

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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**In the matter of the application of)
Michigan Consolidated Gas Company)
for a Gas Cost Recovery Reconciliation)
proceeding for the twelve month period)
ended December 31, 2003.)
_____)**

Case No. U-13549-R

TESTIMONY AND EXHIBITS OF FRANK J. HOLLEWA

ON BEHALF OF

THE RESIDENTIAL RATEPAYER CONSORTIUM

June 29, 2004

TESTIMONY

FRANK J. HOLLEWA

MPSC CASE NO. U-13549-R

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.**

2 **A.** My name is Frank J. Hollewa. I am an independent energy consultant doing
3 business as EPEC (Energy Planning and Engineering Consultants). My office is
4 at 6182 Grovedale Court, Suite 100, Alexandria, Virginia 22310.

5 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL AND EMPLOYMENT**
6 **EXPERIENCE.**

7 **A.** I was employed by Washington Gas Light Company for 33 years. At the time of
8 my retirement, I held the position of Senior Vice President of Distribution, Gas
9 Supply and General Services. The responsibilities of this position included the
10 repair, installation and maintenance of all transmission and distribution facilities;
11 system design; system control; gas supply planning; gas acquisition; peak shaving
12 plants; storage field; total energy facilities; Federal Energy Regulatory
13 Commission (FERC) related matters; interface with interstate pipelines; general
14 structures maintenance and improvements; fleet acquisition and maintenance; and
15 interface with three (3) local Public Service Commissions in Maryland, Virginia
16 and the District of Columbia relating to operating matters. The total scope of my
17 position encompassed approximately 50% of all employees at Washington Gas
18 Light. Much of my knowledge and experience was obtained on the job at
19 Washington Gas Light.

1 I was employed there in 1963 at the age of 19 as a union grade clerk in the Gas
2 Supply Department. As my knowledge and responsibilities increased, I moved to
3 Staff Assistant; Staff Supervisor; Assistant to the Vice President, Gas Supply; and
4 in 1982 at the age of 38, I became Vice President, Gas Supply. At that time, the
5 Gas Supply Department had over 250 employees and represented approximately
6 10% of the Company manpower.

7 During the past 25 years, I have participated as an expert witness in approximately
8 20 formal rate proceedings at the Maryland Public Service Commission ("PSC"),
9 District of Columbia PSC, Virginia State Corporation Commission, and the
10 FERC. I am well known throughout the gas industry and have participated as a
11 speaker and panelist at numerous industry gatherings. I was on the Board of
12 Directors of Associated Gas Distributors ("AGD") and Gas Industry Standards
13 Board ("GISB") as well as a member of the Institute of Gas Technology ("IGT")
14 Task Force on Gas Quality at the time of my retirement.

15 For the past eight years, I have operated EPEC consulting. During that time, I
16 have participated in numerous cases for the New Jersey Division of the Ratepayer
17 Advocate, the Ohio Consumers' Counsel, the West Virginia Consumer Advocate
18 Division, and the Michigan Residential Ratepayer Consortium.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
20 **PROCEEDING?**

21 **A.** I have been retained by the Residential Ratepayer Consortium ("RRC") to make
22 an independent analysis and evaluation of the Application of Michigan

1 Consolidated Gas Company ("MichCon" or "the Company") for a Gas Cost
2 Recovery Reconciliation Proceeding for the twelve-month period ended
3 December 31, 2003. My testimony addresses the Company's request for recovery
4 of \$8,000,000 relating to the cost of terminating the Enron contract, as described
5 in the testimony of MichCon witnesses Stanczak and Chapel.

6 **Q. WHAT ARE YOUR CONCLUSIONS?**

7 **A.** That amount should be reduced by a minimum of \$3,240,000 to reflect the costs
8 caused by the Company's failure in January thru March 2002 to replace the supply
9 from the canceled Enron contract. In my opinion, the failure to replace that
10 supply was unreasonable and imprudent.

11 **Q. WHAT DOCUMENTS DID YOU REVIEW IN PERFORMING YOUR**
12 **EVALUATION?**

13 **A.** I reviewed the Company's Application, testimony, exhibits and responses to data
14 requests from the RRC in Case No. U-13060-R; MichCon's GCR plan filing in
15 Case No. U-13060; and the Commission's March 12, 2003, Order in Case No. U-
16 13060. I have also reviewed the testimony and exhibits of Messrs. Chapel and
17 Stanczak in this proceeding.

18 **Q. FROM WHAT PERSPECTIVE DID YOU PERFORM YOUR ANALYSIS**
19 **IN THIS CASE?**

20 **A.** This is a GCR Reconciliation. In performing my review, I focused on what
21 MichCon knew at the time it made its gas supply decisions. My analysis and
22 conclusions are based on the facts known to MichCon at the time it made those

1 decisions.

2 Based on my past experience as Senior Vice President of Distribution, Gas Supply
3 and General Services with Washington Gas Light, it is my conviction that it is
4 inappropriate for a regulatory body to use hindsight in judging the reasonableness
5 and prudence of gas supply decisions made by local gas distribution companies.
6 That is why I did not use hindsight in my analysis or to form my conclusions in
7 this case.

8 **Q. IN THE COURSE OF YOUR REVIEW, DID YOU DISCOVER ANY**
9 **AREAS OF CONCERN?**

10 **A.** Yes. Prior to December 2001, MichCon canceled a supply contract with Enron
11 for 50,000 Dth/D. The Company did not replace this supply with other purchases
12 during January through March 2002. I agree with the Company's decision to
13 terminate the Enron contract, however, in my opinion, MichCon's decision not to
14 replace the supply volumes associated with that contract in January thru March
15 2002 was neither reasonable nor prudent.

16 **Q. WHY ARE YOU ADDRESSING THE 2001 ENRON CONTRACT**
17 **TERMINATION IN THIS RECONCILIATION OF MICH CON'S 2002**
18 **GAS COSTS?**

19 **A.** As MichCon witness Stanczak explains at page 3 of his prefiled testimony, the
20 Company booked \$8 million in 2002 for the cost of the Enron contract
21 termination. The Company is presenting testimony in this case to support its
22 position that those costs are reasonable and prudent in the event the Commission

1 does not address recovery of those costs in its order on MichCon's 2002 GCR
2 Reconciliation case (U-13060-R).

3 **Q. DO YOU AGREE WITH MR. CHAPEL'S EXPLANATION, STARTING**
4 **ON PAGE 4 OF HIS TESTIMONY, OF THE COMPANY'S DECISION**
5 **NOT TO REPLACE THE VOLUMES ASSOCIATED WITH THE ENRON**
6 **CONTRACT IN JANUARY THRU MARCH 2004?**

7 **A.** No.

8 **Q. WHY NOT?**

9 **A.** Mr. Chapel's testimony is very misleading and is not factual when compared to
10 the MichCon's GCR Plan in Case No. U-13060.

11 **Q. PLEASE EXPLAIN.**

12 **A.** Mr. Chapel's testimony on page 4, lines 10 thru 14 is misleading because weather
13 in October and November should not have any bearing on the weather
14 expectations for January thru March because it cannot be used as a predictor of
15 future months. The Company could not know that the warmer-than-normal
16 weather would continue. The occurrence of warmer-than-normal weather would
17 only impact the coming months if the storage balances were higher than normal as
18 a result of the weather. Mr. Chapel's assertion that "this warmer-than-normal
19 weather left MichCon with higher than anticipated storage balances for colder-
20 than-normal protection" is simply not true. This is demonstrated by the following
21 facts:

- 1 • In 2001, MichCon executed a planned storage decrement which resulted in
2 a planned storage inventory level of 40,677 MMCF as of 1/1/02 for Total
3 GCR and GCC storage.
- 4 • The planned storage inventory level of 40,677 MMCF was approximately
5 32,000 MMCF lower than the 15-year average (1984-1998) historical
6 operating levels of storage which included colder-than-normal weather
7 protection, and approximately 22,000 MMCF lower than the previous
8 minimum during the 15-year period of 1984-1998.
- 9 • The actual storage inventory of 37,966 MMCF as of 1/1/02 for Total GCR
10 and GCC storage was 2,711 MMCF lower than the GCR Plan levels or
11 approximately 35,000 MMCF lower than historical operating levels.

12 At page 4, lines 16-18 of his testimony, Mr. Chapel states that “The intent of the
13 Enron FPS contract was to protect MichCon’s customers in the event of colder-
14 than-normal weather.”. This assertion is also inaccurate and it is not supported by
15 the factual data in the Company’s GCR Plan. MichCon made FPS purchases
16 (including Enron) as a proxy for storage in order to make the planned storage
17 decrement operationally feasible in even normal weather. The GCR Plan clearly
18 showed that any colder-than-normal weather would have required incremental
19 purchases of 5 Bcf in February and March 2002.

20 **Q. PLEASE SUMMARIZE THE CONCLUSIONS OF YOUR ANALYSIS.**

21 **A.** The reduction in the planned 1/1/02 storage inventory level of 2,711 MMCF plus
22 the loss of supply from Enron of 4,500 MMCF (50,000 Dth/D x 90 days) resulted

1 in a total of 7,211 MMCF less supply from storage and the FPS storage proxy to
2 meet the Company's projected GCR requirements from January through March
3 2002 in the Company's 2002 GCR plan. The storage balances were not higher
4 than anticipated and the Enron contract was not intended for colder-than-normal
5 weather.

6 **Q. DID THE SUPPLY SHORTFALL CREATE ANY OPERATIONAL**
7 **PROBLEMS FOR MICHCON IN 2002?**

8 **A.** No. This was due to the fact that the weather turned out to be warmer than normal
9 by 19.2% in January and 16.8% in February 2002. The problem I perceive is that
10 going into the 2002 GCR plan period, MichCon knew that the Enron Contract was
11 terminated but it could not have known that the weather would be warmer than
12 normal.

13 Having participated in MichCon's 2002 GCR plan case (U-13060), I know that
14 the issues of supply security and storage sufficiency were addressed at length in
15 that proceeding. I do not understand why the Company, based on what it knew at
16 the start of 2002, did not replace the 50,000 Dth/D from the Enron Contract when
17 MichCon's presentation in the 2002 GCR plan case documented the necessity of
18 the FPS purchases to replace storage.

19 **Q. WHAT ARE YOUR CONCLUSIONS ABOUT MICHCON'S DECISION**
20 **NOT TO REPLACE THE VOLUMES ASSOCIATED WITH THE ENRON**
21 **CONTRACT?**

22 **A.** MichCon should have replaced the 50,000 Dth/D for January through March

1 2002, which was lost from the Enron contract termination. By not making any
2 purchases, the Company failed to follow its 2002 GCR Plan and placed the GCR
3 customers at risk in the event of colder-than-normal weather which would have
4 required 17.2 Bcf of incremental purchases (10 Bcf in GCR Plan plus 4.5 Bcf
5 Enron plus 2.7 Bcf storage shortfall).

6 **Q. DID YOU CONSIDER THE COST OF BUYING GAS IN THE WINTER?**

7 **A.** Yes. This only makes it more difficult to understand why the company did not
8 make additional purchases.

9 The commodity cost of gas for January thru March was at its lowest level since
10 March 2000 and MichCon knew this. The Company was in the unique position of
11 low storage due to the storage decrement and loss of supply due to the Enron
12 termination and it still failed to take advantage of these low prices. Exhibit A-37
13 (GHC-8) from Case No. U-13060-R which I am sponsoring as Exhibit I-____
14 (FJH-1) shows the MichCon Index for January thru March to average \$2.42
15 versus the April thru October average of \$3.38. Even if at the end of December
16 2001 MichCon thought that prices might be lower than the \$2.71 January price
17 later in the year, why would the Company take the chance of having inadequate
18 supply to meet its customers' requirements? MichCon thought the need for FPS
19 was sufficiently great to commit to \$6.00/Dth for that supply in April 2001, yet it
20 did not commit to a replacement for the FPS purchases in January-March 2002 at
21 \$2.71 Dth/D or less when the storage decrement was even larger by 2.7 Bcf.

1 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING MICHCON'S**
2 **ACTIONS?**

3 **A.** MichCon's decision not to replace the volumes from the Enron contract is a
4 deviation from the Company's 2002 GCR Plan. If the Company had followed its
5 GCR plan, it could have purchased 4,500,000 Dth in January-March 2002 (50,000
6 Dth/D x 90 days) at an estimated cost of approximately \$2.42 per Dth. Instead, it
7 purchased this volume later in the year at a cost of approximately \$3.38 per Dth.
8 The differential of \$0.96/Dth times 4,500,000 Dth yields an unrealized savings of
9 \$4,320,000.

10 However, Mr. Chapel's proposed Exhibit A-____(GHC-1) develops an average
11 cost of \$3.14 for Spot Market Supply in July, August and September instead of
12 April-October, even though he uses the April-October designation on line 2,
13 column 2 of Exhibit A-____(GHC-2). This is evidently due to the fact that
14 MichCon only purchased spot supplies in these three months. If Mr. Chapel's
15 average of \$3.14 is utilized instead of \$3.38, it creates a differential of \$0.72/Dth
16 or an unrealized savings of \$3,240,000.

17 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

18 **A.** MichCon did not follow its 2002 GCR Plan. Its failure to do so caused excess
19 GCR supply costs in 2002 of \$3,240,000 at a minimum. The Commission should
20 reduce the \$8,000,000 recovery requested by the Company by this amount. I
21 make this recommendation because at the time MichCon made the decision not to
22 replace the supply volumes associated with the Enron contract, the Company had

1 no way of knowing what its actual supply requirements would be in January-
2 March 2002. The Company could not have known that warmer than normal
3 weather was coming. The Company *did* know that the commodity cost of gas in
4 January thru March 2002 was at its lowest level since March 2000. Under these
5 circumstances, especially starting the 2002 year with a lower than planned storage
6 level, it was reasonable and prudent to replace the volumes associated with the
7 Enron contract to assure supply reliability and security for the Company's
8 customers. If the weather had been more like January through March 2003, this
9 would have created a serious supply problem.

10 **Q. WHAT IS YOUR OPINION OF THE CLAIMED SAVINGS OF \$4,320,358**
11 **SHOWN IN MR. CHAPEL'S EXHIBITS THAT RESULT FROM THE**
12 **TERMINATION OF THE ENRON CONTRACT?**

13 **A.** There is insufficient information to determine if the \$4,380,358 was real and it
14 appears that the Company and its outside legal counsel may have "jumped the
15 gun" on cancellation.

16 **Q. PLEASE EXPLAIN.**

17 **A.** Mr. Stanczak's testimony on Page 6, lines 4-18, discusses the decision to cancel
18 the gas purchase contracts with Enron. Mr. Chapel's testimony on Page 4, line 10
19 states November 20, 2001, as the date of termination. If the Company had waited
20 ten more days, it was very likely that Enron would have failed to deliver on the
21 contract from ANR/SE at \$2.295 starting on 12/1/01. This contract is shown on
22 Exhibit I-___ (FJH-2), page 1 of 5, which is a discovery response prepared by Mr.

1 Chapel in Case No. U-13060-R. It appears logical that a breach of contract and
2 bankruptcy would have been much more defensible against the claim by Enron's
3 creditors in bankruptcy court. If the Company did not need the gas and had no
4 fears of the consequences of non-delivery, why not wait a couple of weeks?

5 **Q. WHY DO YOU QUESTION THE CALCULATION OF \$4,380,358 IN**
6 **SAVINGS REPRESENTED BY MR. CHAPEL?**

7 **A.** In addition to the contract for gas at \$2.295 mentioned above, there were three
8 other contracts for November and December 2002 which were at below market
9 prices. These are also shown on Exhibit I-___ (FJH-2), page 1 of 5. While this
10 was not known at the time of cancellation on 11/20/01, it was certainly known and
11 should have been a factor in the settlement discussions since the letter in Exhibit
12 A-___ (DMS-1) was dated 7/10/03. These contracts would have resulted in
13 approximately \$2 million in savings versus the market and are probably the reason
14 that the estimated \$10 million was decreased to \$8 million. The letter dated
15 7/10/03 does not provide any details on Enron's or the Company's valuation; has
16 a mistake in the third paragraph at the end of line 5 which states \$23 million
17 instead of \$21 million; and ends up in the fourth paragraph with a range of \$7
18 million to \$9 million which evidently becomes \$8 million. It appears that an \$8
19 million charge to the GCR customers should have more details and definitive
20 calculations rather than it was the best we could do after we did what we thought
21 was best for the customers.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

Case No.:	U-13549-R
Witness:	Frank J. Hollewa
Exhibit No.:	I-____(FJH-1)
Page No.:	1 of 1

Case No: U-13060-R
 Witness: GH Chapel
 Exhibit No.: A-____(GHC-8)
 Page No.: 1 of 1

Michigan Consolidated Gas Company
NYMEX and Published Market Index Prices (per Dth @ 1.025)
2002 (December '01 Update)

Line	Month	NYMEX Last Day (Col. 1)	NYMEX 3 Day Avg. (Col. 2)	MichCon (Col. 3)	ANR SE (Col. 4)	ANR SW (Col. 5)	Panhandle (Col. 6)	Chicago (Col. 7)	
1	January	\$2.56	\$2.79	\$2.71	\$2.49	\$2.49	\$2.49	\$2.70	A
2	February	\$2.01	\$1.98	\$2.10	\$1.95	\$1.89	\$1.90	\$2.05	
3	March	\$2.39	\$2.38	\$2.44	\$2.32	\$2.29	\$2.30	\$2.41	C
4	April	\$3.47	\$3.42	\$3.47	\$3.33	\$3.28	\$3.28	\$3.42	
5	May	\$3.32	\$3.34	\$3.51	\$3.31	\$3.18	\$3.18	\$3.44	T
6	June	\$3.42	\$3.35	\$3.46	\$3.31	\$3.06	\$3.02	\$3.37	
7	July	\$3.28	\$3.39	\$3.30	\$3.17	\$3.07	\$3.00	\$3.26	U
8	August	\$2.98	\$2.94	\$2.93	\$2.90	\$2.77	\$2.70	\$2.91	
9	September	\$3.29	\$3.29	\$3.28	\$3.18	\$2.98	\$2.97	\$3.20	A
10	October	\$3.69	\$3.64	\$3.74	\$3.60	\$3.33	\$3.34	\$3.67	
11	November	\$4.13	\$4.11	\$4.29	\$4.10	\$4.07	\$4.05	\$4.27	L
12	December	\$4.26	\$4.22	\$4.22	\$4.10	\$4.02	\$3.97	\$4.25	
13	January		\$3.62	\$3.75	\$3.45	\$3.45	\$3.45	\$3.76	
14	February		\$3.63	\$3.76	\$3.47	\$3.46	\$3.46	\$3.78	P
15	March		\$3.65	\$3.78	\$3.48	\$3.48	\$3.48	\$3.79	
16	April		\$3.27	\$3.38	\$3.14	\$3.12	\$3.12	\$3.31	
17	May		\$3.28	\$3.40	\$3.15	\$3.14	\$3.14	\$3.32	L
18	June		\$3.30	\$3.40	\$3.17	\$3.15	\$3.15	\$3.34	
19	July		\$3.31	\$3.42	\$3.18	\$3.17	\$3.17	\$3.35	
20	August		\$3.33	\$3.43	\$3.19	\$3.18	\$3.18	\$3.36	A
21	September		\$3.34	\$3.45	\$3.21	\$3.20	\$3.20	\$3.38	
22	October		\$3.36	\$3.46	\$3.22	\$3.21	\$3.21	\$3.39	
23	November		\$3.77	\$3.88	\$3.60	\$3.60	\$3.60	\$3.90	N
24	December		\$3.78	\$3.89	\$3.61	\$3.61	\$3.61	\$3.91	
25	January		(\$0.83)	(\$1.04)	(\$0.96)	(\$0.96)	(\$0.96)	(\$1.06)	
26	February		(\$1.65)	(\$1.66)	(\$1.52)	(\$1.57)	(\$1.56)	(\$1.73)	
27	March		(\$1.27)	(\$1.34)	(\$1.16)	(\$1.19)	(\$1.18)	(\$1.38)	V
28	April		\$0.15	\$0.09	\$0.19	\$0.16	\$0.16	\$0.11	A
29	May		\$0.06	\$0.11	\$0.16	\$0.04	\$0.04	\$0.12	R
30	June		\$0.05	\$0.06	\$0.14	(\$0.09)	(\$0.13)	\$0.03	I
31	July		\$0.08	(\$0.12)	(\$0.01)	(\$0.10)	(\$0.17)	(\$0.09)	A
32	August		(\$0.39)	(\$0.50)	(\$0.29)	(\$0.41)	(\$0.48)	(\$0.45)	N
33	September		(\$0.05)	(\$0.17)	(\$0.03)	(\$0.22)	(\$0.23)	(\$0.18)	C
34	October		\$0.28	\$0.28	\$0.38	\$0.12	\$0.13	\$0.28	E
35	November		\$0.34	\$0.41	\$0.50	\$0.47	\$0.45	\$0.37	
36	December		\$0.44	\$0.33	\$0.49	\$0.41	\$0.36	\$0.34	

MPSC Case No.: U-13060-R
 Respondent: Chapel
 Requestor: RRC
 Question No.: RRMC1.8/8
 Page: 1 of 3

Question: With regard to Mr. Chapel's testimony on Pages 24 and 25 re: Enron:

- a. Please identify the quantities, price and term of the terminated contracts.

Answer: Following is a list of the quantities, prices, and terms of the terminated contracts between MichCon and Enron:

Purchase Point	Price	Period	Quantity (Dth/Day)
ANR/SE	\$2.295	Dec01	11,000
ANR/SE	\$5.255	Dec01	20,000
MichCon City Gate	\$4.69	Dec01	(18,000)
MichCon City Gate	\$5.895	Jan02-Mar02	50,000
MichCon City Gate	NYMEX + \$0.13	Apr02-Oct02	10,000
MichCon City Gate	\$3.395	Nov02-Dec02	20,000
ANR/SE	\$3.105	Nov02	10,000
ANR/SE	\$3.315	Dec02	10,000
MichCon City Gate	NYMEX + \$0.135	Jan03-Dec03	20,000
ANR/SE	NYMEX - \$0.175	Jan03-Dec03	10,000

Case No.: U-13549-R
Witness: Frank J. Hollewa
Exhibit No.: I-____(FJH-2)
Page No.: 2 of 5

MPSC Case No.: U-13060-R
Respondent: Chapel
Requestor: RRC
Question No.: RRMC1.8/8
Page: 2 of 3

Question: With regard to Mr. Chapel's testimony on Pages 24 and 25 re: Enron:

- b. Please provide details regarding how the \$8.0 million was developed and explain why this booking was necessary.

Answer: Given the status of negotiations between DTE Energy and legal counsel representing Enron, the \$8.0 million dollar cost represented at the time it was initially booked, MichCon's best estimate of the booked cost of gas that MichCon would incur to settle the bankruptcy claims related to the referenced contracts. Under standard regulatory and GAAP accounting MichCon is required to book a liability once it is known and measurable. Once Enron's bankruptcy claim against MichCon was analyzed sufficient to meet the GAAP and regulatory accounting standards the expected liability was booked.

Case No.: U-13549-R
Witness: Frank J. Hollewa
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MPSC Case No.: U-13060-R
Respondent: Chapel
Requestor: RRC
Question No.: RRMC1.8/8
Page: 3 of 3

Question: With regard to Mr. Chapel's testimony on Pages 24 and 25 re: Enron:

c. Please provide any updates available on the current status.

Answer: Please see attached letter.

Case No.: U-13549-R
Witness: Frank J. Hollewa
Exhibit No.: I-_____(FJH-2)
Page No.: 4 of 5

HOGAN & HARTSON
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July 10, 2003

Re: Enron Settlement Allocation

Dear Mr. Carey:

DTE Energy Company ("DTE") is in the process of finalizing a settlement with Enron Corp. (and among certain of their respective subsidiaries) arising from various contracts related to the delivery or forward delivery of energy or energy producing commodities. In connection therewith, you have requested our views concerning allocation of settlement amounts among certain DTE entities participating in this settlement. In particular, we have been asked to comment concerning appropriate values to assign with respect to claims for "mark to market" damages arising from the termination of gas supply contracts between Michigan Consolidated Gas Corp. ("MichCon") and Enron North America ("ENA").

We have been informed that MichCon had valued the potential mark to market claim in connection with the termination of these contracts at approximately \$13 million. In contrast, ENA informed us that it valued the mark to market damages in connection with these contract terminations at approximately \$16 million.

Enron's total valuation of its net claims against DTE entities was in excess of \$28 million, based upon its assignment of values as follows: \$2 million to the Clinton Energy settlement (as previously separately negotiated); \$16 million to mark to market damages associated with the MichCon contracts; and \$10 million for net Accounts Receivable. DTE's valuation of the claims was approximately \$23 million, with the principal differences being accounted for by a \$2 million lower amount for net Accounts Receivable, and a \$5 million lower amount for the MichCon mark to market claim.

HOGAN & HARTSON L.L.P.

2

The total amount paid by all DTE entitles to all Enron entities in connection with the settlement will be \$18.3 million. Thus, the amount to be paid is below the total claim valuation of the parties by an amount ranging from \$5 to 10 million. \$2 million of the settlement amount is, as noted above, directly attributable to a previously negotiated, but not consummated, settlement of claims of an Enron affiliate, Clinton Energy. With respect to the remainder, it seems reasonable to us to apportion the savings ratably to the claims at issue. This would result in a claim valuation, attributable to the MichCon mark-to-market claim within a range of \$7 to 9 million. That range appears consistent with the rationale stated above.

It should be understood that assignment of specific risk, and therefore specific value, to litigated claims is extremely difficult. Particularly is that the case with respect to claims that are resolved by negotiation before any formal proceedings are commenced, and those that arise within the context of large Bankruptcy proceeding in which the claims are small in comparison to the assets of the Bankruptcy estate, and in which some of the issues are potentially the subject of litigation by others who may or may not be similarly situated to DTE. The comments and analysis reflected above must be considered in the context of these parameters.

Sincerely,



David Dunn

Patrick B. Carey, Esq.
DTE Energy Company
2000 Second Avenue
Detroit, MI 48226

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
Michigan Consolidated Gas Company)
for a Gas Cost Recovery Reconciliation)
proceeding for the twelve month period)
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_____)

Case No. U-13549-R

PROOF OF SERVICE

The undersigned certifies that a copy of the **Testimony and Exhibits of Frank J. Hollewa On Behalf of the Residential Ratepayer Consortium** was served upon the parties on June 29, 2004 at their respective addresses listed below by e-mail and by depositing the same with the United States Postal Service.

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