1 million adjustment for prior period storage. This adjustment is the difference between 1) the 2020 LIFO rate estimate when the books were closed for March 2020 and 2) the actual 2020 LIFO rate multiplied by 3) the January through 18 March 2020 storage volumes that were included in DTE Gas's 2019 – 2020 GCR 19 Reconciliation (U-20236). For the 2020 calendar year, the actual annual LIFO rate was $2.8161 per Mcf. The Commission's approval of DTE Gas's use of an operational year required DTE Gas to finalize its reconciliation using an estimate of the LIFO rate for the last three months of the GCR period, January, February, and March. This estimate allows the reconciliation case to be filed in a timely manner. The true-up between this estimate and the actual rate is included as a line item in the following year's GCR Reconciliation. The calculation of this amount is shown on Exhibit A-17, lines 18 – 22. See 2 TR 204-205.

Witness Lore testified that:

- The cost of April through December 2020 storage activity was negative $90 million. The net storage activity for the same period was a net injection of 32 Bcf, as shown on Exhibit A-17, line 11
- During calendar year 2020, there was a net withdrawal of 0.1 Bcf at the 2018 LIFO rate of $3.3168 per Mcf as shown on Exhibit A-17, line 12.
- The cost of storage inventory withdrawals for January through March 2021 was $97 million. Net storage volumes of 32 Bcf for the first three months of 2021 are priced using the estimated 2021 LIFO rate, which is $3.05 per Mcf as shown on Exhibit A-17, lines 13 through 15, column b.

- Sales with no GCR factor include DTE Gas Use, Lost and Unaccounted for Gas 22 (LAUF), and Gas in Kind (GIK). Revised Exhibit A-15, page 2, lines 6 through 8, identify costs for DTE Gas Use, LAUF and GIK, respectively. These items were priced using the Jurisdictional Rate.

See 2 TR 205

Witness Lore testified that the Jurisdictional Rate is calculated by dividing the Cost of Purchased Gas, as shown on Revised Exhibit A-15, page 2, line 1, column n, by the purchased gas volumes for the applicable GCR period, as shown on Revised Exhibit A-15, page 1, line 1, column n. The Jurisdictional Rate for the 2020 – 2021 GCR period was $2.8192 per Mcf, as shown on Revised Exhibit A-15, page 2, line 36, column b. This method of pricing Sales with no GCR Factor was approved in U-7777-R and has been used consistently in DTE Gas's subsequent annual GCR Reconciliation cases. See 2 TR 206.

<u>Sales with no GCR Factor</u>

Witness Lore testified that are two costs associated with sales with no GCR factor. Supplier Equalization Charge (SEC) Revenue and Failure Fees. These Sales with no GCR Factor and non-GCR Sales are included as offsets to the GCR Cost of Gas Sold. SEC Revenue and Failure Fees incurred by GCC suppliers during the operational year are shown on Revised Exhibit A-15, page 2, line 9. As shown on line 10 of that same page, DTE Gas did not have any non-GCR sales during this reconciliation period. See 2 TR 206.

Net Recoverable Costs and GCR cost of gas sold

Revised Exhibit A-15, page 2, line 18, column n, shows that Net Recoverable Costs were $359 million for the 2020 – 2021 GCR year. The difference between Net Recoverable Costs and the GCR Cost of Gas Sold, as shown on Revised Exhibit A-15, page 2, line 11, column n, is the amount related to items that are reflected in DTE Gas' GCR Reconciliation, but do not have an associated volume of gas and are therefore not included in the Cost of Gas Sold. In the 2020 – 2021 GCR year, these items are 1) the Allocated GCC Pipeline Reservation Cost (net of credits), 2) Prior Year GCR Over/(Under) Recovery, 3) Unauthorized Sales Penalties from End Use Transportation customers, and 4) Excess Storage Fees from End Use Transportation customers as shown on Revised Exhibit A-15, page 2, lines 13 through 17, column n. See 2 TR 207.

Prior Year Over/(Under)Recovery

For the prior GCR plan year, DTE Gas had a $1 million over-recovery including interest. At the time of witness Lore's testimony, no final order has been issued in U-20236. This amount was rolled-in using prospective refunding, consistent with the Commission's order approving prospective refunding in U-10385 as an increase to the April 2020 Net Recoverable Costs as shown in Revised Exhibit A-15, page 2, line 14, column b. This amount is the beginning balance used to calculate interest for the GCR period as shown in Exhibit A-18, page 1, line 1, column 2. 2 TR 207.

GCR Revenue

Witness Lore testified that DTE Gas's GCR Revenues, on an unbilled basis, for April 2020 through March 2021 are $352 million as shown in Revised Exhibit A-15, page 2, line 32, column n. Billed revenues are based on actual monthly customer billings.

Unbilled revenues are calculated by multiplying the change in unbilled volumes for each month by the next month's billed GCR rate. 2 TR 208.

Gas Customer Choice

Witness Lore testified that amounts resulting from the 2019-2020 GCC reconciliation are included exhibits in the month of July 2020, the month the reconciliations were booked. There is 0.07 Bcf and $0.2 million resulting from the 2019 - 2020 GCC reconciliation included in July 2020, the month in which the reconciliations were recorded. These volumes and associated dollars may be found in Revised Exhibit A-15, page 17, line 9, and on page 2, line 28. These costs and volumes are separate and distinct from the reconciliation of the RC for GCC Customers. 2 TR 208.

Over/(Under) Recovery and Interest Expense

The net under-recovery, including interest, for the GCR period is $5.4 million. This amount is shown in Exhibit A-18 page 1, line 15, column 3. Interest is calculated by multiplying the applicable interest rate by the average month-end cumulative over or under-recovery balance. Interest on under recoveries is calculated at the average short-term borrowing rate available to DTE Gas, in those months where an over-recovery exists, the interest rate is equal to DTE Gas authorized rate of return on common equity (ROE). See 2 TR 208-209.

Reservation Charge Reconciliation for GCC Customers

Witness Lore testified that the net over-recovery, including interest, for the GCR period was $2.0 million. This amount is shown on Exhibit A-19, page 2, line 15, column. The pipeline reservation cost allocation calculates the percentage of total pipeline reservation cost to be allocated to GCR and GCC customers, including the 30% discount to GCC customers. The cost is allocated based on the percentage of total sales volumes (adjusted for the GCC discount) for GCR and GCC customers, as approved by the Commission in U- 17691-R. The GCC reservation charge percentage, which was 10.47% for the period, was calculated by dividing the total GCC sales volumes by the total of GCR and GCC sales volumes and then multiplying that amount by 70%, to calculate the 30% discount allocation factor to GCC customers. The GCC customer percentage is then multiplied by the total pipeline reservation costs (net of credits) to get the total annual costs for GCC customers. GCR customers are allocated the difference between the total and the GCC customer portion of the total. See 2 TR 209-210.

Exhibit A-19 page 4 provides a high-level summary that includes key information from Exhibit A-19 page 3. The summary provides information requested by Staff and highlights key components used in determining the GCC Over/Under Recovery.

Rebuttal Testimony of Larisa Abayev

DTE Gas witness Abayev provided testimony to rebut Attorney General (AG) Witness Coppola's testimony regarding:

- DTE Gas's exclusion of additional deliverability available from other storage fields in determining the volume needed for the Call Option.
- That deliverability would be reduced by only 475 MMcf/d in January and 15 315 MMcf/d in February from Belle River storage field on a peak day from a dehydration equipment failure.
- The need for a more accurate calculation for diminishing and potentially avoiding the need to purchase the Call Option.

- That DTE Gas did not evaluate the option of the propane plant at Belle River prior to deciding to purchase the Call Option.

Witness Abayev sponsored Exhibit A-41 Storage Field Actual & Planned Working Gas Inventory Volumes: January 2014 (MMcf) See 2 TR 257-258.

Witness Abayev testified that the calculation used to determine the deliverability shortfalls of 309 MMcf/d in January and 274 MMcf/d in February, based on a critical loss of dehydration equipment at Belle River, was calculated after applying mitigation measures that maximized storage withdrawals so that the Call Option could be minimized. Witness Abayev testified that DTE Gas's mitigation measures included blending processed and unprocessed storage gas and maximizing withdrawals from the remaining storage fields are provided in discovery response U-20816 AGDG-1.28c provided by the AG in Exhibit AG-16, 17 page 1. Exhibit AG 16 clearly shows that incremental volumes resulting from maximizing storage withdrawals from other storage fields were accounted for in modeling – these volumes partially replaced the lost volumes of the Belle River storage withdrawals. Withdrawals from other storage fields of 146 22 MMcf/d in January and 173 MMcf/d in February were applied to calculate and minimize the deficiency. Witness Abayev testified that all possible DTE Gas transmission and storage system capabilities were maximized and applied in the study to minimize the impact of the dehydration equipment failure. See 2 TR 258.-259.

DTE Gas does not agree with AG witness Coppola's recommendation to deduct 146 MMcf/d in January and 173 MMcf/d in February from the Call Option. Witness Abayev testified that because the January and February amount were already accounted for in determining the deficiency before the call option was purchased. Deducting the same amounts, a second time is not necessary. Witness Coppola's suggestion of deducting the additional volumes from the deficiency would result in accounting for the same volume twice, as illustrated in table 1 cells B16 and B20 in January and cells C16 and C20 21 in February. See 2 TR 259-260.

Witness Abayev testified that DTE Gas calculated that it would lose deliverability of more than 475 MMcf/d in January and 315 MMcf/d in February under design day conditions due to a failure of Belle River dehydration equipment failure. Witness Coppola's calculation is based on witness Coppola's incorrect assumption that DTE could withdraw gas from storage field without dehydration equipment and assumes that "DTE Gas could still withdraw half of this gas on a peak day and blend it with other gas." Witness Coppola's assumption is not supported by facts. DTE gas's calculation is based on an analysis of the amount of gas that can be withdrawn and blended successfully based on actual historical data of moisture content in the Belle River storage field. 2 TR 260-261. Witness Abayev testified that exhibit AG-16 DTE Gas's discovery response clearly provides that DTE Gas analyzed all possible deliverability adjustments, e.g., blending and temporarily increasing deliverability of other storage fields, have been applied to reduce the deliverability deficiency for January and February. 2 TR 261.

Witness Abayev testified further that the DTE Gas analysis includes historical data of the storage field's moisture content for design day conditions and includes a comparison of the January 7 and 8, 2014 withdrawals from Belle River to the withdrawals expected during design day conditions. These conditions are not the same and cannot be applied as witness Coppola suggests. Exhibit A-411 shows that DTE Gas's The end-of month design day analysis is based on a Belle River storage field balance of 17.4 Bcf that corresponds with the historical moisture content of 10.6 lbs/MMcf. On January 7 and 8, 2014, the storage balance at Belle River storage field was 26.9 Bcf and 26.1 Bcf. This corresponds with the historical moisture contents of 4.6 lbs/MMcf and 5.9 lbs/MMcf, Higher storage balances on January 7 and 8, 2014 and corresponding lower moisture content allowed higher withdrawal volumes from the Belle River field to be blended with dry, processed gas. Thus, the design day conditions compared to January 7 and 8, 2014 conditions are not similar. Witness Coppola's assumptions regarding the Belle River storage field withdrawal flow rate are unsupported, not valid and cannot be used in assessing the design day deficiency. 2 TR 262.

Witness Abayev testified that witness Coppola's assertion that DTE Gas did not consider using the propane refrigeration plant as a back-up for the glycol dehydration plant prior to securing the call option is not correct. In 2019 with the Enerflex, absorbed Toromont Energy Systems, the designer of the plant. Since then, upgrades and test runs conducted on the propane plant with mixed results. The propane plant is not certified to be a reliable backup that can be operated in automatic mode with minimal manual intervention. DTE Gas continues to work with Enerflex to implement upgrades to enable the reliable and automatic operation of the propane refrigeration plant. If these upgrades are successful, the propane refrigeration plant will become the back-up to the glycol dehydration plant. If the updates are not successful, then a second glycol dehydration plant will be installed as back-up and the call option will no longer be necessary. 2 TR 263.

Bradley Leiter Rebuttal

Witness Leiter provided testimony to rebut Staff witness Nyrhe Royal's recommendation that the End Use Transportation customers unauthorized natural gas penalty costs should be increased by $563,239 and to rebut Staff witness Martin's adjustment of $563,239 to Exhibit A-15 for the month of March 2021 and associated flow-through effects resulting from direct testimony and exhibits of Staff witness Royal. See 2 TR 266-269.

Witness Leiter sponsored exhibit A-42 EUT March 2021 Unauthorized Bill Screenshots.

End-Use Transportation (EUT) Customers Unauthorized Natural Gas Use Penalty Charges

Witness Leiter testified that DTE Gas does not agree with agree that the EUT Unauthorized natural gas penalty costs should be increased by $563,239 on Exhibit A-15, Page 2, Line 16 as proposed by Staff witness Nyrhe Royal. Witness Leiter testified that DTE Gas billed the EUT Unauthorized customers strictly per the methodology found on Sheet E-17.01, Section E-14 of the Rate Book for every month covered in this reconciliation case. According to section E-14 of the Rate Book, "If Customer uses Company's system supply, then Customer shall pay Unauthorized Gas Use Charges. The charge for such Unauthorized Gas Usage shall be $1.00 per 100 cubic feet plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; ANR, ML7; Chicago city-gates; Consumers city-gate; or MichCon 18 city-gate. Witness Leiter testified that the amount reported on Exhibit A-15, Page 2, Line 16 is only the $1.00 per 100 23 cubic feet penalty. The commodity portion of the Unauthorized Gas Usage Charge is provided in DTE Gas's witness Lore's Exhibit A-16, Page 4, Line 1 under Billed GCR Revenues by Rate Class. See 2 TR 267-268.

Witness Leiter testified that the February 2021 Unauthorized Gas Usage Charge per CCF billed to EUT customers in March 2021 was $13.64 which was the price that Staff witness Nyrhe Royal testified should have been used. Exhibit A-42 provides screenshots taken from several of the March 2021 Unauthorized invoices illustrating this same amount was charged to penalized customers. Staff auditor Diane Martin submitted an audit request for a reconciliation for the EUT unauthorized natural gas charge revenue which is included in Exhibit A-16. Audit request DMM-10.2c. A reconciliation was provided which included detailed billed information by customer. This schedule included March 2021 activity which confirmed that the billed price was $13.64 for February gas usage. All Unauthorized Gas Usage Charges within this reconciliation period were assessed per the Tariff. 2 TR 268.

Witness Leiter testified that DTE Gas never provided customer relief on the Unauthorized Gas Usage Charges incurred in February 2021 and billed in March 2021 outside of this 25 GCR reconciliation period in question. DTE provided relief to customers that incurred substantial Unauthorized Gas Usage Charges during this period, and consequently provided Miscellaneous billing credits to these customers starting the month of June 2021. DTE be addressing this relief in case U-20817. See 2 TR 269.

<u>Kenneth A Sosnick</u>

Witness Sosnick testified that DTE Gas contracted with FTI to estimate the NEXUS Gas Transmission pipeline impacts to DTE Gas customers specifically customers in

Michigan and generally, from the NEXUS development FTI developed long-run simulations of relevant gas markets, including the Upper Midwest and supply regions, and estimated how NEXUS is expected to affect the delivered cost of gas to Michigan consumers. Exhibit A-30 provides the results of the FTI Report “NEXUS Pipeline Impacts Analysis.” Witness Sosnick testified regarding the development of the FTI reports and its conclusions. Generally, this report shows that NEXUS will significantly decrease Michigan natural gas prices and create savings for all the gas consumers in the state, including DTE Gas customers, customers of its affiliate, DTE Electric Company (DTE Electric), and customers of other utilities. Witness Sosnik testified that the NEXUS savings exceed the costs of the NEXUS long-term firm transportation contract. Witness Sosnick testified that the FTI reported shows the DTE Gas NEXUS supply contract does the following

- Creates benefits to DTE Gas and other Michigan customers.
- Increases reliability and environmental benefits that create additional value for Michigan consumers
- For the period 2022 to 2038, the total savings to Michigan’s gas consumers is approximately $1 billion, which includes $199 million in savings to customers of DTE Gas.

See 2 TR 214-215.

The FTI report also estimated savings under an alternative scenario in which demand is assumed to increase and the savings are even greater.

Rather than restate the contents of the FTI NEXUS report and witness Sosnick’s related testimony the following provides the transcript location of each section of the report.

- Description of the NEXUS system and DTE Gas contract. See 2 TR 216-217.
- Development of FTI simulations to forecast delivered prices with and without NEXUS in service. See 2 TR 217-225.
- Explanation of how FTI used those forecasts to estimate the NEXUS savings to Michigan and summary of results customers See 2 TR 225-229.
- Explanation of the similarities and differences among the FTI analyses and previous analyses. See 2 TR 229-232.
- NEXUS additional customer benefits, other than cost savings. See 2 TR 233-236.
- FTI NEXUS Report conclusions. See 2 TR 236.

Witness Sosnick testified that the FTI Report reached the following conclusions. The NEXUS pipeline creates many benefits for DTE Gas and the state of Michigan. The benefits Michigan's gas consumers will realize far outweigh the NEXUS pipeline costs. Expected NEXUS savings total $199 million for DTE Gas customers and over $1 billion for all Michigan consumers over the period 2022-2038. Witness Sosnick testified that additional FTI NEXUS modeling shows that savings could be considerably higher under certain conditions. See 2 TR 336.

Sosnick Rebuttal

Witness Sosnick testified that AG witness Coppola conclusions regarding witness Sosnick testimony and the FTI report have no evidentiary support. Witness Coppola's conclusions to exclude the NEXUS contract costs from recovery in DTE Gas's rates has been rejected by the Commission in multiple orders. Witness Sosnick testified that his direct testimony combined with the FTI report satisfies the Commission's prior directives requiring aligning the review of the NEXUS long-term contract with a long-term natural gas market for the contract period. See 2 TR 238-239.

Witness Sosnick's rebuttal testimony responds using 10 critiques of AG witness Coppola's testimony.

Critique 1.

Witness Coppola's testified that the FTI analysis of projected gas prices under its Base Case scenario, is based on myriad of assumptions which make the calculated cost savings no better than a speculative projection. Witness Coppola believes that any projections a decade or more into the future are highly speculative and unreliable. See 2 TR 361-365. Witness Sosnick testified that witness Coppola did not perform an independent analysis to either confirm FTI's assumptions nor provide alternative assumptions that could be analyzed. Instead, he conducted a conservative estimate based on his assumption that the differential in prices between Clarington and Kensington would diminish, without providing any basis for this assumption or any basis for his estimate. See 2 TR 239-240.

Witness Sosnick testified that witness Coppola' believes the GPCM model used in the FTI report could not be validated because the model was not provided. Witness Sosnick testified that if AG witness Coppola or the AG could obtain a GPCM license and perform the same analysis, utilize another modeling program, or hire an independent third-party, to perform an analysis to respond to the FTI report provided in Exhibit A-30.

Witness Sosnick testified that FTI report was conducted and prepared independently of any prior ICF report. FTI has no direct knowledge of how the inputs, outputs, cost savings, etc. were calculated by ICF when completing its' NEXUS analysis.

Witness Coppola's assumption regarding similarities between the ICF and FTI report are not supported by fact. Witness Sosnick rejected witness Coppola's belief that any projections a decade or more into the future are highly speculative. DTE Gas has been required by the Commission to engage in long range economic forecasting. It is a necessary and common practice within the utility industry to make forecasts 20 years or more into the future when analyzing capital projects. FTI ran simulations for ten years 2022 through 2031 and then extrapolated the forecasts using linear extrapolation through 2038. Witness Sosnick testified that contrary to witness Coppola's belief Long-term forecasts are often based on extrapolation of nearer-term forecasts, to reduces the need to speculate on future events. See 2 TR 241.

Witness Sosnick also rejects witness Coppola criticisms of the FTI Report because FTI did not complete a look- back analysis or confidence level analysis to determine the accuracy of the gas price projections made in the GPCM model. Gas price projections are an output of the GPCM model. Given this ,it is not clear how FTI would use the GPCM model to complete a look- back analysis or perform a confidence level analysis for projection gas prices which will occur in 2023 and beyond. See 2 TR 241.

<u>Critique 2</u>

Witness Coppola testified that the FTI analysis simply removes the NEXUS pipeline from the model and incorrectly concludes that gas prices in Michigan would increase, and market demand would quickly be filled by other suppliers with minimal price disruption. See 2 TR 365-366.

Witness Sosnick testified that he GPCM model , the industry standard ,comes pre-loaded with operational and economic data and updates supply, demand, infrastructure, and transportation costs on an ongoing basis. The GPCM database includes more than 150 gas supply areas, nearly 500 consumers, almost 300 pipelines and approximately 450 gas storage facilities. Given this ,witness Coppola's claim that FTI simply removed the NEXUS pipeline from its GPCM analysis resulting in unrealistic conclusions is not supported by any evidence. See 2 TR 242.

Witness Sosnick testified that he does not agree with witness Coppola's conclusion that if the NEXUS pipeline were removed, market demand would be filled by other suppliers with minimal price disruption. Exhibit A-30, the results of the GPCM model indicate an average price disruption (i.e., price increase) of $0.08 for the MichCon citygate when NEXUS is removed from the pipeline network. Witness Coppola's presumption is not accurate, as shown by the higher price of delivered gas to the MichCon citygate under the No Nexus Case. See 2 TR 243. Witness Coppola believes unsubscribed capacity into Michigan for ANR, PEPL, Trunkline, and Rover, as of March 2022, would replace NEXUS capacity.

Witness Sosnick testified that the currently available (as of March 2022) pipeline capacity provided by witness Coppola is irrelevant because it does not align with the time frame of the decision-making for the NEXUS contract. Witness Coppola dd not perform an analysis consistent with the Commission's order in U-20527, See U-20527 Order, page 23. It would be inappropriate for the Commission to rely upon currently available capacity as a rationale for disallowing recovery of NEXUS costs when DTE Gas made the appropriate economic decision, previously approved by the Commission, to make the NEXUS investment. FTI's analysis confirms the decision by DTE Gas and approval by the Commission.

Critique 3

Witness Coppola argues that NEXUS transportation contract being extended, and the TEAL contract being extended, inflates the cost savings calculations. See 2 TR 366. Even if witness Coppola's arguments are accepted, he concluded that there still exists a $93 million net savings for DTE Gas. This level of savings is inconsistent with witness Coppola's conclusion to exclude recovery of NEXUS costs. See 2 TR 244,

Critique 4

Witness Coppola testified that he believes that sufficient gas supply will not exist at Kensington to make this gas purchase location sufficiently liquid for DTE Gas to realize cost savings versus prices at MichCon citygate, inclusive of the cost of NEXUS transportation. Witness Coppola claims this cost advantage to date has not occurred and that no information has been presented that significantly more gas will be available at Kensington in the near future. Witness Sosnick testified that witness Coppola's simple comparison to recent history, is not an appropriate critique. Exhibit A-28, shows that the GPCM model, used by FTI is the leading tool for simulating gas markets. The GPCM is used by pipeline companies, banks, investors, and regulators. The GCPM model used includes NEXUS' three ratemaking zones, connections with other pipelines, customers and supply areas, and other data as captured in regulatory filings and public databases. The GPCM database used for FTI NEXUS report includes more than 150 gas supply areas, nearly 500 consumers, almost 300 pipelines and roughly 450 gas storage facilities. The costs utilized in FTI's calculations are an output of the model and are a result of all these inputs. Witness Sosnick concluded that the FTI analysis is reasonable and witness Coppola's simple comparison using recent prices is not appropriate. See 2 TR 245.

Critique 5

Witness Coppola disagrees with FTI's 'projection that the MichCon citygate price will be lower in the future with NEXUS built than without, with the average price spread of $0.08 forecasted over the 17-year period. Witness Coppola claims that the $0.08 price spread is small and a small change in the gas market would eliminate the spread. Witness Coppola disagrees that, if NEXUS was not delivering gas supply to Michigan, then other gas supply would increase in price by $0.05 to $0.10 per Dth over the next 17 years. See 2 TR 367-369. Witness Coppola believes that this price increase is farfetched given the multiple supply sources available to Michigan consumers. Witness Coppola believes that NEXUS is not delivering gas supply to Michigan at a lower cost than other suppliers and is not putting pressure on other suppliers to lower their gas prices. Witness Coppola believes that to date, Michigan has seen the cost per Dth of natural gas delivered to Michigan by NEXUS exceeding the cost of other gas supply by a large margin, and questions FTI's projections that this situation will change. See 2 TR 369.

Witness Sosnick testified that FTI's report and direct testimony as acknowledged by Witness Coppola ,shows that small price decreases in the natural gas market led to significant savings for DTE Gas customers, DTE Electric customers, and other Michigan gas consumers. FTI's analysis shows that without NEXUS in service delivered gas prices in Michigan on average increase. Thus, having NEXUS in service provides significant benefits to DTE Gas, DTE Electric and natural gas consumers in Michigan. Witness Coppola has not provided any known and measurable changes, or any other supporting evidence that the natural gas market could eliminate the price spreads that projected in Exhibit A-30.

Witness Sosnick testified that price spreads are a GPCM output. FTI's GPCM simulation which holds all assumptions constant, except the presence of the NEXUS pipeline. FTI has not assumed any price spreads but rather conducted a simulation which results in the price spreads used to calculate benefits. Witness Coppola has not provided any evidence or data to support his claim that these price spreads are farfetched.

Witness Sosnick testified that witness Coppola's testimony does not discuss that since the FTI Report was completed in March 2021, the price of natural gas has increased significantly. For example, utilizing Henry Hub, perhaps the best-known of the natural gas trading points in North America, natural gas prices are up to $2.62 in March of 2021 to $4.90 in March of 2022, an increase of 87%. Witness Coppola's analysis of current delivered cost of gas is not the appropriate analysis to review the NEXUS long-term gas contract and should not be given any weight by the Commission. FTI's Report forecasted long-term market prices for the forecast period and analyzed the impacts of the NEXUS gas pipeline on delivered costs of natural gas to the MichCon citygate and the costs or savings to Michigan consumers. See 2 TR 248.

<u>Critique 6</u>

Witness Coppola believes that the savings attributable to DTE Gas customers are inflated relative to the NEXUS contract costs by including non-GCR and GCC volumes. By only using projected GCR and GCC volumes, witness Coppola estimates that these customers would see a net cost increase rather than a net cost savings. Witness Sosnick testified that FTI completed an analysis of the benefits of the NEXUS pipeline that includes all DTE Gas, DTE electric, and other Michigan consumers' delivered gas volumes, not just a limited review of GCR and GCC volumes. FTI's analysis shows that there are significant benefits to the gas consumers in Michigan due to the lower delivered gas prices across the state. See 2 TR 249.

Critique 7

Witness Sosnick testified that he does not agree with witness Coppola's testimony that FTI's projected cost savings forecasted DTE Electric gas volumes exceed the volumes projected DTE Electric recent PSCR plan filings. Witness Sosnick testified that GPCM modeling relies on, and is consistent with, the U.S. Energy Information Administration (EIA) Annual Energy Outlook (AEO) projections of the East North Central Census Division growth, which is anticipated to be a significant in the electric market. FTI's DTE Gas' GCR volumes have slightly diverge from FTI's expected volumes because FTI completed an independent analysis of the Michigan gas markets. Witness Sosnick testified that FTI believes that projected volumes used in the FTI Report, as, are reasonable. See 2 TR 249-250.

Critique 8

Witness Sosnick testified that he does not agree with witness Coppola's argument that the FTI report does not provide a balanced view of the potential range of net cost savings, Witness Coppola believes that FTI provided a high demand cost scenario but did no low gas demand scenario. Witness Coppola believes a low-cost scenario is likely given the trend by electric utilities toward renewable generation and less fossil fuels. See 2 TR 371.

Witness Sosnick testified that when FTI completed its' analysis in February-March 2021, natural gas prices were near all-time lows. Witness Coppola's recommended low demand scenario would create unlikely lower prices than the Base Case. Therefore, witness Coppola ‘s recommended low-demand, low-price scenario would not likely provide meaningful results. Witness Coppola did not provide a recommended low-cost scenario post the FTI report period. If he did that scenario should consider, the fact that the price of natural gas has generally significantly increased and specifically at the Henry Hub trading point has increased by 87%. 2 TR 250-251.

Witness Coppola argues that NEXUS's gas supply, Appalachian shale gas, is not competitively priced with other gas supplies, which he believes his Exhibit AG1 shows. He also believes that any comparison of NEXUS to SEMCO Gas's Marquette Connector Pipeline (MCP) is not valid because the MCP solved SEMCO Gas's reliance on one source of gas supply while DTE Gas and has interconnections with other pipelines and multiple gas storage fields. See 2 TR 371-372.

<u>Critique 9</u>

Witness Sosnick testified that he does not agree with witness Coppola's concerns. The Commission, in U-18202 compared NEXUS to MCP, and wrote the project's ability to “increase the reliability of natural gas service to many of SEMCO's customers [and] provided much-needed redundancy in the event of a pipeline rupture.” NEXUS provides these same benefits as a greenfield pipeline. See U -18202 Order p 3.

Witness Sosnick testified that witness Coppola's AG-1 is witness Coppola's approach is a retrospective review of gas prices and is not the proper prospective analysis for review of long-range economic forecasting modeling or other NEXUS benefits. Witness Coppola's AG-1 is a simple retrospective comparison of actual gas prices to date to NEXUS prices. Witness Sosnick testified that the Commission should not be persuaded by witness Coppola's retrospective approach because it disregards previous Commission orders that DTE Electric's decision to contract for NEXUS pipeline capacity was reasonable and prudent. Witness Sosnick testified that DTE Gas's expenses associated with that decision, should be recovered by DTE Gas. FTI measured NEXUS benefits using the GPCM, a long-run economic forecast model, and not witness Coppola's narrow natural gas price analysis for 2019 and 2020. See 2 TR 251-252.

<u>Critique 10</u>

Witness Coppola testified that DTE Gas NEXUS FTI report is only the second time FTI has used the GPCM forecasting model to forecast the financial impact of future capital investments which he believes raises concerns about the accuracy and validity of the projected NEXUS cost savings. See 2 TR 373. Witness Sosnick testified that he does not agree. He testified that he has worked on numerous other projects that involved the understanding of pipeline configurations, the appropriate development of transportation and storage rates, and how natural gas supply meets natural gas demand across the United States. FTI staff received extensive training from RBAC, Inc., who licenses GPCM Additionally, FTI staff unutilized the GPCM to analyze a portfolio of investments regarding the modification or elimination of Aliso Canyon's storage capacity for the California Public Utilities Commission ("CPUC") in Docket No. I17-02-022, Witness Sosnick testified that, witness Coppola failed to identify any mistake or error in FTI's GPCM analysis in this or any other proceeding. See 2 TR 252-253.

<u>Staff</u>

Staff witness Diane Martin, auditing specialist in the Act 304 reconciliations section of the Commission's Energy Operations Division, reviewed DTE Gas reconciliation filings. Witness Martin testified that she:

- Reviewed exhibits to verify the mathematical accuracy and performed analytical tests for reasonableness.
- Compared costs and revenues in the exhibits to DTE Gas's general ledger accounts and supporting documentation.
- Confirmed accuracy of all rates affecting costs and revenues and that rates were applied appropriately.
- Examined gas purchase and transportation invoices to confirm the accuracy when compared to supporting documentation.
- Reviewed customer billing samples to verify that DTE Gas correctly billed the GCR, and reservation factors authorized in U-20543.

See 2 TR 280.

Following witness Martin's review, she recommended the Commission do the following:

- Approve a GCR under recovery of $4,857,752 including interest, and order that this amount be used as the beginning balance in DTE Gas's next reconciliation case.2 TR 282
- Adjust the GCR under recovery of $4,857,752 including interest if the Commission does not approve Staff recommended $953,138 over recovery in U-20236.
- If the Commission approves a different amount in U-20236 then Staffs recommended under recovery in the instant case would need to be recalculated.
- If the Commission approves Staffs recommended $1,801,558 over recovery in U-20236 then approve a GCC reservation charge over recovery of $2,014,855, inclusive of interest, and order this amount to be used as the beginning balance in DTE Gas's 2021-2022 GCC reservation charge reconciliation.

- If the Commission approves a different amount in U-20236, then Staffs recommended under recovery in the instant case would need to be recalculated." Id.

Staff witness Nyrhe Royal, a Senior Public Utilities Engineer, testified regarding DTE Gas's natural gas volumes and costs, NEXUS Gas Transmission Pipeline Contract Amendment with Texas Eastern Appalachian Lease (TEAL) Pipeline, Michigan Gathering Company's Antrim Expansion Project, and end-use transportation customers unauthorized natural gas use penalty charges.

Witness Royal testified that Staff recommends that DTE Gas's non-fixed natural gas costs and purchase volumes are reasonable and should be approved based on the testimony and exhibits of DTE Gas witnesses Moore and Bratu. Additionally, witness Royal testified that that DTE Gas' booked natural gas costs and volumes for the non-fixed purchases were necessary, and consistent with the market sentiment and pricing at the time of purchase. Therefore, these costs are reasonable and should be approved. See 2 TR 288.

Regarding the NEXUS and TEAL pipeline amendment, witness Royal testified that Staff's position is that DTE Gas has not violated the Code of Conduct provisions in, Michigan Admin Code 460.10108(4), relating to the transaction. Witness Royal testified that DTE Gas's comparison with the hypothetical scenarios demonstrates cost minimization in using its NEXUS and TEAL pipelines negotiated contract rates. Therefore, Staff recommends that the Commission approve DTE Gas's transportation rates with the NEXUS and TEAL pipelines contracts. See 2 TR 310-311. Additionally, Staff concluded that DTE Gas had not violated the affiliate transaction Code of Conduct provisions the

Commission should approve DTE Gas's transportation contract with MGAT's AEP. See 2 TR 314.

Witness Royal testified that Staff initially recommended a $563,239 adjustment to the reconciliation amount provided in Exhibit A15, page 2 of 2, line 16. See 2 TR 315-316. Staff rescinded the end-use transportation customers unauthorized natural gas use penalty charges adjustment in its' initial brief. Witness Royal testified that DTE Gas witness Leiter, in his rebuttal testimony, adequately explained DTE Gas's decisions regarding end use penalty charges. Therefore, Staff no longer recommends this adjustment be included in this reconciliation amount in March 2021 in Exhibit A-15, page 2 of 2, line 16. See 2 TR 267-269: Exhibit A-42.

<u>Intervenors</u>

<u>Retail Energy Supply Association (RESA)</u>

RESA did not file any testimony, exhibits or testimony. RESA neither file an Initial nor Reply brief in this matter.

<u>AG</u>

The AG recommends that the Commission remove a total amount of $8,282,306 for cost disallowances from the 2020-2021 GCR reconciliation. Additionally, in calculating interest expense, the AG recommends that these cost disallowances be spread evenly throughout the 2020-2021 GCR year. The AG argues the Commission should adopt the following conclusions and recommendations:

- DTE incurred higher costs because of entering in the transportation contract with the NEXUS Pipeline. The AG recommends that excess NEXUS Pipeline costs of approximately $6.9 million were imprudently incurred and should be disallowed by the Commission.

- DTE Gas did not adequately support how it established the price for purchased natural gas from DTE Energy Trading during the months of November 2020 through March 2021 when no other competitive bids were received. Because the validity and reasonableness of those purchases cannot be determined by the AG the AG recommends the Commission disallow $325,312 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.
- DTE Gas has not adequately supported how it established the purchase price for natural gas for various transactions during the months of May 2020 through January 2021 when no other competitive bids were received. Because the validity and reasonableness of those purchases cannot be determined by the AG the AG recommends that the Commission disallow $826,118 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.
- The AG recommends that the Commission direct DTE Gas to improve its documentation and transparency of gas purchase transactions shown in the Gas Supply Transaction Sheet to enable the review of the gas supply bids through full and contemporaneous information of all bids received, the price index and basis, and an applicable code to identify the supplier providing each bid.
- DTE Gas failed to make a compelling and convincing case regarding the necessity of a Call Option to provide additional gas supply in the event of a failure of the Belle River dehydration equipment and failed to provide support that the Call Option was the best and least costly alternative available. The AG recommends that the

Commission disallow the $250,000 cost for the Call Option included in the cost of gas.

- The AG recommends that because DTE Gas failed to disclose its intent to enter into the Call Option in the 2020-2021 GCR plan year. the Commission should remind DTE Gas about its obligation under Act 304 to disclose its gas purchase plans in the five-year GCR plan case before those plans are implemented.

See AG Initial Brief pp 2-3; 2 TR 325-326.

NEXUS Pipeline Costs

The AG argues in her brief that DTE Gas has not complied with the Commission's directive in prior NEXUS Pipeline (NEXUS) matters before the Commission. In U-20210, and U-20543 the Commission indicated in its orders that in future NEXUS related matters the Commission expected evidence that DTE Gas has taken steps to minimize the cost of gas, including efforts to renegotiate contracts and a comparison with other long-term supply options. AG Initial Brief pp 6-8.

In U-20235 DTE Gas's 2019-2020 plan year, the Commission's order includes the following Section 7 warning:

> 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. [See also, the May 8, 2020, order in Case No. U-20221, p. 10.] 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.

See U-20235 Order p. 6.

The AG argues that the Commission in U-20235 put DTE Gas on notice that DTE Gas may not recover all its gas costs presented in U20236 if it failed to present sufficient evidence that the NEXUS and TEAL contracts provide the claimed cost savings. The AG argues in this matter that the AG believes that she has presented evidence in U-20236 that show DTE Gas to failed to present sufficient evidence that the NEXUS and TEAL contracts provide the costs savings claimed by DTE Gas. U-20236 is still pending before the Commission.

In U20543, the Commission directed DTE Gas to make good faith efforts to renegotiate long-term contracts, reduce the cost of gas for its customers, and provide additional information on the long-term outlook for the gas market and gas supply. In U-20816, DTE Gas's 2021-22 GCR Plan case, the ALJ recommended a Section 7 warning in her PFD, indicating DTE GAS may not be able to recover the costs associated with the NEXUS transportation contract from its customers in future gas cost reconciliations, due to DTE Gas's failure to comply with the Commission's directives*. Id.*

The AG provided testimony and exhibits from witness Coppola. Witness Coppola testified regarding the history and status of DTE Gas's NEXUS Pipeline (NEXUS), the costs DTE Gas is seeking to recover, and witness Coppola's comparison of NEXUS supply and related costs with other Michigan gas supply sources and costs. See 2 TR 326-352.

AG Exhibit 1 provides the incremental costs to DTE Gas customers if DTE Gas is recovers the full cost of NEXUS delivered gas supply for the 2020-2021 GCR year. Witness Coppola determined in AG Exhibit A-2 that DTE Gas included total costs related to NEXUS gas supply of approximately $60.9 million which consists of $20.9 million in capacity reservation costs and $40 million in gas purchase costs. Witness Coppola's testified that his calculations show that DTE Gas's NEXUS gas supply arrangements increased GCR gas customer costs, by $6,880,876 for the GCR year. See AG-2; 2 TR 331. The AG argues that witness Coppola's calculations show that DTE Gas's NEXUS capacity agreements have not resulted in long-term benefits to customers by delivering lower cost gas from the Marcellus-Utica gas basins and have not offset the cost of NEXUS transportation during the 2020-2021 GCR period or the prior GCR year. See AG-1: 2 TR 331.

The AG rejects DTE Gas witness Moore's testimony that the NEXUS and the Rover pipeline supply coming into the Midwest and has resulted in a shift in the MichCon basis from a premium to a discount when compared with the NYMEX cost of gas because DTE Gas has had access to multiple sources of gas supply before and after the contract with NEXUS. DTE Gas has interconnections with five other interstate pipelines bringing natural gas into Michigan from various basins in North America, including the Marcellus-Utica area. See AG Brief p.12. The NEXUS and Rover Pipeline became operational in November 2018. The decline in MYMEX prices began in the summer of 2015 and reversed to a discount in the summer of 2017 before the NEXUS and Rover pipeline were operational. The AG argues given this information DTE Gas's claim the NEXUS and

Rover Pipeline supply reduced the cost of NYMEX supply is unsupported. See AG Brief pp 13-14.

<u>Teal Amendment</u>

The AG rejects DTE Gas witness Moore's testimony regarding the $0.15 per Dth/day TEAL contract rate paid to NEXUS to transport gas supply from Clarington to Kensington. Witness Moore testified regarding the supply and market zone tariff rates and the maximum rates filed with FERC by NEXUS. The AG argues that how the rate is calculated ignores the fact that the TEAL portion, paid by DTE Gas to NEXUS added an additional $2.1 million annually to transport 37,500 Dth/day.

The AG argues that DTE Gas initially justified the NEXUS capacity agreement on lower Kensington gas prices compared to other gas supply sources delivered to Michigan but now DTE Gas justifies the TEAL agreement on higher Kensington gas prices. Higher Kensington gas prices become the higher TEAL agreement savings. from the TEAL agreement. The AG argues the Commission should not rely on DTE Gas's reported TEAL cost savings to justify a NEXUS contract that has increased gas costs for GCR customers. The AG believes that DTE Gas did not provide testimony regarding the TEAL amendment costs savings because during the 2020-2021 GCR year Clarington gas prices were higher than Kensington prices. Exhibit AG-1 shows that the Clarington gas prices on average for the year were $2.17 per Dth, while Kensington prices were $1.81 per Dth, or $0.36 lower per Dth. The AG believes that this price inversion removes any cost savings at Clarington and eliminates any justification for the TEAL contract amendment. See AG Brief pp-1-17.

Commission's Order in U-20543

In its order in U-20543 the Commission wrote:

> The Commission further recognized that even when long-term contracts are encouraged, "this does not absolve a utility from monitoring and responding to market conditions and system needs and making good faith efforts to manage existing contracts." [December 9, 2020, order in Case No. U-20203, p. 26]. The December 9 order further provided that "[s]uch efforts may entail meaningful attempts to renegotiate contract provisions to ensure continued value for ratepayers as market conditions change." Id. Thus, as the Commission has identified in previous cases, DTE Gas is under a continuing obligation to provide complete evidentiary support justifying its long-term contracts and compliance with the Code of Conduct. On a going forward basis, the Commission will expect to see evidence that the company has taken steps to minimize the cost of gas, including efforts to renegotiate contracts, and will look to comparisons with other long-term supply options as informative as to whether this particular contract adheres to the requirements of the Code of Conduct. In addition, although the TEAL amendment may help to mitigate the higher-than expected prices at Kensington in the short term, the vast majority of the NEXUS contract is tied to gas supply at the Kensington receipt point. As such, additional information regarding the market outlook at Kensington would be helpful in informing the Commission's review of the ongoing reasonableness over the full life of the NEXUS contract and its amendments

See U-20542 Order p 7.

The AG argues that DTE Gas have failed to comply with the Commission's directive in U-20543 because DTE Gas did not make meaningful, good faith efforts to renegotiate long-term contracts, reduce the cost of gas, provide additional information on the

Kensington gas market outlook, and provide a comparison of NEXUS gas supply to other long-term gas supply options. See AG Initial Brief pp 17-19.

Code of Conduct

The AG does not agree with DTE Gas witness Moore's testimony that the NEXUS contract complies with the Code of Conduct and any reduction in transportation contract rates negotiated by DTE Gas would be discriminatory to other NEXUS customers because pipelines companies typically set a maximum tariff for service to specific locations and then negotiate lower rates with customers based on the service areas market competitive conditions. The AG argues that ANR, PEPL, and other interstate pipeline companies routinely issue requests for proposals when renewing transportation capacity contracts and then negotiates discounted rates. See AG Brief p19. The AG believes that the Commission's Code of Conduct and the FERC Standards of Conduct did not prevent DTE Gas from negotiating lower NEXUS transportation rates.

Commission directive for more information on the Kensington gas supply/market

The AG argues that DTE Gas provided no analysis regarding current Kensington gas supply and pricing and projected future price changes and thus lacks the information to properly project and evaluate future gas supplies. The AG argues that limited primary Kensington gas supply requires DTE Gas to negotiate lower NEXUS transportation rates.

The AG argues that in. U-17941, U17691, U-18412, and other related cases, DTE Gas witnesses Robert Lawshe and Michael Sloan, testified that the NEXUS pipeline would provide low-cost gas supply in the Kensington region. The ICF projections of large NEXUS contract net cost savings to customers were based on the availability of Kensington low-cost supply. The AG argues the fact that those low-cost supplies never occurred is evidence that DTE Gas did not perform due diligence regarding gas exploration and subsequent production. The AG concludes that the Kensington area:

- Did not have sufficient gas reserves and production,
- Has not provided the forecasted gas supply and lower gas prices.
- Net cost savings forecasted by ICF have not materialized and,
- Based on the more recent FTI study, if cost saving materializes, they will be a fraction of the originally anticipated cost savings.

The AG argues in her Initial Brief that given this information the AG has concluded that DTE Gas misled the Commission and all other parties in prior NEXUS related proceedings before the Commission regarding gas supplies and cost savings and should now be held accountable by the Commission through an order directing DTE Gas to renegotiate NEXUS transportation rates. See AG Brief pp 21-22.

<u>Comparison of NEXUS gas supply costs with other long-term gas supply options</u>

Exhibit A-1 provides AG witness Coppola's comparison of the cost of gas supply delivered to Michigan through NEXUS during the 2020-2021 GCR reconciliation period compared to gas supply delivered by other pipelines. The AG argues that this comparison shows that the cost of gas delivery through the NEXUS pipeline during the 2020-2021 GCR year was nearly 30% higher than the average cost of gas supply from all other gas suppliers to DTE Gas. See Exhibit AG-1. The AG argues that this information provides a basis for the Commission to disallow some of the DTE Gas's requested costs and reduce the burden on DTE Ga's GCR customers.

The AG's Initial brief provides an analysis and several charts prepared by AG witness Coppola and admitted to the record in U-20235. This evidence is related to DTE Gas's U-20235 GCR 2019-202 five-year plan period and details gas costs at various supply locations. The AG argues that this information is relevant and should be considered in DTE Gas's 2020-21 GCR reconciliation. See AG Initial Brief pp 24-26.

AG witness Coppola testified that he reviewed DTE Gas witness Sosnick's calculations of projected NEXUS cost savings and identified what he believes to be faults with the calculations. See 2 TR 361-373. Based on AG witness Coppola's testimony the AG argues that the FTI report contains numerous faults that render the NEXUS projected cost savings unreliable. The AG recommends that the Commission not rely on the FTI report. See AG Brief p 27.

The AG argues that the DTE Gas NEXUS transportation agreement, including the TEAL Amendment, and the related gas supply, increased gas costs for GCR customers by at least $6,880,876 for the 2020-2021 GCR year over the cost of interstate transportation and gas supply delivered to Michigan through other pipeline capacity replaced by NEXUS. The AG's calculations reflect the incremental cost of the NEXUS gas supply calculated on a comparable basis versus other gas supply sources. See AG Initial Brief p.33-34; Exhibit AG-2 The AG argues that DTE Gas made an imprudent decision when it entered into the NEXUS transportation capacity agreement and DTE Gas GCR customers should not be burdened by these costs. The AG recommends that the Commission should disallow recovery of $6,880,876 of gas supply costs in this GCR reconciliation.

The AG in her Exhibit A-2 also proposes an alternative disallowance amount calculated by AG witness Coppola. Exhibit A-2 provides a comparison of NEXUS gas supply costs to the total cost of all other gas supply purchased by DTE Gas for the 2020-2021 GCR period. As shown on line 28 of Exhibit AG-2, the alternative total cost that the Commission could disallow is $14,400,494. See AG Initial brief p 34.

DTE failed to adequately disclose how it established the price at which it purchased natural gas from DTE Energy Trading from November 2020 through March 2021.

DTE Gas Exhibit A-7 details gas purchases from affiliated companies MichCon Gathering and DTE Energy Trading for 6.5 BCF of gas at a cost of $14.9 million. Included in the affiliated company gas purchases in Exhibit A-7 are 5.4 Bcf of gas purchases made by DTE Gas from DTE Energy Trading at a cost of $12.6 million. The AG argues in her Initial brief that gas purchased by DTE Gas from MichCon Gathering is priced at the MichCon city gate monthly index, however there is no established price point for gas purchased from DTE Energy Trading.

The AG argues that DTE Gas witness Moore did not provide any explanation why, starting in the 2020-2021 GCR year, DTE Gas saw a need to include DTE Energy Trading as a gas supplier nor how purchase gas was priced. Gas purchases from DTE Energy Trading were supposedly made at the Kensington and Clarington purchase locations and transported to Michigan through NEXUS. See AG Initial brief pp 34-35. 2 TR 374-378.

AG witness Coppola reviewed the Gas Supply Transaction Sheet (Bid Sheet) for each of the DTE Energy Trading gas purchase transactions listed in Exhibit A-7. For the gas purchase transactions on lines 2, 4, 6, 8, 10, 12-14, and 16, which pertain to Gas Deal #7303492, the Company received two other competing bids at a higher price and properly chose the lower priced DTE Energy Trading price bid. This was a fixed price bid for gas delivery from April to October 2020. 2 TR 375-376.

Witness Coppola testified that the remaining Exhibit A-7 gas purchase Bid Sheets for each transaction do not detail any competitive bids. The Bid Sheets also show that DTE Gas agreed to purchase gas supply at various index prices plus a premium ranging from $.08 to $0.28 but provided no information why those index prices and premiums were selected and how the prices compared to competitive prices at the purchase locations. See AG Initial brief p. 36.

The AG argues that because these transactions were between affiliated parties the transactions are subject to a heightened level of scrutiny and disclosure to ensure no cross subsidy has occurred. The AG argues that DTE Gas did not adequately disclose how it established the price at which it purchased natural gas from DTE Energy Trading during the months of November 2020 through March 2021 when no other competitive bids were received. Therefore, the AG believes that the validity and reasonableness of those purchases cannot be determined. The AG believes that a reasonable method to establish a fair and independent price is to use the published price indices for Clarington and Kensington provided by DTE Gas in Exhibit A1. The AG recommends that the Commission disallow $325,312 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.

DTE failed to adequately disclose how it established the price at which it purchased natural gas for various transactions from May 2020 through January 2021

AG witness Coppola reviewed DTE Gas purchases for the 2020-2021 GCR Year. His review revealed that several of the gas purchases were made from a single supplier with no competitive bids provided by other suppliers. Many Bid Sheets show that no supply was available from other suppliers, or no offers were made, and some Bid Sheets show the same basis being offered by multiple suppliers on the same Bid Sheets. Witness Coppola found that DTE Gas Bid Sheets:

- Had redacted the supplier's names which were not replaced them with codes that would show that multiple suppliers were contacted.
- The bid price of the winning bidder was not disclosed, only the final agreed index price and basis are disclosed.
- Where multiple bids were received, the final agreed to basis price does not match any of the offers received; and
- There is no explanation as to how the final price was determined

See AG Initial brief pp 40-41: 2 TR 378-380.

Exhibit AG-11 provides the Bid Sheets discussed above and DTE Gas's applicable discovery responses. Exhibit AG-12 provides AG witness Coppola's comparison of the prices paid by DTE Gas shown in Exhibit A-3 for the applicable gas purchases for May 2020 through January 2021 to the index price for Clarington and Kensington provided by DTE Gas in Exhibit A-1. The AG argues that this comparison shows that for each gas purchase, DTE Gas paid more than the applicable index price. By multiplying the difference in price by the volumes purchased, the AG has calculated an excess purchase cost of $826,118, as shown on line 8 of Exhibit A-12.

The AG argues that because DTE Gas did not adequately disclose how it established the price at which it purchased natural gas for various transactions during the months of May 2020 through January 2021, when no other competitive bids were received, the validity and reasonableness of those purchases cannot be determined, and the only reasonable method to establish a fair and independent price is to use the published price indices for Clarington and Kensington disclosed in Exhibit A-1.

Therefore, the AG recommends that the Commission disallow $826,118 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation and direct DTE Gas improve its Gas Supply Transaction Sheet documentation and transparency of gas purchase transactions to allow a proper review of the gas supply bids by providing full and contemporaneous information of all bids received, the price index and basis, and an applicable code to identify the supplier providing each bid. See AG Initial brief p.42.

<u>DTE failed to make a compelling and convincing case that entering into a Call Option was necessary.</u>

AG witness Coppola testified regarding DTE Gas's decision to enter into a physical call option (call option) with a counterparty to purchase additional gas supply in the event of a dehydration equipment failure at the Belle River Storage Field. See 2 TR 380-381.

During the 2020-2021 GCR year DTE did not exercise the call option but included an expense of $250,000 for the call option in the 2020-2021 GCR year. Witness Coppola testified that DTE Gas's GCR Plan case U-20543 does not include any DTE Gas testimony regarding the call option nor did provide testimony in this matter regarding why the call option was not addressed in it GCR Plan. See 2 TR 382-384.

AG witness Coppola testified that he concluded after his review of the call option that DTE Gas unnecessarily entered into the Call Option before fully exploring other potentially viable options. Witness Coppola testified that his historical analysis of DTE Gas purchases shows that the risk of a failure was minimal and DTE Gas could have managed through a failure of the dehydration unit at the Belle River storage field as it has done in the past. See 2 TR 385-395.

Additionally, DTE Gas by incurring a $250,000 call option expense in this gas cost reconciliation, potentially exposed customers to as much as $15.5 million of additional gas costs if the Call Option had been exercised. DTE Gas Exhibit A-27 Revised, assigns a cost of $1.8 million to the Call Option. This amount represents the cost of the Call Option, including the forecasted cost of gas at a price of $5.00 per Dth, for only one day instead of the 10 days for which the DTE Gas contracted. DTE Gas's discovery response U-20186-AGDG-1.41 included in Exhibit AG-23 shows the correct amount to be $1,750,000 for one day. This amount extended to the full days for which the Call Option was contracted provides a total call option potential cost of $15,750,000. See AG Brief pp 45-46.

The AG also argues that DTE does not have evidence that the counterparty to the call option contract has firm interstate transportation capacity available and that DTE did not receive multiple bids for the call option from which to select a "best option." See 2 TR 402-403: AG Initial brief p 46.

The AG argues based on witness Coppola's review of the call option that the $250,000 call option expense charged to GCR costs in the 2020-2021 GCR year was not warranted and should be disallowed. Also, the AG argues that because DTE Gas did not disclose the Call Option beginning with the 2020-2021 GCR plan year the parties to that proceeding did not have opportunity to review and respond to reasonableness of DTE Gas's call option decision, which affected the GCR cost of gas for the 2020-2021 GCR year. The AG recommends the Commission remind DTE Gas about its Act 304 obligation to disclose its gas purchase plans in the five-year GCR plan case before those plans are implemented. See AG Initial brief p 49.

AG Recommended GCR Reconciliation Balance

In Exhibit A-18, DTE Gas reported an under-recovery balance of $5,421,024, after interest, for GCR customers at the end of the2020-2021 GCR year. Exhibit A-19 shows a net over-recovery balance of $2,014,855, including interest, for the GCC reservation charge. These balances do not reflect a final order by the Commission in the prior year GCR reconciliation in Case No. U-20236. The AG recommended certain cost disallowances in U-20236 which the Commission has not yet adjudicated.

The AG recommends that the Commission remove a total amount of $8,282,306 for cost disallowances from the 2020-2021 GCR reconciliation. Additionally, in calculating interest expense, these costs disallowances should be spread evenly throughout the 2020-2021 GCR year. See AG Initial brief pp 49-50.

IV.

DISCUSSION

DTE Gas indicated in its Application that for the twelve-month period of April 1, 2020, through March 31, 2021, DTE Gas's total net recoverable gas supply costs for GCR customers were more than its gas supply revenues resulting in an under-recovery of approximately $5.4 million inclusive of interest through March 31, 2021. DTE Gas's reconciliation methodology reconciles the GCR and Reservation Charge revenues and expenses for GCR customers on a combined basis, and the Reservation Charge revenues and expenses for Gas Choice Customers (GCC) are reconciled separately. DTE Gas indicated in its Application that DTE Gas's reservation costs for GCC customers were less than its Reservation Charge revenues resulting in an over-collection of approximately $2.0 million inclusive of interest through March 31, 2021. DTE Gas's twelve-month GCR reconciliation includes the roll-in of the 2019-2020 net GCR over-recovery of approximately $1 million for GCR customers and an over-recovery of approximately $1.8 million for GCC customers, which is DTE Gas's position in U-20236, DTE Gas's pending 2019-2020 GCR Reconciliation. Consistent with the Commission's prospective refund methodology approved in. U-10385 the 2019-2020 net over-recoveries are included as the beginning balance for each customer class, GCR or GCC, used to calculate interest through March 31, 2021.

DTE Gas requests that the Commission make the following findings:

- For the twelve-month period ending March 31, 2021, DTE Gas's GCR customers' revenues of $351.9 million inclusive of Reservation Charge revenues, its Net Recoverable Costs of $358.6 million inclusive of approximately $1 million over recovery related to 2019-2020 GCR and expenses, combined with $1.3 million of interest from 2020-2021 GCR, to result in a net under-recovery of $5.4 million for GCR customers that was incurred through reasonable and prudent actions
- For the twelve-month period ending March 31, 2021, DTE Gas's GCC customers Reservation Charge revenues of $6.2 million, GCC customers' $6.1 million in reservation expense, the roll-in of approximately $1.8 million related to the GCC customers' 2019-2020 reconciliation, plus $0.1 million of interest expense combine to result in a net GCC customer over-recovery of $2.0 million.
- The calculated amount of DTE Gas's under-recoveries, together with interest, is correct, and that the disposition of that amount is consistent with the intent and in accordance with the guidelines established by the Commission .

DTE Gas witness Lore testified regarding the monthly derivation of DTE Gas's Gas Cost Recovery (GCR) cost of gas sold, the over/(under) recovery of net recoverable costs, and the applicable interest expense for the months of April 2020 through March 2021.

Total GCR Cost of Gas Sold

Witness Lore testified that the Total GCR Cost of Gas Sold in the GCR Period was $367 million, shown on Revised Exhibit A-15, page 2, line 11, column n. The Total GCR Cost of Gas Sold consists of purchased gas costs, including storage costs, and costs related to sales with no GCR factor. The Average GCR Cost of Gas Sold based on this total is $2.87 per Mcf, shown on Revised Exhibit A-15 page 2, line 12, column n. The Average GCR Cost of Gas Sold is calculated by dividing the GCR Cost of Gas Sold by the Total GCR Supplies for the year of 128.0 Bcf, shown on Revised Exhibit A-15, page 1, 4 line 7, column n. 2 TR 203-204.

Cost of Purchased Gas

Witness Lore testified that the Cost of Purchased Gas includes all amounts related to the gas that DTE Gas purchases from various suppliers including GCC suppliers, such as the cost of the commodity itself and the transportation costs incurred to bring gas to DTE Gas' system. The Cost of Purchased Gas is $368 million, shown on Revised Exhibit A-15, page 11 2, line 1, column n. The costs related to the gas commodity and transportation, and related volumes are detailed in Exhibit A-16, page 1, lines 1 through 25. See 2 TR 204.

Prior Period Storage Adjustment

Witness Lore testified that DTE Gas made a $1.1 million adjustment for prior period storage. This adjustment is the difference between 1) the 2020 LIFO rate estimate when the books were closed for March 2020 and 2) the actual 2020 LIFO rate multiplied by 3) the January through 18 March 2020 storage volumes that were included in DTE Gas's 2019 – 2020 GCR 19 Reconciliation (Case No. U-20236). For the 2020 calendar year, the actual annual LIFO rate was $2.8161 per Mcf. The Commission's approval of DTE Gas's use of an operational year required DTE Gas to finalize its reconciliation using an estimate of the LIFO rate for the last three months of the GCR period, January, February, and March. This estimate allows the reconciliation case to be filed in a timely manner. The true-up between this estimate and the actual rate is included as a line item in the following year's GCR Reconciliation. The calculation of this amount is shown on Exhibit A-17, lines 18 – 22. See 2 TR 204-205.

Witness Lore testified that:

- The cost of April through December 2020 storage activity was negative $90 million. The net storage activity for the same period was a net injection of 32 Bcf, as shown on Exhibit A-17, line 11
- During calendar year 2020, there was a net withdrawal of 0.1 Bcf at the 2018 LIFO rate of $3.3168 per Mcf as shown on Exhibit A-17, line 12.
- The cost of storage inventory withdrawals for January through March 2021 was $97 million. Net storage volumes of 32 Bcf for the first three months of 2021 are priced using the estimated 2021 LIFO rate, which is $3.05 per Mcf as shown on Exhibit A-17, lines 13 through 15, column b.
- Sales with no GCR factor include DTE Gas Use, Lost and Unaccounted for Gas 22 (LAUF), and Gas In Kind (GIK). Revised Exhibit A-15, page 2, lines 6 through

> 8, identify costs for DTE Gas Use, LAUF and GIK, respectively. These items were priced using the Jurisdictional Rate.
>
> See 2 TR 205

Witness Lore testified that the Jurisdictional Rate is calculated by dividing the Cost of Purchased Gas, as shown on Revised Exhibit A-15, page 2, line 1, column n, by the purchased gas volumes for the applicable GCR period, as shown on Revised Exhibit A-15, page 1, line 1, column n. The Jurisdictional Rate for the 2020 – 2021 GCR period was $2.8192 per Mcf, as shown on Revised Exhibit A-15, page 2, line 36, column b. This method of pricing Sales with no GCR Factor was approved in U-7777-R and has been used consistently in DTE Gas' s subsequent annual GCR Reconciliation cases. See 2 TR 206.

<u>Sales with no GCR Factor</u>

Witness Lore testified that are two costs associated with sales with no GCR factor. Supplier Equalization Charge (SEC) Revenue and Failure Fees. These Sales with no GCR Factor and non-GCR Sales are included as offsets to the GCR Cost of Gas Sold. SEC Revenue and Failure Fees incurred by GCC suppliers during the operational year are shown on Revised Exhibit A-15, page 2, line 9. As shown on line 10 of that same page, DTE Gas did not have any non-GCR sales during this reconciliation period. See 2 TR 206.

<u>Net Recoverable Costs and GCR cost of gas sold</u>

Revised Exhibit A-15, page 2, line 18, column n, shows that Net Recoverable Costs were $359 million for the 2020 – 2021 GCR year. The difference between Net Recoverable Costs and the GCR Cost of Gas Sold, as shown on Revised Exhibit A-15, page 2, line 11, column n, is the amount related to items that are reflected in DTE Gas' GCR Reconciliation, but do not have an associated volume of gas and are therefore not included in the Cost of Gas Sold. In the 2020 – 2021 GCR year, these items are 1) the Allocated GCC Pipeline Reservation Cost (net of credits), 2) Prior Year GCR Over/(Under) Recovery, 3) Unauthorized Sales Penalties from End Use Transportation customers, and 4) Excess Storage Fees from End Use Transportation customers as shown on Revised Exhibit A-15, page 2, lines 13 through 17, column n. See 2 TR 207.

Prior Year Over/(Under)Recovery

For the prior GCR plan year, DTE Gas had a $1 million over-recovery including interest. At the time of witness Lore's testimony, no final order has been issued in U-20236. This amount was rolled-in using prospective refunding, consistent with the Commission's order approving prospective refunding in U-10385 as an increase to the April 2020 Net Recoverable Costs as shown in Revised Exhibit A-15, page 2, line 14, column b. This amount is the beginning balance used to calculate interest for the GCR period as shown in Exhibit A-18, page 1, line 1, column 2. 2 TR 207.

GCR Revenue

Witness Lore testified that DTE Gas' GCR Revenues, on an unbilled basis, for April 2020 through March 2021 are $352 million as shown in Revised Exhibit A-15, page 2, line 32, column n. Billed revenues are based on actual monthly customer billings. Unbilled revenues are calculated by multiplying the change in unbilled volumes for each month by the next month's billed GCR rate. 2 TR 208.

Gas Customer Choice

Witness Lore testified that amounts resulting from the 2019-2020 GCC reconciliation are included exhibits in the month of July 2020, the month the reconciliations were booked. There is 0.07 Bcf and $0.2 million resulting from the 2019 - 2020 GCC reconciliation included in July 2020, the month in which the reconciliations were recorded. These volumes and associated dollars may be found in Revised Exhibit A-15, page 17, line 9, and on page 2, line 28. These costs and volumes are separate and distinct from the reconciliation of the RC for GCC Customers. 2 TR 208.

Over/(Under) Recovery and Interest Expense

The net under-recovery, including interest, for the GCR period is $5.4 million. This amount is shown in Exhibit A-18 page 1, line 15, column 3. Interest is calculated by multiplying the applicable interest rate by the average month-end cumulative over or under-recovery balance. Interest on under recoveries is calculated at the average short-term borrowing rate available to DTE Gas, in those months where an over-recovery exists, the interest rate is equal to DTE Gas authorized rate of return on common equity (ROE). See 2 TR 208-209.

Reservation Charge Reconciliation for GCC Customers

Witness Lore testified that the net over-recovery, including interest, for the GCR period was $2.0 million. This amount is shown on Exhibit A-19, page 2, line 15, column. The pipeline reservation cost allocation calculates the percentage of total pipeline reservation cost to be allocated to GCR and GCC customers, including the 30% discount to GCC customers. The cost is allocated based on the percentage of total sales volumes (adjusted for the GCC discount) for GCR and GCC customers, as approved by the

Commission in U- 17691-R. The GCC reservation charge percentage, which was 10.47% for the period, was calculated by dividing the total GCC sales volumes by the total of GCR and GCC sales volumes and then multiplying that amount by 70%, to calculate the 30% discount allocation factor to GCC customers. The GCC customer percentage is then multiplied by the total pipeline reservation costs (net of credits) to get the total annual costs for GCC customers. GCR customers are allocated the difference between the total and the GCC customer portion of the total. See 2 TR 209-210.

Exhibit A-19 page 4 provides a high-level summary that includes key information from Exhibit A-19 page 3. The summary provides information requested by Staff and highlights key components used in determining the GCC Over/Under Recovery.

DTE Gas witness Sherri Moore testified regarding DTE Gas's gas supply purchases that affected the April 2020 through March 2021 operational year and the actions that DTE Gas took while implementing its 2020-2021 GCR Plan (Plan). More specifically witness Moore testified that:

- DTE Gas Supply volumes were approximately 1.1 Bcf greater than Plan at a cost that was $5.0 million less than Plan, due to gas prices and lower transportation costs than Plan partially offset by greater GCR market requirements. See 2 TR-39-40.
- DTE Gas followed its fixed-price guidelines and achieved its targeted 75% fixed-price coverage ratio at the time of filing its Plan case in December 2019.
- The fixed-price supplies, which were executed at market prices at the time of contracting, and at the time of delivery were above that of published spot index prices by approximately $0.298/Dth (Exhibit A-2, page 12, col. (n), line 53 / line 9),

for a total cost of $31 million (Exhibit A-2, page 12, col. (n), line 53) due to unpredictable lower spot index prices. Through monthly evaluations of market conditions DTE Gas ensured that the number, timing, and size of its monthly fixed-price purchases were reasonable and prudent transactions to secure price stability, thereby ultimately providing price protection, price certainty, and affordability for the GCR customers. See 2 TR 40-46.

- Interstate transportation costs were approximately $1.5 million lower than Plan primarily due to credits received on Panhandle Pipeline related to Winter storm URI and unplanned capacity release credits. See 2 TR-74-75.
- DTE's Gas Plan did not have any interstate contracts expiring during the reconciliation period. As identified in its GCR Plan Case Filing (Case U-20543), DTE Gas replaced 60 Mdth/d (winter only) on Panhandle Eastern Pipeline with 60 Mdth/d (winter only) on ANR, contract 132461.
- DTE Gas has an interconnect contract with MGAT to flow gas at the AEP Interconnect and it is utilizing this contract to create savings for its customers as compared to previously DTE Gas held firm transportation on the Great Lakes Gas Transmission (GLGT). In 2018 DTE Gas allowed the GLGT contract to expire. Details of the reconciliation 1of those costs, and the benefits of the contract are included in this filing. See 2 TR 49-59.: 2 TR 76-78.
- In response to the Commission's Orders in U-20210 and U-20243, DTE Gas provided additional supporting evidence for the NEXUS contract (including the TEAL amendment) including an updated independent analysis of the benefits of the capacity contract. See 2 TR 59-72.

- Consistent with its Plan and prior Commission orders, DTE Gas purchased 0.5 MMDth of gas supply from its affiliate DTE Michigan Gathering Company (MGAT or MichCon Gathering) for a cost of $1.1 million at a price equal to the MichCon Monthly City Gate Spot Index, at an annual average price of approximately $2.10/Dth. As part of the VCA program and spot index purchases, DTE Gas purchased from its affiliate, DTE Energy Trading (DTEET), 5.4 Bcf of gas supply for a cost of $12.6 million. See 2 TR 76-78.

Staff's Recommendations

Staff indicated in its witness testimony and its Initial brief that Staff generally agrees with DTE Gas's proposed reconciliation amounts and recommends the Commission approve a GCR under recovery of $4,857,752 including interest, and order that this amount be used as a beginning balance in DTE Gas's next reconciliation case .See Staff Initial brief, p 2. Staff also recommended, in its witness testimony and Initial Brief, that the Commission approve a GCC reservation charge over recovery of $2,014,855, inclusive of interest, and order this amount to be used as the beginning balance in DTE Gas's 2021-2022 GCC reservation charge reconciliation. See Staff Initial brief, p 3. Additionally, Staff recommends in its witness testimony and Initial Brief that the Commission approve DTE Gas's transportation rates with the NEXUS and TEAL pipelines contracts See Staff Initial brief, p. 4.

Staff witness Royal initially recommended a $563,239 adjustment for end-use transportation customers unauthorized natural gas use penalty charges. DTE Gas witness Leiter provided testimony to rebut Staff witness Royal's recommendation that the End Use Transportation customers unauthorized natural gas penalty costs should be increased by $563,239 and to rebut Staff witness Martin's adjustment of $563,239 to Exhibit A-15 for the month of March 2021 and associated flow-through effects resulting from direct testimony and exhibits of Staff Witness Royal. See 2 TR 266-269. Staff reviewed DTE Gas witness Leiter's testimony and indicated in its Initial Brief that Staff was no longer recommending the $563,239 adjustment. See Staff Initial brief, p 4. Therefore, Staff recommends the Commission approve a GCR under recovery, including interest, of $5,421,023 ($4,857,752 + $563,239+$32).

Code of Conduct

Staff witness Royal testified that Staff reviewed DTE Gas's NEXUS and TEAL transactions and concluded that DTE Gas had not violated the Code of Conduct provisions Michigan Administrative Code, 460.10108(4) The comparison with the hypothetical scenarios demonstrates cost minimization in using its negotiated rates DTE Gas has contracted with the NEXUS and TEAL pipelines. Staff recommends that the Commission approve DTE Gas s transportation rates with the NEXUS and TEAL pipelines contracts. See 2 TR 310-311. Staff's Initial Brief confirms Staff recommendation that the Commission approve DTE Gas's transportation rates with the NEXUS and TEAL pipelines contracts. See Staff Initial brief, p 4.

Staff's Initial Brief (Staff did not file a Reply Brief) does not address the remaining AG's recommended disallowances. Additionally, neither Staff witness Royal, nor Martin's testimony address the remaining AG recommendations. See Staff Initial Brief pp 1-4.

Retail Energy Supply Association's Recommendations (RESA)

The Retail Energy Supply Association (RESA) did not file any testimony, exhibits or briefs. Therefore, RESA has not taken a position regarding DTE Gas's proposed reconciliation.

Attorney General (AG)

The AG in her witness testimony and briefs recommends that the Commission remove a total amount of $8,282,306 for cost disallowances from the 2020-2021 GCR reconciliation. Additionally, in calculating interest expense, the AG recommends that these cost disallowances be spread evenly throughout the 2020-2021 GCR year. The AG argues the Commission should adopt the following conclusions and recommendations:

- DTE incurred higher costs because of entering in the transportation contract with the NEXUS Pipeline. The AG recommends that excess NEXUS Pipeline costs of approximately $6.9 million were imprudently incurred and should be disallowed by the Commission.
- DTE Gas did not adequately support how it established the price for purchased natural gas from DTE Energy Trading during the months of November 2020 through March 2021 when no other competitive bids were received. Because the validity and reasonableness of those purchases cannot be determined by the AG the AG recommends the Commission disallow $325,312 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.
- DTE Gas has not adequately supported how it established the purchase price for natural gas for various transactions during the months of May 2020 through January 2021 when no other competitive bids were received. Because the validity

and reasonableness of those purchases cannot be determined by the AG the AG recommends that the Commission disallow $826,118 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.

- The AG recommends that the Commission direct DTE Gas to improve its documentation and transparency of gas purchase transactions shown in the Gas Supply Transaction Sheet to enable the review of the gas supply bids through full and contemporaneous information of all bids received, the price index and basis, and an applicable code to identify the supplier providing each bid.
- DTE Gas failed to make a compelling and convincing case regarding the necessity of a Call Option to provide additional gas supply in the event of a failure of the Belle River dehydration equipment and failed to provide support that the Call Option was the best and least costly alternative available. The AG recommends that the Commission disallow the $250,000 cost for the Call Option included in the cost of gas.
- The AG recommends that because DTE Gas failed to disclose its intent to enter into the Call Option in the 2020-2021 GCR plan year. the Commission should remind DTE Gas about its obligation under Act 304 to disclose its gas purchase plans in the five-year GCR plan case before those plans are implemented.

<u>Scope of Commission's Reconciliation Review.</u>

Act 304, MCL 460h (12) grants the Commission the authority to conduct a gas cost reconciliation. MCL 460h (12) provide in pertinent part:

> (12). At the gas cost reconciliation, the commission shall reconcile the revenues recorded pursuant to the gas cost recovery factor and the allowance for cost of gas included in the base rates established in the latest commission order for the gas utility with the amounts actually expensed and

included in the cost of gas sold by the gas utility. The commission shall consider any issue regarding the reasonableness and prudence of expenses for which customers were charged if the issue could not have been considered adequately at a previously conducted gas supply and cost review.

Se MCL 460h (12)

MCL 460h (14) provides in pertinent part:

(14) In its order in a gas cost reconciliation, the commission shall authorize a gas utility to recover from customers any net amount by which the amount determined to have been recovered over the period covered was less than the amount determined to have been actually expensed by the utility for gas sold, and to have been incurred through reasonable and prudent actions not precluded by the commission order in the gas supply and cost review. For excess costs incurred through actions contrary to the commission's gas supply and cost review order, the commission shall authorize a utility to recover costs incurred for gas sold in the 12-month period in excess of the amount recovered over the period only if the utility demonstrates by clear and convincing evidence that the excess expenses were beyond the ability of the utility to control through reasonable and prudent actions.

For excess costs incurred through actions consistent with commission's gas supply and cost review order, the commission shall authorize a utility to recover costs incurred for gas sold in the 12-month period in excess of the amount recovered over the period only if the utility demonstrates that the excess expenses were reasonable and prudent. Such amounts in excess of the amounts actually recovered by the utility for gas sold shall be apportioned among and charged to the customers of the utility utilizing procedures that the commission determines to be reasonable. The commission may adopt different procedures with respect to customers served under the various rate schedules of the utility and may, in appropriate circumstances, order charges to be made in proportion to the amounts which would have been paid by such customers if the amounts in excess of the amounts actually recovered by the utility for gas sold had been included in the gas cost recovery factors with respect to such customers during the period covered. Charges for such excess amounts shall be spread over a period that the commission determines to be appropriate.

According to Act 304 if DTE Gas incurred excess costs for reasonable and prudent actions not precluded by the Commission’s GCR plan order, then DTE Gas shall recover those excess costs from customers. MCL 460.6h(14). If DTE Gas incurred excess costs that are “contrary to the commission’s gas supply and cost review order,” then the excess costs are still recoverable if supported by “clear and convincing evidence that the excess costs were beyond the ability of DTE Gas to control by reasonable and prudent actions.” *Id.*

In U-7480, the AG and Residential Ratepayer Consortium (RRC) appealed the Commission’s Order and argued that “reasonable” refers to an evaluation of the adequacy or appropriateness of the outcome of gas procurement decisions (RRC Circuit Court Brief, May 31, 1984, p. 16). The Court rejected the AG’s and RRC’s interpretation of the “reasonable and prudent standard” and found:

> As the [RRC’s] argument goes, our legislature, in requiring that costs be recoverable only if incurred under reasonable and prudent practices, must have meant for “reasonable” and “prudent” to each have a separate and distinct meaning all its own. RRC then proceeds to suggest that the legislature intended for “prudent” to apply to the gas procurement decision when made, while “reasonable” was meant to evaluate with the assistance of hindsight, the appropriateness of the gas procurement decision. Thus, *RRC claims, cost in excess of market price cannot be reasonable* in effect and are not recoverable through a GCR clause. *This court does not subscribe to this novel interpretation* of the phrase “reasonable and prudent.” If the legislature desired to specifically provide that reasonableness was to be judged by a consideration of effect, with the aid of hindsight based solely on market price, it would have done so. *The phrase “reasonable and prudent” requires the Commission to evaluate the utility’s procurement decisions at the time those decisions were made.*

Opinion Ingham County Circuit Court Judge Brown dated September 6, 1985, pp. 6-7 (Emphasis added).

Additionally, the Court of Appeals in *Attorney General v Public Service Comm*, 161 Mich App 506 (1987) confirmed that the Commission must determine whether the actions of a utility were reasonable and prudent under Act 304 *"in light of existing conditions at the time its decision to purchase gas was made." Id*. at 517 (emphasis added).

Pursuant to Act 304 Commission in U- 7479 authorized DTE Gas to incorporate into its tariff sheets a Gas Cost Recovery (GCR) clause. DTE Gas GCR factors for the twelve-month period from April 1, 2020, through March 31, 2021, were implemented by DTE Gas pursuant to its December 23, 2019, filing to reflect gas costs anticipated by DTE Gas on its customers' bills. Act 304 provides that upon proper application by DTE Gas the Commission must commence a GCR reconciliation proceeding to allow DTE Gas to reconcile the GCR revenue recorded with the amounts expended and included in the cost of gas sold. The Commissions' order in U-8288 provides procedures for commencing a GCR reconciliation.

My review of the Commission's recent orders regarding DTE Gas's GCR plans, and reconciliations of those plans revealed the following

In U-18412, DTE Gas's GCR Plan for the 12-months ending March 31, 2019, the Commission accepted the ALJ's recommendation to consider $0.695/Dth NEXUS costs as projected costs and directed that the review and recovery of any such costs will be deferred to the 2018-2019 reconciliation and shall be evaluated in that case. The Commission noted in its order that NEXUS costs had been a topic of contention and the Commission indicated in past orders that such costs were outside of the GCR or PSCR plan years. The 2018-2019 GCR reconciliation would be the first year for the Commission to review such costs since the pipeline became operational in 2018. The Commission also indicated that the Commission recognized that MEC had raised several arguments about NEXUS pipeline violating affiliate transaction portions of the Code of Conduct. The Commission referred to its discussion in a contemporaneously entered order in U-18403. See U-18412 Order pp 2-4.

In U-20210 DTE Gas's GCR reconciliation for April 1, 2018, to March 31, 2019, the Commission adopted the ALJ's recommendation on NEXUS issues and indicated that DTE's decision to contract for TEAL capacity did not appear unreasonable or imprudent.

The ALJ found that the Commission previously believed that DTE had reasonably anticipated $375 million in savings and rejected the argument that DTE had failed to consider alternatives to the NEXUS transportation deal. The ALJ noted that in a previous case, U-20203, the Commission capped DTE Electric's recovery at $0.695/Dth (the original contract rate not including the added cost of TEAL amendment) because DTE Electric did not demonstrate that it had taken steps to renegotiate its contract when confronted with changing market dynamics. But in U-20210, the ALJ noted that no party established or argued that DTE Gas had the opportunity or ability to renegotiate the contract during the GCR year, so ALJ recommended that DTE Gas's GCR and GCC reconciliation should be adopted as modified by Staff. Staff recommended approving the utility's gas purchases and the modifications included disallowances that do not appear to be related to NEXUS. The Commission cautioned in its order that it would continue to monitor NEXUS gas cost issues "closely for reasonableness and prudence" and with "heightened scrutiny" since it is an affiliate contract. The Commission expressed concern that DTE Gas had not taken steps to renegotiate the contract given changing market dynamics and expects to see evidence going forward "that the company has taken steps to minimize the cost of gas, including efforts to renegotiate contracts and a comparison with other long-term supply options." U-20210 Order pp 4-6.

In U-20235, DTE Gas GCR Plan case for the 12 months ending March 31, 2020, the Commission directed DTE Gas to provide in its next reconciliation case a robust record to justify the reasonableness of the combined transportation rate of $0.845 per dekatherm per day and evidence of steps taken to minimize the cost of gas, including efforts to renegotiate the transportation agreement. The Commission indicated in its order that it has a statutory obligation to evaluate the reasonableness and prudence of the costs incurred in excess of costs approved in a GCR plan case, and the Commission could disallow certain costs when the evidence shows costs be unreasonable or when the Commission finds that there is not enough evidence to demonstrate their reasonableness. The Commission wrote in its order that the absence of the evidence requested in future reconciliation proceedings, shall be an indication that the combined transportation rate is unreasonable and should be disallowed. See U-20235 Order p 48-49.

In U -20235, the AG recommended a "cost deferral and recovery mechanism" that would track the price difference between spot market prices at MichCon and the price to obtain gas under the NEXUS deal to determine if NEXUS resulted in savings. The AG also sought disallowance and/or issuance of Section 7 (MCL 460.6h(7)) warning that NEXUS-related costs may not be recoverable in future rates. The Commission agreed with the ALJ and Staff that DTE Gas s proposed plan and factors should be approved, and the AG's proposed cost recovery mechanism should be rejected noting that it was "not persuaded that it is appropriate to benchmark a previously approved long-term contract against short-term prices." Despite its approval the Commission issued a Section 7 warning stating that while it approved of the plan and factors in this case, a cautionary step was needed with respect to DTE Gas's 's five-year forecast and Clarington receipt point. The Commission explained in its order that the AG had provided evidence that the incremental cost of the TEAL Amendment may be significantly more than projected by DTE Gas, while DTE Gas had failed to provide information that would allow its projected cost savings to be verified. The Commission indicated in its order that costs will be examined in each reconciliation where DTE Gas will need to "provide adequate support for the reasonableness and prudence of the amounts associated with the NEXUS Agreement and [TEAL] Amendment." See U-20235 pp 48-49.

In U-20236, DTE Gas GCR Reconciliation for the 12 months ending March 31, 2020, the Commission approved DTE Gas Co.'s gas supply cost recovery (GSCR) reconciliation for the period ending March 31, 2020, as modified, reflecting a net over recovery, with interest, of $953,138 as its 2020-2021 GSCR beginning balance and a net over recovery, with interest, of $1,801,559 as its 2020-2021 gas customer choice beginning balance. The Commission found that DTE Gas's NEXUS costs and contract with Texas Eastern Appalachian Lease Project (TEAL) were reasonable and prudent but indicated it will closely scrutinize these costs in the future. See U-20236 Order p 23.

Additionally, the Commission indicated in its order that it expects DTE Gas in its next reconciliation case to provide sufficient evidence of the reasonableness and prudence associated with the extension of the TEAL amendment, including documentation of the costs and anticipated savings of the extension. *Id.*

It should be noted that that the evidentiary record in this matter, U-20544, DTE Gas's 2020-2021 GCR reconciliation, closed on June 15, 2022. Initial briefs were filed on July 13,2022 and Reply briefs were filed August 3, 2022, The Commission's order in U-20236 was issued on July 27, 2022, 12 days after the evidentiary record closed in U-20544. Because of this, none of the parties in U-20544 had notice of the Commission's U-20236 order until July 27, 2022, and had no opportunity to provide the evidence requested by the Commission in U-20236. Therefore, it was not possible for DTE Gas to address the Commission's U-20236 concerns in U-20544 DTE Gas's next reconciliation case.

In U-20543 the Commission approved DTE Gas GCR Plan and authorized gas cost recover factors for 12 months ending March 31, 2021. The Commission adopted the ALJ's findings and recommendations, which included approving DTE Gas's s 2020-2021 GCR plan and GCR factors. The Commission indicated in its order that it "continues to have concerns about the actual costs of the NEXUS contract, including the TEAL amendment". The Commission agreed with ALJ and Staff that it is reasonable for DTE Gas to be required to submit the same demonstration of compliance with pricing provisions of the Code of Conduct that the Commission requires of DTE Electric in case U-20221. U-20543**,** Order pp. 1-3

In U- 20221, DTE Electric's PSCR for the 12 months ending December 31, 2019, the Michigan Environmental Council (MEC) and the AG raised arguments regarding the reasonableness of the NEXUS agreement costs and the preclusive effect of the

Commission's previous orders relating to the NEXUS agreement. The Commission adopted the ALJ's conclusion that the Commission's February 7, 2019, order in U-18403 (which among other things, determined that the NEXUS Agreement was reasonable and prudent at the time it was made) should be given preclusive effect in this case because that decision has not been shown to be erroneous, and no party introduced any new evidence to contradict it. Instead, the AG and MEC only presented "hindsight" evidence that compared costs under NEXUS to current prices in a retrospective fashion.

The Commission adopted the ALJ's recommendation to give the DTE Electric a Section 7 warning that DTE must ne establish the reasonableness and prudence of costs associated with the TEAL amendment to the NEXUS deal to receive recovery of those costs. The ALJ concluded, and the Commission agreed, that DTE's savings estimates were not based on reliable or rigorous price estimates and that DTE's limited data did not reflect the full potential cost of the TEAL amendment.

The Commission in U-20221 addressed cost recovery of NEXUS capacity costs for unused capacity and capacity used for purposes other than supplying electric power, i.e. DTE's practice of allowing asset management agreements with natural gas marketers to use its excess capacity. The Commission stated that DTE's "efforts to manage gas purchases and minimize costs to ratepayers will be reviewed in DTE Electric's reconciliation." The Commission stated that "[w]hile asset management agreements with natural gas marketers to use excess capacity are not inherently inappropriate, the Commission shares MEC's concerns over costs being included in the PSCR that are ultimately for fuel not used for power generation. As such, DTE Electric will need to show that the level of contracted transportation capacity is in the best interests of its electric customers." Additionally, the Commission "will want to see additional evidence that the transportation capacity costs incurred were reasonably and prudently tied to power supply costs."

MEC argued that the Code of Conduct required an annual evaluation of compliance with the affiliate compensation cap. The Commission responded by adopting the recommendation of the ALJ who determined that the Commission's Order in U-18403 addressed compliance with the prohibition on intentional subsidization rather than pricing provisions to determine the recoverable affiliate transaction costs. The ALJ concluded that DTE Electric has an obligation to address the recoverable affiliate compensation and demonstrate compliance with the pricing provisions of the Code of Conduct in its reconciliation, at which time the Commission will determine the amount of affiliate transaction costs that DTE Electric could recover. See U-20221 pp. 1-10.

In U-20222, DTE Electric PSCR reconciliation for the 12 months ending December 31, 2019, the Commission noted that it previously issued DTE Electric a Section 7 (MCL 460.6h(7)) warning in case U-20221 (DTE Electric PSCR 2019), and to DTE Gas in U-20235 (GCRP April 2019-March 2020). Commission also noted it issued Section 7 warning related to NEXUS in U-20527 (DTE Electric PSCR for 2020). These Section 7 warnings directed DTE to provide "adequate support" for reasonableness and prudence of costs associated with the NEXUS agreement in future cases.

The Commission found it was reasonable to approve gas transportation rate of $0.845/Dth/day in U-20222 to allow DTE adequate time to comply with Section 7 warnings. The Commission directed DTE to provide a "more robust" record to justify costs or to produce evidence of attempt to renegotiate NEXUS transportation agreement in future cases. The Commission found that the NEXUS and TEAL amendment complied with affiliate compensation provisions of Code of Conduct because DTE Electric's Kensington and Clarington transportation charges are less than the embedded cost rate approved by FERC and less than rates paid by other shippers. The Commission indicated that despite its approval in this matter DTE has an ongoing obligation to demonstrate compliance with Rule 8(4) in future reconciliations. The Commission also directed DTE Electric to "provide a detailed review of its supply acquisition process in its next PSCR case."

In U-20222, the Commission reaffirmed its findings in U-20235, that it was not appropriate to "benchmark a previously-approved, long-term contract against short-term prices," The Commission agreed with ALJ that the NEXUS contract (with exception of TEAL amendment) was approved in the Commission's "February 7 Order" [presumably a reference to the Feb 7, 2019 Order in U-18403] and aspects of the original contract, like the lack of ratepayer protections or rate adjustment mechanisms, "should not be revisited." See U- 20222 Order pp 48-49.

<u>AG's Recommended NEXUS and TEAL Disallowance</u>

The AG in the testimony of witness Coppola and in the AG Initial brief presents arguments regarding the NEXUS pipeline. See 2 Tr 326- 374; Initial Brief pp.6-34

The Commission's Order in U-20222 DTE Electric's 2019 PSCR reconciliation), discusses DTE's NEXUS and TEAL costs at length. See order, pp 26-71. In U-20222 the Commission again recognized that the original NEXUS greenfield contract provides firm transportation capacity benefits and that it is not appropriate "to benchmark a previously approved long-term contract against short-term prices. The Commission found that "it is reasonable to approve the combined transportation rate of $0.845/Dth/day [i.e., both the NEXUS greenfield and TEAL charges] in this case." U-20222 Order, pp 68-70. However, the Commission emphasized that in the company's pending and future PSCR cases, DTE Electric must provide a more robust record to justify the reasonableness of the combined transportation rate of $0.845/Dth/day or evidence of the steps the company took to renegotiate the transportation agreement. These costs will be examined in each reconciliation and the absence of such evidence shall be an indication that the combined transportation rate is unreasonable and should be disallowed. See U-20222, Order p 69.

In U-20235, the Commission approved DTE Gas's GCR but left open a future inquiry by the Commission regarding costs related to amendments to the NEXUS pipeline agreement, ordering:

> A. DTE Gas Company's gas cost recovery plan and factors for the 12-month period ending March 31, 2020, are approved.
>
> B. DTE Gas Company is cautioned that it will need to establish the reasonableness and prudence of all costs associated with the amendments to the NEXUS pipeline agreement in order to receive recovery of those costs.
>
> See U-20235, Order pp 8-9.

Given the Commissions numerous prior orders regarding the original NEXUS contract, and all related cost recovery issues, the NEXUS contract and related cost recovery issues should not be revisited by the Commission in this matter. The Commission's prior orders clearly direct DTE Gas to provide additional supporting evidence for the NEXUS contract including an updated independent analysis of the benefits for the capacity contract. The Commission's recent orders in U-20222, U-20235, U-20236, U-20253 have consistently and adequately addressed the original NEXUS contract. Through those orders, the Commission has consistently found that it is not appropriate "to benchmark a previously approved long-term contract against short-term prices". AG's witness Coppola's testimony and the AG's arguments provided in the AG's Initial, and Reply Briefs are, in part, attempts by the AG to relitigate the original NEXUS contract by comparing long term contract costs with short term prices.

The AG's proposal that the Commission use hindsight to determine whether DTE's decision to enter the NEXUS contract was reasonable and prudent is contrary to well-established law and regulatory practice. See *Detroit Edison Co v Public Service Comm*, 261 Mich App 448, 452; 683 NW2d 679 (2004) (observing that the utility "does not have the benefit of hindsight in accruing costs, and the PSC must review the utility's expenditures in light of the knowledge that was available at the time the expenditures were made. DTE Gas witness Moore rebutted the AG's proposed $6,880,876 million disallowance by explaining, as DTE witnesses have shown in multiple prior cases, that the NEXUS pipeline provides additional low-cost gas supply to GCR customers. See Commission's orders in U-17691, U-17941, U-18152, U-18412, U-20210, U-20235, U-20543, U-20544, and U-20810.

Consistent with recent Commission decisions, the AG's position that the Commission use hindsight to determine whether DTE's decision to enter the NEXUS contract was reasonable and prudent should be rejected by the Commission and should not be given any merit in this reconciliation proceeding. However, if the Commission choses to adopt all or part of the AG's position regarding NEXUS , DTE Gas testimony and arguments and AG testimony and argument may be found at:

- DTE Gas witness Moore Direct Testimony 2 TR 59-72.
- Moore Rebuttal Testimony 2 TR 81-114.
- DTE Gas Initial Brief pp 13-23.
- DTE Gas Reply Brief pp 4-22.
- AG witness Coppola Direct Testimony 2 TR 326-361.
- AG Initial Brief pp 6-34.
- AG Reply Brief pp 4-5.

<u>NEXUS Contract Information Requested by the Commission in U-20210 and U-20243</u>

In response to the Commission's Orders in U-20210 and U-20243, DTE Gas provided additional supporting evidence for the NEXUS contract (including the TEAL amendment) including an updated independent analysis of the benefits of the capacity contract. See 2 TR 59-72. In U 20210 the Commission expressed concern that DTE Gas had not taken steps to renegotiate the contract given changing market dynamics and indicated that it expects to see evidence going forward "that the company has taken steps to minimize the cost of gas, including efforts to renegotiate contracts and a comparison with other long-term supply options." U-20210 Order pp 4-6.

The Commission's order in U-20543 approving DTE Gas gas cost recovery plan for the 12-month period ending March 31, 2021, indicated:

> On a going forward basis, the Commission will expect to see evidence that the company has taken steps to minimize the cost of gas, including efforts to renegotiate contracts, and will look to comparisons with

other long-term supply options as informative as whether this particular contract adheres to the requirements of the Code of Conduct.

See U-20542 Order p.7.

Also, In U-20543, the Commission indicated that DTE Gas shall provide the evidentiary support for the appropriate gas cost recovery costs for the Antrim Expansion Project pipeline contracts and compliance with the pricing provisions of the Code of Conduct as identified in this order.

See U-20543 Order p.8

The Commission's order in U-2043 clearly directed DTE Gas to provide additional supporting evidence for the NEXUS contract including an updated independent analysis of the benefits for the capacity contract. Staff witness Royal's testimony and Exhibit S- 6 provide the following restatement of DTE witness Moore's testimony:

> Since April 8, 2021, DTE Gas hired a consultant to determine whether NEXUS was providing expected benefits to customers. FTI conducted extensive research (Exhibit A-28 in Witness Sosnick's testimony). Based upon that analysis, DTE Gas determined that NEXUS is providing expected benefits, and is not in breach of the contract. Typically, parties only renegotiate a contract when a party has breached the agreement, breach is imminent, or the purpose of the contract has been frustrated. None of these types of conditions were found to exist, as such, the Company is not in a position to renegotiate the contract. DTE Gas has not asked NEXUS to renegotiate the contract.
>
> See Exhibit S-6; 2 TR 303.

The evidence presented shows that during the reconciliation period DTE Gas did not renegotiate the NEXUS contract.

In response to the Commission's directives in U-20210 and U-20543 DTE Gas contracted with FTI Consulting, Inc. (FTI) to estimate the NEXUS Gas Transmission pipeline impacts to DTE Gas customers specifically Michigan customers and generally, the impact of NEXUS development. Witness Sosnick provided testimony regarding FTI's report and findings. FTI developed long-run simulations of relevant gas markets, including the Upper Midwest and supply regions, and estimated how NEXUS is expected to affect the delivered cost of gas to Michigan consumers. Exhibit A-30 provides the results of the FTI Report "NEXUS Pipeline Impacts Analysis."

DTE Gas first introduced the NEXUS pipeline project in U-17691, DTE Gas's 2015-2016 GCR Plan case. DTE Gas witness Moore testified that at that time DTE Gas utilized the analysis provided by ICF Resources (report dated December 2014 and updated December 2015), which projected gas prices to be between $5-$10/Dth over the life of the NEXUS contract. In 2021, forward prices have reduced to $2–$5/Dth over the life of the NEXUS contract. Witness Moore testified that during the past six years, technology improvements significant additional gas reserves have dampened the outlook on natural gas prices. Due to this market shift, DTE Gas contracted with FTI to provide an updated outlook on the benefits of the NEXUS contract. 2 TR 59-63.

Witness Sosnick sponsored the FTI Report (Exhibit A-28, "NEXUS Pipeline Impacts Analysis"), which reflects simulation analyses to forecast delivered gas prices under a *Base Case* (expected market conditions including NEXUS) and a *No NEXUS Case* (removing

NEXUS but holding all other inputs constant). Comparing the prices from those scenarios provided. See Exhibit A-28.

Witness Sosnick also testified that the findings and conclusions in the FTI report are generally consistent with those described in the 2015 ICF Study. Both show that NEXUS creates savings for DTE Gas customers. See 2 TR 229-230. In the November 2015 ICF Report, the higher forecast of market prices reflected broader industry sentiments reflected in the NYMEX curves shown in Henry Hub forward curves. See Figure 2, at 2 TR 231. Witness Sosnick testified that November 2015 ICF Report analysis was reasonable and DTE reasonably relied on ICF's findings when it decided to execute the NEXUS contracts. Both the ICF Report and the new FTI report show that NEXUS creates benefits that are greater than its costs. See 2 TR 232.

Rather than restate the contents of the FTI NEXUS report and witness Sosnick's related testimony, the following provides the transcript location of each section of the report.

- Description of the NEXUS system and DTE Gas contract. See 2 TR 216-217
- Development of FTI simulations to forecast delivered prices with and without NEXUS in service. See 2 TR 217-225.
- Explanation of how FTI used those forecasts to estimate the NEXUS savings to Michigan and summary of results customers See 2 TR 225-229
- Explanation of the similarities and differences among the FTI analyses and previous analyses. See 2 TR 229-232.
- NEXUS additional customer benefits, other than cost savings. See 2 TR 233-236
- FTI NEXUS Report conclusions. See 2 TR 236

Witness Sosnick further testified that FTI's analysis shows that NEXUS will significantly decrease natural gas prices in Michigan which creates savings for all the gas users in the state, including customers of DTE Gas, DTE Electric, and customers of other utilities. Specifically, the savings for DTE Gas Customers are greater than the costs of the contract that DTE Gas executed for long-term firm transportation entitlements on NEXUS. Witness Sosnick concluded that contracted NEXUS supply has been and will continue to be very beneficial to DTE customers. See 2 T 236.

The AG argues in her Initial Brief that the FTI report has "numerous faults and shortcomings that render the projected cost savings unreliable." See AG Initial Brief, p 27. DTE gas witness Sosnick provided extensive rebuttal testimony in response to AG witness Coppola's concerns regarding the FTI report. DTE Gas witness Sosnick organized his rebuttal testimony using 10 Critiques. The following is summary of AG witness Coppola's concerns regarding the FTI report and DTE witness Sosnick's responses.

<u>AG Concern 1.</u>

AG witness Coppola testified that the FTI simulation analysis of projected gas prices under its Base Case scenario, is based on myriad of assumptions which make the calculated cost savings no better than a speculative projection. See 2 TR 361-365.

<u>DTE Gas Critique 1</u>

Witness Sosnick testified that witness Coppola did not perform an independent analysis to either confirm FTI's assumptions nor provide alternative assumptions that could be analyzed. Instead, he conducted a conservative ballpark estimate based on his assumption that the differential in prices between Clarington and Kensington would diminish, without providing any basis for this assumption or any basis for his ballpark estimate. See 2 TR 239-240. Witness Sosnick provided additional testimony to rebut witness Coppola's concerns. See 2 TR 240-241.

AG Concern 2.

Witness Coppola testified that the FTI analysis simply removes the NEXUS pipeline from the model and incorrectly concludes that gas prices in Michigan would increase, and market demand would quickly be filled by other suppliers with minimal price disruption. See 2 TR 365-366.

DTE Gas Critique 2

Witness Sosnick testified that he GPCM model is the industry standard comes pre-loaded with operational and economic data and updates supply, demand, infrastructure, and transportation costs on an ongoing basis. The GPCM database includes more than 150 gas supply areas, nearly 500 consumers, almost 300 pipelines and approximately 450 gas storage facilities. Given this witness Coppola's claim that FTI simply removed the NEXUS pipeline from its GPCM analysis resulting in unrealistic conclusions is not supported by any evidence. See 2 TR 242. Witness Sosnick testified that he does not agree with witness Coppola's conclusion that if the NEXUS pipeline were removed, market demand would be filled other suppliers with minimal price disruption. Exhibit A-30, the results of the GPCM model indicate an average price disruption (i.e., price increase) of $0.08 for the MichCon citygate when NEXUS is removed from the pipeline network. Witness Sosnick provided additional testimony at 2 TR 243-244.

AG Concern 3.

Witness Coppola argues that NEXUS transportation contract being extended, and the TEAL contract being extended inflates the cost savings calculations. See 2 TR 366.

DTE Gas Critique 3

Even if Witness Coppola's arguments are accepted, he concluded that there still exists a $93 million net savings for DTE Gas. This level of savings is inconsistent with Witness Coppola's conclusion to exclude recovery of NEXUS costs. See 2 TR 244,

AG Concern 4.

Witness Coppola testified that he believes that sufficient gas supply will not exist at Kensington to make this gas purchase location sufficiently liquid for DTE Gas to realize cost savings versus prices at MichCon citygate, inclusive of the cost of NEXUS transportation. Witness Coppola claims this cost advantage to date has not occurred and that no information has been presented that significantly more gas will be available at Kensington in the near future. See 2 TR 367

DTE Gas Critique 4

Witness Sosnick testified that witness Coppola's simple comparison to recent history, is not appropriate. Exhibit A-28, shows that the GPCM model, used by FTI is the leading tool for simulating gas markets. The GPCM is used by pipeline companies, banks, investors, and regulators. The GCPM model used includes NEXUS's three ratemaking zones, connections with other pipelines, customers and supply areas, and other data as captured in regulatory filings and public databases. The GPCM database used for FTI NEXUS report includes more than 150 gas supply areas, nearly 500 consumers, almost 300 pipelines and roughly 450 gas storage facilities. The costs utilized in FTI's calculations are an output of the model and are a result of all these inputs. Witness Sosnick concluded that the FTI analysis is reasonable and witness Coppola's simple comparison using recent prices is not appropriate. See 2 TR 245.

AG Concern 5.

Witness Coppola disagrees with FTI's ' projection that the MichCon citygate price will be lower in the future with NEXUS built than without, with the average price spread of $0.08 forecasted over the 17-year period. Witness Coppola claims that the $0.08 price spread is small and a small change in the gas market would eliminate the spread. Witness Coppola disagrees that, if NEXUS was not delivering gas supply to Michigan, then other gas supply would increase in price by $0.05 to $0.10 per Dth over the next 17 years. See 2 TR 367-369.

DTE Gas Critique 5

Witness Sosnick testified that FTI's report and direct testimony as acknowledged by Witness Coppola shows that small price decreases in the natural gas market led to significant savings for DTE Gas customers, DTE Electric customers, and other Michigan gas consumers. FTI's analysis shows that without NEXUS in service delivered gas prices in Michigan on average increase. Thus, having NEXUS in service provides significant benefits to DTE Gas, DTE Electric and natural gas consumers in Michigan. Witness Coppola has not provided any known and measurable changes, or any other supporting evidence that the natural gas market could eliminate the price spreads that projected in Exhibit A-30.

Witness Sosnick testified that price spreads are a GPCM output. FTI's GPCM, simulation which holds all assumptions constant except the presence of the NEXUS pipeline. FTI has not assumed any price spreads but rather conducted a simulation which results in the price spreads used to calculate benefits. Witness Coppola has not provided any evidence or data to support his claim that these price spreads are farfetched. See 2 TR 248.

AG Concern 6.

Witness Coppola believes that the savings attributable to DTE Gas customers are inflated relative to the NEXUS contract costs by including non-GCR and GCC volumes.

By only using projected GCR and GCC volumes, Witness Coppola estimates that these customers would see a net cost increase rather than a net cost savings See 2 TR 369-370.

DTE Gas Critique 6

Witness Sosnick testified that FTI completed an analysis of the benefits of the NEXUS pipeline that includes all DTE Gas, DTE Electric, and other Michigan consumers' delivered gas volumes, not just a limited review of GCR and GCC volumes. FTI's analysis shows that there are significant benefits to the gas consumers in Michigan due to the lower delivered gas prices across the state. See 2 TR 249.

AG Concern 7.

Witness Coppola's testified that FTI's projected cost savings forecasted DTE Electric gas volumes exceed the volumes projected DTE Electric recent PSCR plan filings. See 2 TR 370-371.

DTE Gas Critique 7

Witness Sosnick testified that GPCM modeling relies on, and is consistent with, the U.S. Energy Information Administration (EIA) Annual Energy Outlook (AEO) projections of the East North Central Census Division growth, which is anticipated to be a significant in the electric market. FTI's DTE Gas' GCR volumes have slightly diverge from FTI's expected volumes because FTI completed an independent analysis of the Michigan gas markets. Witness Sosnick testified that FTI believes that projected volumes used in the FTI Report are reasonable. See 2 TR 249-250.

<u>AG Concern 7.</u>

Witness Coppola testified that the FTI report does not provide a balanced view of the potential range of net cost savings, Witness Coppola believes that FTI provided a high demand cost scenario but did no low gas demand scenario. Witness Coppola believes a low-cost scenario is likely given the trend by electric utilities toward renewable generation and less fossil fuels. See 2 TR 371.

<u>DTE Gas Critique 8</u>

Witness Sosnick testified that when FTI completed its' analysis in February-March 2021, natural gas prices were near all-time lows. Witness Coppola's recommended low demand scenario would create unlikely lower prices than the Base Case. Therefore, witness Coppola's recommended low-demand, low-price scenario would not likely provide meaningful results. Witness Coppola did not provide a recommended low-cost scenario post the FTI report period. If he did that scenario should consider, the fact that the price of natural gas has generally significantly increased and specifically at the Henry Hub trading point has increased by 87%. 2 TR 250-251.

<u>AG Concern 9</u>

Witness Coppola argues that NEXUS' gas supply, Appalachian shale gas, is not competitively priced with other gas supplies, which he believes his Exhibit AG1 shows.

He also believes that any comparison of NEXUS to SEMCO Gas's Marquette Connector Pipeline (MCP) is not valid because the MCP solved SEMCO Gas's reliance on one source of gas supply while DTE Gas and has interconnections with other pipelines and multiple gas storage fields. See 2 TR 371-372.

DTE Gas Critique 9

Witness Sosnick testified that he does not agree with witness Coppola's concerns. The Commission in U- 18202 compared NEXUS to MCP, wrote the project's ability to "increase the reliability of natural gas service to many of SEMCO's customers [and] provided much-needed redundancy in the event of a pipeline rupture." NEXUS provides these same benefits as a greenfield pipeline. See U -18202 Order p 3.

Witness Sosnick testified that witness Coppola's AG-1 is witness Coppola's approach is a retrospective review of gas prices and is not the proper prospective analysis for review of long-range economic forecasting modeling or other NEXUS benefits. Witness Coppola's AG-1 is a simple retrospective comparison of actual gas prices to date to NEXUS prices. Witness Sosnick testified that the Commission should not be persuaded by witness Coppola's retrospective approach because it disregards previous Commission's orders that DTE Electric's decision to contract for NEXUS pipeline capacity was reasonable and prudent. Witness Sosnick testified that DTE Gas's expenses associated with that decision, should be recovered by DTE Gas. FTI measured NEXUS benefits using the GPCM, a long-run economic forecast model, and not witness Coppola's narrow natural gas price analysis for 2019 and 2020. See 2 TR 251-252.

AG Concern 10.

Witness Coppola testified that DTE Gas NEXUS FTI report this is only the second time FTI has used the GPCM forecasting model to forecast the financial impact of future capital investments which he believes raises concerns about the accuracy and validity of the projected NEXUS cost savings. See 2 TR 373.

DTE Gas Critique 10

Witness Sosnick testified that he worked on numerous other projects that involved the understanding of pipeline configurations, the appropriate development of transportation and storage rates, and how natural gas supply meets natural gas demand across the United States. FTI staff received extensive training RBAC, Inc., who licenses GPCM Additionally, FTI staff unutilized the GPCM to analyze a portfolio of investments regarding the modification or elimination of Aliso Canyon's storage capacity for the California Public Utilities Commission (CPUC) in Docket No. I17-02-022, Witness Sosnick testified that witness Coppola failed to identify any mistake or error in FTI's GPCM analysis in this or any other proceeding. See 2 TR 252-253.

Conclusion Regarding FTI Report

The evidence presented shows that witness Coppola's assumptions and conclusions regarding the DTE Gas's Nexus FTI report have no merit and should not be adopted by the Commission. DTE Gas FTI report and witness Sosnick's and witness Moore's testimony provides that information requested by the Commission in U-20210 and U-20543.

TEAL Amendment and Code of Conduct

DTE Gas witness Moore testified regarding the data used to determine the expected savings of $4.8 million associated with the TEAL Amendment in her rebuttal testimony. DTE Gas's TEAL amendment savings analysis was provided in U-20210 Exhibits A-20, A-22, and A-23 and in this matter (U-20544) as Exhibit A-43, A-44, A-45. Witness Moore testified that these exhibits show the data used in DTE Gas's expected TEAL savings. Exhibit A-20 is a cost of gas spreadsheet, or COG model, based on a combination of third-party data and DTE Gas's knowledge and experience. Exhibit A-46 (U-20210 Rebuttal Exhibit A-21) is a similar spreadsheet; however, it utilizes third-party support for all the data locations used to validate DTE Gas's decision. Exhibit A-22 summarizes and compares the two spreadsheets. Exhibit A-23 replaces the data from Exhibit A-22 (summary of the two models) with cell references to show the calculations supporting the cost savings and the source of the data in each cell. See 2 TR 98.

Staff witness Royal testified that Staff is aware that the AG had concerns in U-20203 at witness Coppola's Revised Direct testimony p.31, that the TEAL pipeline utilization should have been greater during the 2018 calendar year. Witness Royal testified that DTE Gas utilized its TEAL pipeline contracted volumes at almost 107% on average for the 12-month reconciliation period which is greater than DTE Gas expected 80% and greater than the 13%- 27% referenced by AG witness Coppola. See 2 TR 302. Witness Royal testified that DTE Gas utilized its TEAL pipeline contracted volumes at least 95% for eight of the 12-months of the GCR year (May, June, July, August, and October of 2020, January through March 2021) and at least 100% for three of the 12-months of the GCR year (April, November, and December 2020). Staff concluded that DTE Gas's cost minimization and capacity utilization of TEAL pipeline capacity was reasonable, and Staff recommends that the Commission allow DTE Gas recovery of all costs related to the TEAL pipeline. Id.

In the Commission's order in U-20543, DTE' Gas 2020-2021 GCR plan case the Commission wrote:

> On a going forward basis, the Commission will expect to see evidence that the company has taken steps to minimize the cost of gas, including efforts to renegotiate contracts, and will look to comparisons with other long-term supply options as informative as whether this particular contract adheres to the requirements of the Code of Conduct.
>
> See U-20543, 4/8/2021 Order, p 4.

Staff witness Royal testified that DTE Gas did not attempt to renegotiate the NEXUS pipeline contracts in the current reconciliation period. Exhibit S-6, at page 1 of 8, DTE Gas witness Moore states:

> Since April 8, 2021, DTE Gas hired a consultant to determine whether NEXUS was providing expected benefits to customers. FTI conducted extensive research (Exhibit A-28 in Witness Sosnick's testimony). Based upon that analysis, DTE Gas determined that NEXUS is providing expected benefits, and is not in breach of the contract. Typically, parties only renegotiate a contract when a party has breached the agreement, breach is 18 imminent, or the purpose of the contract has been frustrated. None of these types of conditions were found to exist, as such, the Company is not in a position to renegotiate the contract. DTE Gas has not asked NEXUS to renegotiate the contract.

See Exhibit S-6; 2 TR 303.

DTE Gas witness Moore testimony restated in Staff Exhibit S-6 indicates that DTE Gas had not pursued a lower rate NEXUS pipeline rate from the Federal Energy Regulatory Commission (FERC). See Exhibit S-6, page 2 of 8.

The Code of Conduct provisions for affiliate transactions is as follows:

> If a utility provides services or products to any affiliate or other entity within the corporate structure, and the cost of the service or product is not governed by section 10ee (8) of 2016 PA 341, MCL 460.10ee (8), compensation is based upon the higher of fully allocated embedded cost or fair market price. If an affiliate or other entity within the corporate structure provides services or products to a utility, and the cost of the service or product is not governed by section 10ee(8) of 2016 PA 341, MCL 460.10ee(8), compensation is at the lower of market price or 10% over fully allocated embedded cost.

See Michigan Administrative Code, Rule 460.10108(4)

Witness Royal testified that Staff completed a Code of Conduct review using the following two hypothetical scenarios to analyze DTE's decision to include the NEXUS and TEAL pipelines as part of the procurement of natural gas supply

- What it would have cost DTE Gas if it did not have a negotiated contract for the NEXUS and TEAL pipelines but used FERC's maximum tariffs for the procurement of the natural gas supply assuming a firm transportation contract with NEXUS and TEAL pipelines instead of the negotiated rates.

- What it would have cost DTE Gas if the NEXUS and TEAL pipelines had not been built. In this scenario, the Company would bring natural gas from the Rover Pipeline to the DTE Gas system using either the ANR Pipeline at Defiance, Ohio, or the Panhandle Eastern Pipeline Company, LP (PEPL) at Defiance, Ohio.

See 2 TR 304-311

Witness Royal testified that these feasible options were presented in DTE Gas' witness Michael D. Sloan's direct testimony on page 23, lines 11 through 25 from DTE Gas' 2015-2016 GCR plan. U-17691. Id.

Witness Royal testified that the Code of Conduct provisions at Administrative Code, 23 460.10108(4). relating to NEXUS and TEAL pipeline transactions has not been violated. Witness Royal testified that Staff's analysis using two hypothetical scenarios demonstrates cost minimization in using DTE Gas's negotiated NEXUS and TEAL pipelines rates DTE Gas .Therefore, Staff recommends that the Commission approve DTE Gas's transportation rates with the NEXUS and TEAL pipelines contracts. See 2 TR 310-311.

The AG rejects DTE Gas witness Moore's testimony regarding the $0.15 per Dth/day TEAL contract rate paid to NEXUS to transport gas supply from Clarington to Kensington. Witness Moore testified regarding the supply and market zone tariff rates and the maximum rates filed with FERC by NEXUS. The AG argues that how DTE Gas calculates the rate ignores the fact that the TEAL portion, paid by DTE Gas to NEXUS added an additional $2.1 million annually to transport 37,500 Dth/day.

The AG argues that DTE Gas initially justified the NEXUS capacity agreement on lower Kensington gas prices compared to other gas supply sources delivered to Michigan but now DTE Gas justifies the TEAL agreement on higher Kensington gas prices. Higher Kensington gas prices become the higher TEAL agreement savings from the TEAL agreement. The AG argues the Commission should not rely on DTE Gas's reported TEAL cost savings to justify a NEXUS contract that has increased gas costs for GCR customers. The AG believes that DTE Gas did not provide testimony regarding the TEAL amendment costs savings because during the 2020-2021 GCR year Clarington gas prices were higher than Kensington prices. Exhibit AG-1 shows that the Clarington gas prices on average for the year were $2.17 per Dth, while Kensington prices were $1.81 per Dth, or $0.36 lower per Dth. The AG believes that this price inversion removes any cost savings at Clarington and eliminates any justification for the TEAL contract amendment. See AG Brief pp-1-17.

I find that the AG's arguments regarding the TEAL amendment have no merit. Staff's Code of Conduct analysis using two hypothetical scenarios demonstrates cost minimization in using DTE Gas's negotiated NEXUS and TEAL pipelines rates Therefore, I recommend that the Commission approve DTE Gas's transportation rates with the NEXUS and TEAL pipelines contracts. The evidence shows that DTE Gas' decision to acquire the TEAL capacity was reasonable and prudent, and DTE Gas is entitled to recover its costs relating to the TEAL Amendment.

<u>DTE Energy Trades</u>

The AG argues in her Initial brief and in the testimony of witness Coppola that DTE Gas did not adequately support how it established the price for purchased natural gas from DTE Energy Trading during the months of November 2020 through March 2021 when no other competitive bids were received. The AG argues that the validity and reasonableness of those purchases cannot be determined and recommends the Commission disallow $325,312 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation.

The AG argues that DTE Gas's DTE Energy Trading purchases are new so there is no established price point. See AG Initial Brief p 35. DTE Gas witness Moore testified that DTE Gas has made purchases from DTE Energy Trading in the past. In U-15451-R, MIch Con's reconciliation for its gas cost and revenues for the 12-month period ending March 2009 MichCon purchased a total of 3.3 MMDth of gas from DTE Energy Trading at a total cost of $24.4 million Also in U-15701-R, MichCon's gas cost and revenues reconciliation for the 12 months ending March 31, 2010, MichCon purchased a total of 0.5 MMDth of gas from DTE Energy Trading at a total cost of $1.7 million. See 2 TR 115. Given this information the AG's argument that DTE Gas has not purchased gas from DTE Energy Trading has no merit,

The AG argues in her Initial brief that DTE Gas did not explain why, in the 2020-2021 GCR year, DTE Gas included DTE Energy Trading as a gas supplier. See AG Initial brief p 35. Witness Moore's testified in rebuttal that DTE Gas determined that it needed to purchase gas from DTE Energy Trading to meet MichCon's supply requirements to serve GCR customers. See 2 TR 115. Witness Moore testified that DTE Gas has established and follows gas purchase internal and external oversight, procedures, policies, regulations, codes of conduct, standard work instructions, training, compliance, and ethical standards. Witness Moore provided the following key DTE Gas controls used to monitor the validity of affiliate transactions:

(1) Gas supply buyers strictly adhere to standard work instructions to prevent financial misconduct including a review and sign off of all purchases by the Manager of Gas Supply and review and sign off of all purchases in excess of $10 million by the Vice President of Gas Supply.

(2) A timely, transparent, competitive purchasing process, which states that "For its supply needs, the Company generally solicits at least three verbal bids from its list of creditworthy suppliers from the supply area that is required. DTE Gas will then enter into transactions with the providers of the lowest bid or bids."

(3) Review by PricewaterhouseCoopers, DTE Gas external auditors, to ensure affiliate transactions and DTE Gas's general business, are in compliance with the Sarbanes Oxley Act and Financial Accounting Standards.

(4) DTE Energy Inc.'s Enterprise Risk Management organization reviews and provides input on DTE Gas's purchase programs and processes.

(5) An internal audit department to oversee DTE Gas's dealings and compliance with the DTE Energy Way and ethical business practices. See 2 TR 115-116

Witness Moore testified that DTE Gas followed these practices when purchasing gas from DTE Energy Trading. See 2 TR 116.

The AG indicated in her Initial brief that DTE Gas followed its policy for the gas purchase transactions on Gas Deal #7303492 lines 2, 4, 6, 8, 10, 12-14, and 16, which AG Initial Brief, p 35. Despite this the AG questions other DTE Gas purchases shown in Exhibit A-7 because the Bid Sheets for each transaction either show no competitive bids or indicate that no other offers were received. Witness Moore testified that the Bid Sheets show that no competitive bids were received because DTE Gas did not receive multiple bids. Witness Moore testified that consistent with DTE Gas's gas procurement standardized protocol, bids were sought gas from various suppliers. DTE Gas has no control over the bids received. DTE Gas sought bids from entities, such as Conoco, Equitable Resources (EQT), Shell, Tenaska, and BP Canada but received no bids. The only bid received, as pointed out by AG witness Coppola, was from DTE Energy Trading. Witness Moore testified that DTE Gas 'purchasing protocol is transparent and is followed when sourcing supply, regardless of the supply source. See 2 TR 117-118.

The evidence presented shows that the AG's recommended disallowance of $325,312 of excess gas purchase costs from the 2020-2021 GCR cost of gas reconciliation has no merit. The evidence shows that DTE Gas evaluated supply options and procured the least cost, reliable supply sources in all instances in this GCR year. See 2 TR 12. The AG has not provided any evidence that DTE Gas did not follow its gas purchasing protocols nor that these protocols are somehow flawed. Therefore, I recommend the Commission reject the AG's $325,312 disallowance.

<u>DTE Gas purchase transactions during May 2020 through January 2021</u>

The AG argues that DTE Gas has not adequately supported how it established the purchase price for when no other competitive bids were received for gas purchases during

May 2020 through January 2021. The AG argues that because the validity and reasonableness of those purchases cannot be determined the AG recommends that the Commission disallow $826,118 of excess gas purchase costs. AG Initial Brief, pp 40-41.

Exhibit AG-11 provides the DTE Gas bid sheets reviewed by AG witness Coppola. Witness Coppola testified that his review found that DTE Gas purchases were poorly documented with poor documentation of price bids received, lack of clarity and transparency regarding accepted bid prices and how they differed from the offered prices Witness Coppola testified that several of these documentation problems pertain to gas purchases at Clarington and Kensington where DTE Gas has had difficulties in finding sufficient gas supplies at attractive prices. 2 TR 379.

Witness Coppola testified that in discovery DTE Gas was asked to explain these unusual gas supply bidding situations. Witness Coppola believes that DTE Gas's responses do not provide any further clarity and leave questions and concerns unanswered. Exhibit AG-11 provides the Bid Sheets in issues and DTE Gas's discovery responses. Witness Coppola concluded that given the limited amount of information and the lack of competitive bids, the agreed gas prices cannot be considered fair and reasonable. See 2 TR 378-379.

Exhibit AG-12 compares the prices paid by DTE Gas provided in Exhibit A-3 for the applicable gas purchase deals for the months of May 2020 through January 2021 to the index price for Clarington and Kensington provided by DTE Gas in Exhibit A-1. Witness Coppola testified that his comparison shows that or each gas purchase, DTE Gas paid more than the applicable index price. Witness Coppola multiplied the difference in price by the volumes purchased, and calculated an excess purchase cost total of $826,118, as shown on line 8 of Exhibit A-12. See 2 TR 379-380.

DTE Gas witness Moore testified that when DTE does not receive multiple bids DTE Gas analyzes the offer received and compares it to the other supply sources to determine if the bid is economical when compared to other sourcing alternatives, consistent with DTE Gas's purchasing protocol. See 2 TR 119. Witness Moore also testified that the redaction of supplier names is part of DTE Gas's process when seeking competitively bid supply purchases. The redacted information is sensitive in nature and is not publicly disclosed to protect the integrity of the competitive bidding process. Redacting this information is a long-standing practice when sharing sensitive information, such as bid sheets. See 2 TR 120. Witness Moore testified that DTE Gas's purchases were transparent and adhered to its purchasing protocol when sourcing supply regardless of the supply source. DTE Gas evaluated supply options and procured the least cost, reliable supply sources in all instances in this and all other GCR years. Id.

I find that the evidence presented shows that DTE Gas 's purchase transactions during May 2020 through January 2021 were reasonable. The testimony of DTE Gas witness Moore adequately responds to the AG's arguments and concerns. The AG's argument has no merit. Therefore, I recommend the Commission reject the AG's proposed $826,118 disallowance.

<u>DTE Gas Call Option</u>

The AG argues that DTE Gas failed to make a compelling and convincing case regarding the necessity of a Call Option to provide additional gas supply in the event of a failure of the Belle River dehydration equipment and failed to provide support that the Call

Option was the best and least costly alternative available. The AG recommends that the Commission disallow the $250,000 cost for the Call Option included in the cost of gas. AG Initial Brief, p 3.

The AG argues that DTE Gas's decision to enter into the Call Option before fully exploring other potentially viable options was not necessary and therefore unreasonable. AG argues that the risk of a Belle River storage field dehydration unit failure was minimal, and if a failure did occur, DTE Gas could have managed the failure by accessing other gas supplies. The AG also argues that the "amount extended to the full days for which the Call Option was contracted is a total potential cost of $15,750,000." AG Initial brief, p 45.

DTE Gas witness Bratu testified that DTE Gas purchased a Gas Supply Physical Call Option for up to 250,000 Dth/day or 237 MMcf/day for any 10 days in January and February. The Call Option was purchased to mitigate a risk of potential storage deliverability following due to the potential failure of the Belle River Mills storage field dehydration unit. Witness Bratu testified that DTE Gas believes that the Call Option would ensure sufficient supply for GCR and GCC customers See 2 TR 132. Witness Bratu testified that DTE Gas selected the gas supply physical call option because it was the most cost effective prudent and responsible short-term way to mitigate a potential failure of the Belle River Mills storage field dehydration unit until a permanent solution is implemented. See 2TR 154.

DTE Gas considered 15 other potential mitigation measures in addition to the gas supply physical call option. See 2 TR 163. Witness Bratu testified that Exhibit A-27 provides these 16 different solutions considered to mitigate a Belle River Mills storage facility dehydration unit failure. DTE Gas considered 5 strategic mitigation alternatives See 2 TR 163.

Witness Bratu testified that the purpose of the gas supply physical call option was to mitigate the effects of an event when a failure of the Belle River Mills storage field dehydration unit would coincide with design day conditions, the same way a car insurance policy mitigates the costs of a car accident. 2 TR 157. The AG's analysis does not consider the fact that DTE Gas must plan for design day conditions to occur at the end of the month because that is when the storage balances are at their lowest levels. Witness Bratu testified that prior failures of the Belle River dehydration unit occurred early in the heating season, on January 7th and January 8th, when storage balances were higher than in the design day plan. During those prior failures storage deliverability was higher than in the design day plan and DTE Gas was able to manage through those two days without the need for additional supply despite colder-than-normal weather. See 2 TR 158. During the March 2018 and December 2019 Belle River failures the assumptions used when planning hydration unit at the Belle River storage field as it has done in the past were different. Witness Bratu testified that storage levels, supply liquidity, and equipment performance vary and are subject to weather conditions. DTE Gas was able to sustain system integrity during the 2018 and 2019 prior Belle River outages because:

- March 2018, GCR and GCC consumption and resulting storage withdrawals needed to meet market demand was lower than peak requirements for January or February.
- December 2019 was approximately 12% warmer-than-normal: and
- December storage balances are normally higher due to the gas being stored for the winter months.

Witness Bratu testified that when DTE Gas plans for potential risks it takes the same position that it does when planning for design day conditions and for colder-than-normal weather to determine system vulnerabilities under extreme conditions. See 2 TR 159.

Witness Bratu testified that DTE agrees with AG witness Coppola that the full cost of the gas supply physical call option, if fully exercised every day for the entire contracted period is $15,750,000 annually. But the only certain cost that DTE Gas pays for the gas supply physical call option is $250,000. See 2 TR 168. Because the gas supply physical call option works like an insurance policy DTE Gas would only pay the $250,000 annual demand fee (the insurance premium) up front. Witness Bratu testified that a 10-day Belle River Mills storage field outage is possible, but it is more likely that a potential outage of the dehydration unit would last fewer than 10 days, thus lowering the total cost of the gas supply physical call option. If the dehydration unit at Belle River Mills storage field fails, then DTE Gas would consider the least costly supply first to cover any shortage generated by such failure. Given this it is not certain that DTE Gas would execute the gas supply physical call option if a less expensive alternative is available. See 2 TR 169.

Witness Bratu testified that contrary to AG witness Coppola's testimony the call option contract was not retroactive to January 1, 2021. AG's Exhibit AG-13 provides DTE Gas's answer to AG's discovery question 8 AGDG-1.33e in case U-20816. This exhibit shows on page 2 that DTE Gas's contract for Call Option is dated 9/9/2020 and on page 4 it shows that the contract was signed by DTE Gas on 9/10/2020 and by the counterparty on 9/14/2020. Because the contract was executed before January 2021 DTE Gas had no reason to conclude that the gas supply physical call option needed to start retroactively. See 2 TR 178.

AG witness Coppola testified that DTE Gas "failed to disclose its intent to enter into the Call Option beginning with the 2020-2021 GCR plan year" and that "[t]he parties to that proceeding were not afforded the opportunity to weigh in on the validity and reasonableness of DTE Gas's decision, which affected the GCR cost of gas for the 2020-2021 GCR year.". See 2 TR 382- 384. DTE Gas witness Bratu testified that DTE Gas after completing its U-20464 system-wide risk assessment, required by the Commission's Statewide Energy Assessment in the summer of 2020 or 6 months after it filed the 2020-2021 GCR U-20543. – Final Report, decided to purchase the gas supply physical call option. Exhibit A-38 shows that DTE Gas filed its 2020-2021 GCR Plan Case U-20543 on December 23, 2019. This was before DTE Gas' decision to purchase the call option. Exhibit A-25 provides DTE Gas' answers to AG discovery question AGDG-1.33d in U-20816. In that discovery response DTE Gas provided the bids for purchasing the gas supply physical call option dated June 22, 2020, and June 24, 2020. This evidence clearly shows that DTE Gas did not intend to purchase the gas supply physical call option prior to its December 23, 2019, filing its U-20543 ,DTE Gas' 2020-21 GCR Plan.

Even though DTE Gas's gas supply physical call option contract was not part of the 2020-2021 GCR Plan DTE Gas filed in U-20543, DTE Gas did not amend that plan because DTE Gas had valid reasons to act proactively to address a potential Belle River storage facility failure risk that could jeopardize the integrity of its system and have serious negative consequences to the safety and well-being of its customers. I agree with DTE Gas that It would have been unreasonable and imprudent for DTE Gas to identify a system risk and then ignore that risk for an entire year so, as suggested by the AG, so DTE Gas could include a solution to mitigate the risk in its next GCR plan. The potential failure of the Belle River Mills storage field dehydration unit created a risk and that needed a timely mitigation solution. See 2 TR 179.

The evidence presented shows that the AG's arguments that Call Option was not necessary and that DTE Gas's purchase of the Call Option was made before fully exploring other potentially viable options have no merit. Additionally, the AG arguments that the risk of a Belle River Mills storage field dehydration unit failure was minimal, and if a failure did occur, DTE Gas could have managed the failure by accessing other gas supplies have no merit. The evidence shows that DTE Gas identified a material risk to its system reliability and, took proactive measures in the form of purchasing the gas supply physical call option to address that risk. Therefore, I recommend the Commission reject the AG's $250,000 disallowance.

<u>Summary</u>

DTE Gas had a $1.8 million over-recovery, with interest, for the prior plan year, which became the beginning balance for this reconciliation year. See Exhibit A-19 REVISED, page 2, line 1, column 2.

DTE Gas's net over-recovery for this 2020-2021 reconciliation period, including interest, is approximately $2.0 million. See Exhibit A-19 REVISED, page 2, line 15, column 3) The pipeline reservation cost allocation calculates the percentage of total pipeline reservation cost to be allocated to GCR and GCC customers, including the 30% discount to GCC customers. The cost is allocated based on the percentage of total sales volumes (adjusted for the GCC discount) for GCR and GCC customers, as approved by the Commission in U-17691-R. The GCC reservation charge percentage, which was 10.47% for the period, was calculated by dividing the total GCC sales volumes by the total of GCR and GCC sales volumes and then multiplying that amount by 70%, to calculate the 30% discount allocation factor to GCC customers. The GCC customer percentage is then multiplied by the total pipeline reservation costs (net of credits) to get the total annual costs for GCC customers. GCR customers are allocated the difference between the total and the GCC customer portion of the total. See Exhibit A-19 REVISED, page 3 lines 1-12. Also See 2 TR 209.

Staff recommends the Commission approve a GCC reservation charge over recovery of approximately $2.0 million, inclusive of interest, and order this amount to be used as the beginning balance. The Commission's order in U-20236, DTE Gas 2019-2020 GCR reconciliation found that DTE Gad a net over recovery with interest of $1,801,559 and this amount should be used as the beginning GCC beginning balance in DTE Gas's 2020-21 reconciliation. See 2 TR 282: U-20236 Order p 24. The Commission also found in its order in U-20236 that DTE Gas had a net over recovery, with interest of $953,138 and must use this amount as the beginning balance in its 2020-2021 GCR reconciliation. *Id.*

V.

CONCLUSION

I find that the evidence presented shows the following:

- DTE Gas's total under-recovery including interest for the 2020-2021 GCR period is approximately $5.4 million, which was incurred through reasonable and prudent actions.

- DTE Gas's GCC customer's over-recovery including interest for the 2019-2020 GCR period is approximately $2 million
- The calculated amount of DTE Gas's total under-recovery and GCC customer over-recovery, together with interest, is correct, and that the disposition of that amount is consistent with the guidelines established by the Commission
- DTE Gas expenses associated with DTE Gas's agreements with NEXUS Gas Transmission were reasonable and prudent.
- DTE Gas expenses associated with DTE Gas's TEAL Amendment with NEXUS Gas Transmission were reasonable and prudent.

Therefore, I recommend the Commission approve DTE Gas's 2020/2021 GCR reconciliation consistent with the findings above.

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

Martin D. Snider

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Martin D. Snider
Administrative Law Judge

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