

April 24, 2006

Via E-file

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

**Re: In the matter of the application of Consumers Energy Company for authority to increase its rates for the distribution of natural gas and for other relief.
MPSC Case No. U-14547**

Dear Ms. Kunkle:

Enclosed for filing in the above-referenced case the *Initial Brief of The National Energy Marketers Association* and *Proof of Service*.

If you should have any questions, please contact me.

Very truly yours,

Jennifer L. Frye

JLF:jkt

Enclosures

cc: Hon. James N. Rigas
All Parties of Record

LANSING 34563-1 362094v4

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for authority to increase its rates for the)
distribution of natural gas and for other relief)
_____)

Case No. U-14547

INITIAL BRIEF OF THE
NATIONAL ENERGY MARKETERS ASSOCIATION

I. INTRODUCTION

The current competitive Gas Customer Choice program in Michigan (the "Choice program") was commenced pursuant to an August 4, 2000 Order issued by the Michigan Public Service Commission ("the Commission") in Case No. U-12550. In that order, the Commission directed Staff to undertake a collaborative process for the purpose of developing uniform terms and conditions for use in an expanded gas customer choice program. In the ensuing years, the Choice program has introduced competition into the Michigan market and has created the basis for a competitive marketplace in years to come.

However, while commendable, the Choice program is not without its problems. Foremost among the issues that have arisen with respect to the Choice program is the manner in which the current annual reconciliation process tends to create competitive advantages for GCR customers at the expense of Choice customers. As described in the testimony of National Energy

Marketers Association ("NEM")¹ witness Mr. Scott White², the Choice program rules favor the utility GCR to the detriment of Choice customers and suppliers in almost every instance. (Tr 1182). The result is the inhibition of a truly fair and balanced program and a competitive natural gas market in Michigan.

In its November 20, 2001 Order issued in Case No. U-12550, the Commission recognized that "gas customer choice programs are still under development" and that "as gas customer choice develops, changes and adjustments may be needed." November 20, 2001 Order, pp. 3-4. At that point in time, the Commission decided to follow a course of action in which pilot programs would be initiated, and the results of those programs later reviewed. Id., p. 4.

The time has come for the Commission to review the Choice program and consider changes and adjustments to the reconciliation process set forth in Consumers' tariff (as well as in the Choice program tariffs used by other gas utilities). The evidence submitted in this proceeding makes clear that: (1) the current reconciliation process does create, or has the potential to create, a competitive imbalance that favors GCR customers; (2) aggregate

¹ NEM is a national, non-profit trade association representing wholesale and retail marketers of natural gas, electricity, as well as energy and financial related products, services, information and advanced technologies throughout the United States, Canada and the European Union. (Tr 1176). NEM's membership includes independent power producers, advanced metering, demand and load management firms, billing, back office, customer service and related information technology providers. NEM members are global leaders in the development of enterprise solution software for energy, advanced metering, information services, finance, risk management and the trading of commodities and financial instruments. (Id.) NEM members also include inventors, patent holders, systems integrators, and developers of advanced, telecommunications, cable and powerline technologies, for uses in power line surveillance, grid reliability broadband over powerline and with advanced uses in power and telecom systems integration and interoperability as well as new and innovative electrical encoding, applications or decoding known as Smart Electricity.TM (Id.).

² Mr. White is the Co-Chair of NEM's National Retail Natural Gas Policy Committee and the co-founder and President of Interstate Gas Supply ("IGS"), a competitive retail natural gas supplier serving commercial and industrial customers in five states, including Consumers' service territory in Michigan. (Tr 1176).

reconciliation would eliminate this imbalance without creating a competitive disadvantage to GCC customers; (3) aggregate reconciliation is routinely used by utilities in other states³; (4) no party in this case has actively opposed the concept of aggregate reconciliation; and (5) the only reason that aggregate reconciliation has not received more attention in Michigan is that no single, detailed proposal has yet been formulated and offered for review and study.

It is both the policy and the responsibility of the Commission to encourage competition and customers choice in the gas industry. See April 28, 1988 Order in Case No. U-11682 (noting that the Gas Customer Choice program was designed to introduce competition into the provision of natural gas service in Michigan); August 19, 1999 Order in Case No. U-12050 (recognizing the "policy of the Commission and the State of Michigan to promote competition and customer choice in the gas utility industry"). Should the Commission decline to address the problems outlined in NEM's testimony and discussed at length in the hearings in this case, it may be years before another opportunity arises for competitive suppliers to bring these problems to the attention of the Commission.⁴ For this reason, NEM urges the Commission to immediately take steps aimed at alleviating the competitive inequities that exist in the Choice program and direct Staff and all interested parties to formulate and review the possibility of implementing a uniform aggregate reconciliation process in Michigan.

³ For example, aggregate reconciliation is used in Ohio. Attached hereto for illustration as Exhibit A is the Vectron tariff used in Ohio. Other Ohio utilities also use aggregate reconciliation in much the same manner.

⁴ As noted in Mr. White's testimony, this case is the only avenue currently available to NEM's membership to address issues they have with Consumers' gas Choice tariff. (Tr 1178). There is no other case pending in which changes to Choice tariffs are being proposed, and no indication of when another case might arise. And the U-12550 forum, while not closed, has been inactive for years. The Commission should thus include, in its order resolving this case, a directive to Staff to reconvene the U-12550 forum for the purpose of addressing issues associated with the annual reconciliation process, and should invite all interested parties to participate in discussions aimed at formulating and reviewing an aggregate reconciliation proposal.

II. ARGUMENT

A. Aggregate Reconciliation Would Eliminate Competitive Inequities That Currently Exist In The Choice Program

1. The Current Gas Choice Reconciliation Process Is Not Competitively Neutral

A truly effective energy choice program must be governed by rules that are fair and premised on the assumption that neither incumbents nor competitors receive favorable treatment over the other. Equitable treatment is essential to provide a level playing field and foster a competitive energy market. In this respect, the price that is charged for a commodity (here, natural gas) is one of the most visible and easily understood factors that customers use to evaluate an offer by a supplier and determine if participation in the gas Choice program is warranted. Thus, accurate default prices (i.e., the GCR price charged to customers who do not shop) are essential.

As currently written, the reconciliation process outlined in Consumers' gas Choice tariff⁵ provides an inequitable benefit to the utility by keeping GCR costs artificially low when compared to the costs charged by an alternative gas supplier ("AGS"). The testimony of NEM witness Mr. White provides a basic explanation of how the annual reconciliation process currently works. (Tr 1182-1184). In general, throughout the year, a supplier delivers gas into the utility's distribution system according to the schedule established by the utility, which is based on estimated customer consumption. (Tr 1180-1181). Each different supplier price point,

⁵ The tariffs that govern other large utilities, such as the Michigan Consolidated ("MichCon") Natural Gas Customer Choice Program tariff, are identical to the Consumers tariff for all practical purposes and they are therefore susceptible to the same inequitable results.

called a “pool”, has a different schedule. (Tr 1177). Because the actual amount of usage cannot be known until after the fact, deliveries and consumption are seldom, if ever, exactly balanced. For this reason, at the close of the program year, the utility must reconcile both volume and price. A mechanism has been developed, and is codified in Consumers' Tariff Sheet No. H, that is used to account for an resolve over-deliveries and under-deliveries of a suppliers' gas compared to its customers' actual usage.

Tariff Original Sheet No. H-2.00, paragraph G, states, in relevant part:

The Company will provide each Supplier with a monthly schedule of quantities for delivery of gas into the Company system on behalf of the Supplier's customers. The initial schedule will indicate volumes that the Supplier is required to deliver each day. This schedule will be updated by the Company on a monthly basis. For most Gas Customer Choice customers, scheduled daily volumes will not normally vary by more than plus/minus 10% from 1/365th of the estimated annual customer load to be served by the Supplier.

Pursuant to this provision, Consumers projects the volume of natural gas that customers will consume throughout the gas year, and requires gas suppliers to deliver gas to Consumers' system on an equal 1/365th basis, so that the suppliers are delivering the natural gas needs of their customers to the Consumers system at a level that equates, as close as possible, to 100% of the supplier's customers' consumption on an annual basis. (Tr 1180-1181). The tariff provides some flexibility in the monthly delivery requirements, because the composition of customers in a pool changes. The monthly delivery changes enable Consumers to make adjustments based upon actual deliveries versus actual usage to date, differences between actual weather and projected weather conditions, additions to and attrition from the supplier's service by customers and all other relevant information, so that ultimately, the supplier delivers as close to 100% of its customers annual consumption on an annual basis. (Tr 1181). The plus/minus delivery flexibility provides the utility and the suppliers with a mechanism to take all of those

considerations into account, so that the suppliers deliver the necessary level of natural gas to the utility to supply their customers' needs. (Tr 1181).

Paragraph M of Consumers' Tariff Second Revised Sheet No. H-3.00, in conjunction with Paragraph Q, sets forth the procedures that are used by Consumers to reconcile both over-deliveries and under-deliveries for each pool individually.⁶ Paragraphs M and Q state, in pertinent part:

In those instances where both (i) the price per Mcf billed to customers over the course of the program year on Supplier's behalf is higher than the cost of gas billed to sales customer by the Company pursuant to the Company's Rule B10, and (ii) the MMBtu delivered by the supplier converted to the Mcf exceeds the billed customer consumption for the year being reconciled, then the following procedure will be used. In such instances (i) within 60 working days after the end of the March billing cycle, * * * the Company will reconcile the amount billed to customers on the Supplier's behalf with the Company's remittance to the Supplier for the gas delivered, and any difference will be reflected in an adjustment on the next monthly remittance to the Supplier, and (ii) gas delivered by the Supplier in excess of the actual consumption will be returned to the Supplier in kind unless the Company and the Supplier mutually agree on a price for the Company to purchase the excess gas.

* * *

(Q) The * * * annual reconciliation shall apply separately to each Supplier-designated pricing category and each of the two customer groups within that category, i.e. those enrolled as of April 1, and those enrolled after April 1 each program year.

In essence, the way the process works is that if excess gas was delivered by a supplier and the supplier's contract price with its customers was less than Consumers' weighted GCR, *i.e.* at a price less than that charged by the utility throughout the program year, then the utility is going to keep the excess gas at the supplier's lower price. (Tr 1183). However, if the supplier's contract

⁶ Because of the language in Section Q of the tariff, Consumers is compelled to look at each pool individually to determine whether gas will be returned or retained – instead of first looking at all the gas that has been delivered by a competitive natural gas provider to the utility system to see whether the gas delivered by the supplier, in aggregate, met, exceeded or fell short of the supplier's customers' annual consumption. (Tr 1184).

price with its customers is higher than the price of the GCR, that gas is then returned to the supplier in the summer after the reconciliation has been performed. (Tr 1183). Both volume and price are reviewed to determine what is most beneficial to the GCR, and that amount of gas is kept, while all other gas can be returned to the supplier. (Tr 1183).

On the other hand, if the amount of a supplier's deliveries to a single pool of customers is less than the actual consumption of those customers, then the utility will do one of three things depending on the price charged to the customer (keeping in mind that the utility has complete control over the supplier's delivery requirements) and the point during the program year at which the customer enrolled. If the supplier's average price is higher than the GCR price, the utility will provide the needed gas and retain the supplier's revenues at the higher amount. (Tr 1183).

On the other hand, if the sales price was less than the GCR, and the customer was enrolled after the beginning of the program year (April 1st), the utility will provide the needed gas and collect the difference from the supplier in the form of a Supplier Equalization Charge ("SEC") to make the utility whole. (Tr 1183) However, if the sales price was less than the GCR, and the customer was enrolled before the beginning of the program year, the utility will provide the necessary gas and only collect the supplier's contract amount from the customer. It is possible for a utility to take all three actions with regard to one single supplier during the annual reconciliation process, that is, keeping some lower cost gas, returning some higher cost gas, selling some gas at its WACOG and claiming some higher priced sales as its own, even though gas may have been physically delivered into the utility system that balances all customer requirements. (Tr 1184)

In every possible instance – with the sole exception of instances involving a pool that exists before the beginning of the program year (April 1st) that is under-delivered where the supplier's contract price with its customer is lower than the GCR price – the result is favorable to

the utility. And, at the same time, because of the pool-by-pool reconciliation, in all such instances a supplier will face negative consequences for both under-deliveries and over-deliveries, **even if taken in the aggregate they would have cancelled each other out** (i.e., it is possible for a supplier to deliver the right amount of gas into the utility's system to serve all of its customers, but still be forced to sell its lower-price gas to Consumers and accept return of all higher-priced gas).

If the utility holds sufficient gas in its system on behalf of a supplier's customers to meet all of their needs, it is both inequitable and unconscionable that those customers should be penalized for both under-deliveries and over-deliveries, particularly in light of the fact that the utility alone controls the delivery schedule. As a result, "competitive suppliers and Choice customers are competitively disadvantaged because the lower cost supplier's gas will be kept by the utility to help reduce the GCR price" (a de-facto subsidy) and "Choice customers are not able to receive the full benefit of choosing an alternative supplier" because the disadvantage increases risk for the supplier, ultimately resulting in higher prices for customers who choose. (Tr 1184).⁷

⁷ It is important to note that those who manage Consumers' Choice program actively attempt to mitigate the negative impact of the current reconciliation rules with suppliers to the degree possible. As noted in the rebuttal testimony of Consumers' witness Elizabeth Curtis, "The Company's goal is to minimize any imbalances between customer load and supplier delivery in a pool at the end of the GCC year." (Tr 489). However, even with the best of intentions, the utility's hands are tied by the pool-by-pool reconciliation requirement. Moreover, Ms. Curtis admitted on cross-examination that that Consumers is aware of concerns regarding the way in which other gas utilities handle the reconciliation process in Michigan. (Tr 508).

2. Aggregate Reconciliation Reasonably Balances The Interests Of The Utility And The Interests Of The Choice Supplier And Its Customers

While there are other possible changes to the GCC program⁸ that could help reduce imbalances between deliveries and customer consumption, NEM is proposing a single, basic change to the current program that will greatly mitigate the negative effects associated with the current gas Choice program: aggregate reconciliation. Mr. White's direct testimony explains generally how using a single, aggregate reconciliation for each supplier would increase competition without negatively impacting GCR customers or the utility's system integrity. (See Tr 1185). Annual reconciliation would result in the exact same amount of gas being delivered into the system on behalf of the suppliers' customers as under the current system. (Tr 1244). The only difference between the current reconciliation process and aggregate reconciliation lies in how the imbalance is calculated and dealt with at the end of the program year.⁹

Moreover, aggregate reconciliation does not appear to create any risk for the utility or alter how the reconciliation parameters are applied; it merely reduces the amount of the imbalance subject to reconciliation and results in a single reconciliation for each supplier instead of multiple reconciliations for each pool. Further, the proposed process would eliminate the need for "A" and "B" pool distinctions in the reconciliation. Finally, in the interest of fairness, NEM also proposes expanding application of the SEC charge to all pools (eliminating the need for "A"

⁸ See Tr 1186.

⁹ In response to a request by Staff made during the cross-examination hearings in this case, NEM provided the parties with some illustrations and explanations showing how aggregate reconciliation would work within the four parameters currently used for the reconciliation. See Exhibit B, attached. This document is not an exhibit and is attached hereto for illustrative purposes only.

and “B” pool distinctions) that are under-delivered at the end of the program year if the supplier’s contract price with its customer is lower than the weighted average GCR cost.

NEM is conscious of the fact that there is no detailed aggregate reconciliation proposal on the table. Quite simply, NEM is not in a position to formulate a uniform proposal that takes into account the concerns of its members as well as all Michigan utilities, the Commission Staff, the Attorney General's office and other interested parties, for those concerns have not yet been voiced. Nor is NEM in a position to study or evaluate the effects that an aggregate reconciliation proposal might have on utilities, for it is not privy to the data held by those utilities. It is for this reason that NEM is requesting that the Commission use the collaborative forum as a means in which interested parties may come together to formulate and evaluate a uniform aggregate reconciliation proposal.

Nonetheless, while no detailed proposal has been placed on the table, NEM submits that its proposed aggregate reconciliation solution could be achieved through minor wording changes to Section H of Consumers' Gas Choice program tariff, and that these changes should serve as the basis for any aggregate reconciliation proposal. For example, the following revisions might be made to Section H1.Q of the Choice tariff:

The annual load requirements, delivery schedules, Supply Equalization Charges, **and** delivery shortfall Failure Fees, ~~and annual reconciliation~~ shall apply separately to each Supplier-designated pricing category. **The annual load requirements, delivery schedules, and delivery shortfall Failure Fees shall also apply separately to** ~~and~~ each of the two customer groups within that category, i.e. those enrolled as of April 1, and those enrolled after April 1 in each program year.

In addition, to address the expanded application of the SEC charge, section H1.E. might be revised to read:

If a supplier adds customers ~~after April 1 of a~~ **during the** program year, the monthly remittance to the Supplier for the gas supplied to those customers will be

adjusted by a Supplier Equalization Charge. The Supply Equalization Charge shall be equal to the product of (a) and (b) where (a) equals the Company's weighted average monthly cost of gas purchased and produced for the months from the preceding April through the current billing month less the Supplier specified customer billing price per Mcf, converted to MMBtu using the monthly system average Btu content, and (b) equals the increase for that month, if any, in the amount by which the cumulative Mcf quantity billed to those customers subject to the Supply Equalization Charge for the program year, converted to MMBtu using the monthly system average Btu content, exceeds the cumulative Supplier deliveries for those customers for the program year in MMBtu. The charge shall not be less than zero. This program year is the year beginning in April 1 and ending the following March 31.

NEM certainly welcomes discussion regarding these proposed tariff changes, and recognizes that parties may have differing ideas as to the language that should be used. Nonetheless, these proposed changes are set forth herein: (1) in the event that the Commission determines that aggregate reconciliation is warranted based on the evidence of record in this proceeding; and (2) to illustrate the ease with which a transition to aggregate reconciliation might be made.

B. The Aggregate Reconciliation Issue Is Ripe For Discussion In The U-12550 Collaborative Forum

NEM recognizes that the parties may not have had the opportunity to fully consider and debate its aggregate reconciliation proposal during the course of this proceeding. Thus, if the Commission determines that further analysis is necessary, NEM is asking that the Commission use the U-12550 docket to invite a working group of interested parties to more fully examine the proposal. Collaborative proceedings should focus on formulating a joint proposal that is acceptable to all parties, and then evaluating the proposal to ensure that the result is a process in which all customers are treated fairly and all customers will pay an accurate, unsubsidized price while maintaining the operational integrity of the utility's system.

There has been no evidence or argument offered in this case as to why collaborative proceedings should not be held to discuss changes to the current reconciliation process. Consumers has merely taken the position that modifications to Consumers' tariff "are unnecessary at this time" (Tr 487). However, nowhere in Consumers' testimony is there any suggestion that Consumers is opposed to collaborative discussions regarding the matter. Moreover, as noted above, Consumers' witness Ms. Curtis admitted that Consumers is aware of problems that have been voiced about the manner in which other utilities have applied, in practice, the current reconciliation procedures. (Tr 508). And, importantly, there is no indication from Consumers that aggregate reconciliation would be either harmful to GCR customers or that Consumers is aware of any problems that might occur from a transition to aggregate reconciliation. To the contrary, Ms. Curtis admitted on cross-examination that, to date, Consumers has not conducted any meaningful examination into aggregate reconciliation because it has not been presented with any specific proposals. (Tr 508-509). The formulation of a specific proposal in a collaborative forum would permit Consumers (as well as other utilities) the opportunity to study the matter and determine, with some finality, whether an aggregate approach would be acceptable.

Similarly, no evidence or argument has been offered by Staff or the Attorney General¹⁰ as to why further discussions on NEM's proposal should not be facilitated by the Commission. Staff appears to be taking the position that collaborative proceedings are unnecessary because Staff already held collaborative meetings in Case No. U-12550. (See Tr 1188-1189). However,

¹⁰ The Attorney General has not expressed an opinion one way or the other regarding NEM's request for collaborative discussions. However, the Attorney General has certainly evidenced interest in how aggregate reconciliation might work; the Attorney General's counsel spent over an hour asking questions of Mr. White on the stand regarding how aggregate reconciliation would affect pricing and demand/supply factors.

those collaborative discussions took place years ago, and the Commission recognized in its November 20, 2001 Order that the program would later be reviewed and that some changes and adjustments to the Choice program might be needed. November 20, 2001 Order, pp. 3-4. Thus, the Commission clearly did not intend for the earlier collaborative discussions to be the "be all and end all" regarding the Choice program. Given that the Commission has a policy and responsibility to foster competition and encourage customer choice, the fact that a new collaborative proceeding might impose burdens on the Commission (and its Staff) is simply insufficient reason to discard NEM's proposal at this time. NEM's aggregate reconciliation proposal is designed to eliminate competitive inequities, it is in the interest of consumers in Michigan, and it is deserving of careful and reasoned consideration.

III. CONCLUSION

For each and all of the reasons discussed above, NEM respectfully requests that the Commission review and consider the testimony and other evidence submitted on the aggregate reconciliation issue, and: (A) order changes to Consumers' Choice tariff in line with those proposed by NEM; (B) order Consumers to take all reasonable steps to ensure that its annual reconciliation procedures are fair and equitable and do not operate at a detriment to Choice customers; and/or (C) initiate a working group through this docket or the U-12550 docket to resolve this issue as well as other issues associated with the delivery of gas to the customers of competitive gas suppliers participating in gas Choice programs in Michigan.

Respectfully submitted,

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Counsel for National Energy Marketers Association

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Dated: April 24, 2006

ANNARBOR 34563-1 80694v1

MPSC CASE NO. U-14547

EXHIBIT A TO

NATIONAL ENERGY MARKETERS ASSOCIATION'S
INITIAL BRIEF

POOLING SERVICE TERMS AND CONDITIONS **(RESIDENTIAL AND GENERAL)**

VOLUME RECONCILIATIONS

Annual Reconciliation:

Company will identify imbalances on an annual basis for each Supplier Pool through calculating the difference between the Pool's Delivered Supplies and its Pool's Usage. At the time of entering into the Supplier Pooling Agreement, Supplier will choose to eliminate any annual imbalances through either one of the following:

- 1) payment from Company for Over-Delivery Imbalance Volumes or billed by Company for Under-Delivery Imbalance Volumes at the weighted average (calculated based on Supplier's monthly deliveries to its Pool) of the "Monthly Contract Index" prices published for "Columbia Gas Transmission Corp, Appalachia" as reported by Inside FERC's Gas Market Report in the table "Prices of Spot Gas Deliveries to Pipelines" for the applicable months during the period, converted to Ccf using the system average Btu factor for the applicable period and adjusted for the necessary taxes; or
- 2) exchange of gas with Company via a storage inventory transfer or delivery over a thirty (30) day period.

Quarterly Reconciliation:

Each February, May and November, Company shall compare the Delivered Supplies and Pool's Usage for each Pool for the three months just ended. If the volume imbalance is significant for a Pool, a daily adjustment may be made to the future DDQs for that Pool to resolve the quarterly imbalance prior to the next annual reconciliation period. Company may refrain from making such average daily adjustment on days in which an OFO is in effect. If the imbalance volume is not significant for a Pool, no adjustment as described herein will be made to the Pool's DDQs; rather, the imbalance volume will be carried forward to the next quarter's review.

Pool-to-Pool Transfers:

Suppliers may elect to transfer (purchase or sell) daily volumes associated with an interstate pipeline or Company city gate and Pool to the Supplier of a different Pool. Company shall adjust the daily deliveries of each Pool to reflect such transfers prior to calculating the OFO and DDQ Non-Compliance Charges for such Pools. However, a Supplier's opportunity to enter into a Pool-to-Pool Transfer shall not restrict Company's ability to refuse to receive excess volumes on a particular day or via a specific interstate pipeline or Company city gate as set forth in these Terms and Conditions, and shall not preclude Company's ability to implement consequences against Supplier due to its imbalance as set out in these Terms and Conditions. All Pool-to-Pool transfers for a calendar month should be communicated to Company by Suppliers of both Pools. A charge per transfer shall be assessed to each party to the trade, as set forth in Rate 385.

Filed pursuant to the Finding and Order dated April 13, 2005 in Case No. 04-571-GA-AIR of The Public Utilities Commission of Ohio.

MPSC CASE NO. U-14547

EXHIBIT B TO

NATIONAL ENERGY MARKETERS ASSOCIATION'S
INITIAL BRIEF

Aggregate Reconciliation.

NEM has proposed a change to the Annual Reconciliation process. The current process is done at the pool level and results in an inequitable treatment for customers who are supplied through the choice program. NEM has suggested that the Annual Reconciliation should be done on an aggregate basis by supplier. Further description of the details of NEM's proposal was requested by the Staff and Consumers including examples.

In the choice program there exists an imbalance between the gas delivered by the supplier which is estimated by the utility and the actual usage of the underlying group of customers in which the estimate was based. The process in which the volumes of gas that are over or undelivered by the supplier are quantified and settled is called the Annual Reconciliation. The reconciliation is based on the program year, so the deliveries included in the reconciliation start with the month of April and end with the month of March. The customer's billed consumption starts with the billing month of May and ends with the billing month of April. NEM is not proposing any changes to the process in terms of reconciling annually or to basing the reconciliation on the program year.

The current reconciliation process has two elements. The first deals with the difference in the average price per MCF paid to the supplier for gas delivered versus the average price per MCF billed to the customers. The second deals with the discrepancy in the volumes delivered and the volumes consumed. Depending on the average price per MCF billed to the customer versus the GCR over deliveries are either kept or returned to the supplier. Under deliveries made to customers at a price less than the utilities WACOG are subject to a supplier equalization charge. Under deliveries to pools where the average price per MCF billed to the customers is greater than the GCR are ignored resulting in attractive sale for the utility. NEM's proposal makes no changes to the two step approach or to the disposition of the resulting under or over deliveries only that the process itself is done based on the average of all deliveries from the supplier and all billed customer usage as opposed to the current pool by pool method.

Examples of Aggregate Reconciliation are attached.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for authority to increase its rates for the)
distribution of natural gas and for other relief)
_____)

Case No. U-14547

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WASHTENAW)

Jacqueline K. Tinney, being first duly sworn, deposes and says she is employed at Dickinson Wright PLLC; and that on April 24, 2006 she served a copy of the *Initial Brief of The National Energy Marketers Association* upon the attached service list via email.

Jacqueline K. Tinney

Subscribed and sworn to before me,
a Notary Public in and for said County,
this 24th day of April, 2006.

Elaine M. Masters, Notary Public
Washtenaw County, Michigan
Acting in Washtenaw County, Michigan
My Commission Expires: 9/23/07

SERVICE LIST – MPSC CASE NO. U-14547

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