

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
SEMCO ENERGY GAS COMPANY for)	
approval to increase the rates and merge the)	Case No. U-14726
gas cost recovery clause of its Upper Peninsula)	
West (2) operational district with its M.P.S.C.)	
Division's clause and related approvals.)	
_____)	

At the May 25, 2006 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On December 5, 2005, SEMCO Energy Gas Company (SEMCO) filed an application seeking authority to merge the gas cost recovery (GCR) clauses of SEMCO and the former Peninsular Gas Company (Peninsular), which SEMCO acquired, and to implement its current M.P.S.C. Division distribution and customer charges in its Upper Peninsula West (2) service area.

Administrative Law Judge Daniel E. Nickerson, Jr., conducted a prehearing conference on February 2, 2006, which was attended by SEMCO, Attorney General Michael A. Cox, the Residential Ratepayer Consortium, and the Commission Staff. Subsequently, these parties submitted a settlement agreement that resolved all issues in the case.

The settlement agreement, attached as Exhibit A, indicates the parties' agreement for the following changes to be approved by the Commission:

1. Peninsular's GCR clause should be merged into the GCR clause for SEMCO's M.P.S.C. Division.
2. SEMCO should be authorized to implement its current M.P.S.C. Division distribution and customer charges in its Upper Peninsular West (2) operational district as set forth in the current tariff sheets on file with the Commission.
3. The final Peninsular GCR reconciliation will include any month(s) beyond March 31, 2006 consistent with the first billing cycle of the billing month following the date of the order approving the settlement agreement.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 *et seq.*; 1919 PA 419, as amended, MCL 460.51 *et seq.*; 1939 PA 3, as amended, MCL 460.1 *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*
- b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. The former Peninsular Gas Company's gas cost recovery clause shall be merged into the gas cost recovery clause for SEMCO Energy Gas Company's M.P.S.C. Division.
- C. SEMCO Energy Gas Company is authorized to implement its current M.P.S.C. Division distribution and customer charges in its Upper Peninsular West (2) operational district as set forth in the current tariff sheets on file with the Commission.
- D. The final gas cost recovery reconciliation for the former Peninsular Gas Company shall include any month(s) beyond March 31, 2006 consistent with the first billing cycle of the billing month following the date of the order approving the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chairman

(S E A L)

/s/ Laura Chappelle

Commissioner

/s/ Monica Martinez

Commissioner

By its action of May 25, 2006.

/s/ Mary Jo Kunkle

Its Executive Secretary

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Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of May 25, 2006.

Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
SEMCO ENERGY GAS COMPANY)	Case No. U-14726
for approval to increase the rates and merge)	
the gas cost recovery clause of its Upper)	
Peninsula West (2) operational district with its)	
<u>M.P.S.C. Division's clause and related approvals.</u>)	

SETTLEMENT AGREEMENT

As provided in Section 78 of the Administrative Procedures Act of 1969 ("APA"), as amended, MCL 24.278, and Rule 333 of the Rules of Practice and Procedure Before the Commission, 2000 AC, R 460.17333, SEMCO Energy Gas Company ("SEMCO Gas" or the "Company"), a division of SEMCO Energy Inc., the Residential Ratepayer Consortium ("RRC"), Attorney General Mike Cox ("AG") and the Michigan Public Service Commission Staff ("Staff") have resolved through settlement discussions the contested issues in this proceeding and hereby agree as follows:

1. On December 5, 2005, SEMCO Gas filed an application with the Michigan Public Service Commission ("Commission") for authority to (i) merge the gas cost recovery ("GCR") clause of the former Peninsular Gas Company ("Pen Gas") with the GCR clause of SEMCO Gas's M.P.S.C. Division, and (ii) implement SEMCO Gas's current M.P.S.C. Division distribution and customer charges in its Upper Peninsula West (2) operational district (former Pen Gas service territory). In support of its application, SEMCO Gas filed the testimony and exhibits of John R. Alger and James A. VanSickle.

2. In its application and supporting testimony, SEMCO Gas represents that pursuant to the approvals granted in Case No. U-14392, since its purchase of the natural gas assets of Pen Gas, SEMCO Gas has been providing natural gas service and implementing distribution and customer charges and GCR factors in its Upper Peninsula West (2) operational district which are different from the distribution and customer charges and GCR factors for the rest of its M.P.S.C. Division. SEMCO Gas requests for administrative convenience, to merge the GCR clause of the former Pen Gas into the GCR clause of SEMCO Gas and to implement its current M.P.S.C. Division distribution and customer charges in its Upper Peninsula West (2) operational district, effective as of April 1, 2006. SEMCO Gas represents that with the merger of the GCR clauses, the Company will implement one GCR factor for the Company's service territory under its MPSC jurisdiction, and will be required to file only one GCR plan case and one GCR reconciliation case each year, thereby resulting in a time savings for both the Company and Staff. SEMCO Gas also represents that this proposal reflects a synergy of improved customer services which the customers in the Upper Peninsula West (2) operational district have enjoyed since the Company began providing services in the former Pen Gas service territory. Furthermore, SEMCO Gas represents that by combining the merger of the GCR clauses with the implementation of the M.P.S.C. Division distribution and customer charges, most of its Upper Peninsula West (2) operational district customers will see rate reductions. Finally, SEMCO Gas represents that any revenue increase as a result of this rate integration will be de minimis.

3. On January 10, 2006, the Commission's Executive Secretary issued the Notice of Hearing directing SEMCO Gas to mail a copy of the Notice of Hearing to all cities, incorporated villages, townships and counties in its gas service area and to all

interveners in Case Nos. U-14392 and U-14260. Further, the Commission directed SEMCO Gas to publish the Notice in daily newspapers of general circulation throughout its Upper Peninsula West (2) operational district. Complying with the directives, SEMCO Gas filed with the Commission the requisite Affidavit of Mailing and Proof of Publication on January 20, 2006.

4. Administrative Law Judge Daniel E. Nickerson presided over the February 2, 2006 prehearing conference and Staff participated in the proceeding. The RRC's and AG's petitions to intervene were granted.

5. The parties have entered into settlement discussions and, as a result, the parties agree that the following changes should occur commencing with the first cycle of the billing month following the date of an order approving this settlement agreement:

(a) The GCR clause of the former Pen Gas should be merged into the GCR clause of the SEMCO M.P.S.C. Division.

(b) SEMCO Gas should implement its current M.P.S.C. division distribution and customer charges in its Upper Peninsula West (2) operational district as set forth in the current tariff sheets on file with the Commission. The final Pen Gas GCR reconciliation will include any month(s) beyond March 31, 2006 consistent with the first billing cycle of the billing month following the date of an order approving settlement agreement.

6. It is the opinion of all signatories that this Settlement Agreement will aid the expeditious conclusion of this case.

7. This settlement agreement is intended for a final disposition of this proceeding, and the parties join in respectfully requesting that the Commission grant prompt approval. The parties agree not to appeal, challenge, or contest the

Commission's order accepting and approving this settlement agreement without modification. If the Commission does not accept the settlement agreement without modification, the agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

8. This settlement agreement and all offers of settlement and discussions are privileged and shall not be used in any manner, nor be admissible, for any other purposes in connection with this proceeding or any other proceeding except so as to prove the contents herein.

9. All signatories waive Section 81 of the APA, as amended, MCL 24.281.

Respectfully submitted,

SEMCO ENERGY GAS COMPANY,
A Division of SEMCO Energy, Inc.

Dated: April 13, 2006

By: _____
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Dated: April 13, 2006

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P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-14726

County of Ingham)

Patricia A. Fronta being duly sworn, deposes and says that on May 25, 2006, A.D. she served a copy of the attached Commission order by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.

Patricia Fronta

Subscribed and sworn to before me
this 25th day of May 2006

Notary Public, Eaton County, Michigan
Acting in Ingham, County, Michigan
My Commission expires June 5, 2007

SERVICE LIST FOR DOCKET # U – 14726
DATE OF PREPARATION: 05/26/2006

CASE #

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