

Date Mailed May 1, 2001

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Midwest Natural Gas, Inc. for Authority to Increase
Rates for Natural Gas Service

3670-GR-102

FINAL DECISION

This final decision arises out of the application of Midwest Natural Gas, Inc., for authority to increase its natural gas rates that was processed by the Commission as a Class 1 proceeding under Wis. Stat. § 227.01. The applicant is authorized to increase its natural gas rates consistent with the Findings of Fact and Conclusions of Law in this decision.

Introduction

On February 25, 2000, Midwest Natural Gas, Inc., (applicant) filed with the Commission an application for authority to increase natural gas rates. The application raised revenue requirement, cost of service, and rate design issues necessary to resolve before arriving at final rates for the 2001 test year.

On December 11, 2000, upon proper notice, the Commission held a prehearing conference.

On February 25, 2001, upon proper notice, the Commission Administrative Law Judge Jeffrey J. Patzke conducted a hearing at the Commission in Madison. The applicant is the only party in this proceeding. Those identified in Appendix A appeared during the hearing. In

addition, the Commission's Natural Gas Division administrator Kevin B. Cronin, the decision maker in this proceeding, read the pre-filed testimony and appeared during the hearing.

Findings of Fact

1. Step I is the calculation of the amount of the test year revenue requirement that includes a rate base disallowance that the Commission established in its order, docket 3670-GR-101, dated February 9, 1996, to determine the amount of disallowed rate base to be added back to rate base in the years 1996-2001.
2. Step II is the calculation of the amount of the test year revenue requirement that includes the portion of disallowed rate base that was excluded from rates in Step I.
3. The applicant's present authorized rates for natural gas utility service will produce total operating revenue of \$8,679,900, which is less than the applicant's Step I revenue requirement of \$9,234,616 and the Step II revenue requirement of \$9,306,937. If the applicant's present rates continued to be applied in the future, they would be unreasonable and unjust.
4. The average net investment rate bases of \$9,583,415 for the Step I test year and \$9,963,732 for the Step II test year are reasonable and just.
5. The implementation of the Step I rates for gas service as soon as possible after issuance of the order and making Step II rates effective for service on or after January 1, 2002, is reasonable and just.
6. The determination of the Step II rate increase for plant that will be allowed a return in a future period is reasonable and just.

7. The rate of return on average net investment rate base at current rates of 7.93 percent for the Step I test year and 7.63 percent for the Step II test year, if continued into the future, would be unreasonable and unjust.

8. The utility ratemaking capital structure for the test year consisting of 67.33 percent common equity, 27.48 percent long-term debt and 5.19 percent short-term debt is reasonable and just.

9. An 11.41 percent rate of return on the Step I and II average net investment rate bases is reasonable and just.

10. The amount necessary to increase the applicant's current operating revenues for the Step I test year based on an 11.41 percent return on average net investment rate base and to cover the applicant's total cost of service is \$554,712.

11. The amount necessary to increase the applicant's current operating revenues for the Step II test year based on an 11.41 percent return on average net investment rate base and to cover the applicant's total cost of service is \$627,033.

12. A weighted average 11.41 percent composite cost of capital is reasonable and appropriate.

13. A return on common equity of 12.25 percent is reasonable and just.

14. An 8.00 percent short-term debt borrowing rate is reasonable and just.

15. The gas cost-of-service studies' results for use as a guide in determining the gas revenue allocation and rate design are reasonable.

16. The rates appearing in Appendix C permit the applicant to earn the necessary revenue requirements for the Steps I and II test years consistent with the cost of service and rate design.

17. The applicant's determination of its peak demand rate for usage during the winter months of November through March is reasonable.

18. A decrease in the applicant's late-payment penalty to 1 percent per month from 1½ percent per month is reasonable and just.

19. The applicant's tariff language for rate restructuring and unbundling of gas services, for reasons appearing on the record, needs to be revised and filed with the Commission.

20. The applicant's tariff language for transportation customers needs to be revised and filed with the Commission.

21. A tariff for transportation service that requires transportation customers to enter into an end user allocation contract with Northern Natural Gas Company needs to be developed and filed with the Commission.

22. The applicant's need to review its internal policies and procedures and identify areas where written policies and procedures would act as effective training tools and/or aid in preventing confusion and misunderstandings is reasonable and appropriate.

23. The applicant's need to develop written policies and procedures that address the policies and processes identified in finding of fact no. 22 is reasonable and appropriate.

24. The applicant's staffing levels in terms of their ability and capacity to respond reasonably to their regulatory obligations for the reliability of its distribution system and the safety of its customers need a thorough and careful review in the near future.

25. The applicant's need to contact the Commission staff before the applicant files its next rate case for advice and counsel on the Commission's current filing requirements and for information about the required supporting documentation and its detail and type is reasonable and appropriate.

26. Making this order effective one day after the date of mailing or personal service upon the parties to this proceeding is reasonable and just.

Conclusions of Law

1. The applicant is a gas public utility as defined in Wis. Stat. § 196.01(5)(a).
2. The Commission has the authority under Wis. Stat. §§ 196.03, 196.20, 196.395, 196.37, and 196.40, to authorize the applicant to place into effect gas rates and rules in accordance with the Findings of Fact, subject to the conditions specified in this order and has delegated such authority to the administrator of the Natural Gas Division..
3. The Commission has the authority under Wis. Stat. § 196.02 to do all things necessary and convenient to its jurisdiction to regulate the applicant.
4. The Commission concludes under Wis. Stat. §§ 196.02, 196.03, 196.20, and 196.37 that all its Findings of Fact in this case are reasonable, appropriate, and just.

Opinion

Comparative Income Statement

The applicant's Step I and Step II Income Statements, which appear in Appendix B, show revenues and expenditures for the test year ending December 31, 2001, at present rates and the proposed Steps I and II rates. The income statements show the applicant will collect enough

revenue to earn its requested rate of return of 11.41 percent, if authorized. On this basis, the income statements are reasonable and just. Based on these figures, if the applicant continued its existing rates into the future, the rates would produce inadequate revenues and thus would be unreasonable and unjust. Moreover, the income statements also show percentage change in revenues for the various rate cases. A rate increase to any individual customer will not necessarily equal the overall percentage increase to the associated customer class, but will depend on the specific usage level of the customer.

Net Investment Rate Base

The average net investment rate bases for the Step I and Step II test years, are as follows:

Gas Utility Plant in Service	\$17,050,473
Less: Accumulated Depreciation	<u>6,419,065</u>
Net Utility Plant:	\$10,631,408
Plus: Materials and Supplies	92,642
Stored Gas	219,182
Less: Accumulated Deferred Income Taxes	<u>979,500</u>
Step II Net Investment Rate Base	\$ 9,963,732
Less: Rate Base Disallowed	<u>380,317</u>
Step I Net Investment Rate Base	<u>\$ 9,583,415</u>

These figures represent the amounts that the applicant provided to the Commission Staff and that, upon review and careful consideration, the staff accepts. For this reason, the Step I and Step II rate bases are reasonable and just.

Capital Structure

The applicant requested a rate of return on net investment rate base of 11.41 percent. The applicant's capital employed in providing public utility service is estimated to be 67.33 percent

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common equity, 27.48 percent long-term debt, and 5.19 percent short-term debt. An 11.41 percent return on rate base will provide a 12.25 percent return on common equity. A 12.25 percent return on common equity should allow the applicant to continue to attract capital without causing harm to either the company or its customers. The Federal Reserve Bank's reduction of the federal-funds interest rate, the amount banks charge for overnight loans to each other, to 4.5 percent on April 18, 2001, increased to 2 percent the total of the four Federal Reserve interest rate reductions since January 1, 2001. These reductions occurred while the applicant's case was pending and may raise a question whether such interest rate reductions impact the applicant's authorized rate of return. The Federal Reserve's interest rate reductions notwithstanding and upon careful consideration, the Commission determines such interest rate reductions would not have a material impact on the applicant's 12.25 percent rate of return. For these reasons, the 12.25 percent rate of return is reasonable and just. For these same reasons, an 8 percent short-term debt borrowing rate is reasonable.

Cost of Service

The analysis of the cost of supplying gas service filed in the record consists of two embedded cost-of-service studies (COSS). One study uses a demand/customer methodology, which allocates major plant and expense accounts to the customer classes based on class peak demand and on the number of customers served. The other study is referred to as a commodity study because the customer function of mains, the general plant costs, and the administrative and general expenses are allocated to the customer classes based on commodity. The COSS support different percent rate increases to the various service rate classes. The differences are the result of allocating costs using different cost principles.

The Commission recognizes that no one COSS precisely reflects the cost of providing service to the service rate classes and that a study's merit depends heavily on the accuracy of the data used and the many judgments and assumptions of the analyst performing the studies. The Commission does not consider any single study to be accurate enough to establish class revenue responsibility or rate design, although each study has value. Therefore, the Commission does not adopt any single method or set assumptions, but it considers it appropriate to use all of the COSS as guides in determining class cost responsibility and rate design.

The COSS separated the applicant's distribution and gas supply services. The Commission's generic order in docket 05-GI-108, Phase I, requires the identification or functionalization of costs to completely separate, or unbundle, the costs to support specific utility services. COSS here is consistent with the docket 05-GI-108, Phase I, generic order.

Rates

The Commission revised the applicant's service rates, the purchased gas adjustment, and the refund provision. The authorized rates will increase revenues over present rates by approximately \$554,712 annually in Step I and \$627,033 annually in Step II, resulting in a rate of return on the allowed rate bases of 11.41 percent.

In addition, the authorized rates, which appear in Appendix C, are based on the cost of supplying various classes or types of service. All customers will be required to pay an appropriate amount for the service provided. For this reason, these rates are reasonable and just.

Authorized general service rates impact some customers. The revised service rates provide a greater percentage increase to small-volume residential customers than large-volume residential customers. The monthly service charge increased to \$8.00 from \$4.75, or 68 percent.

Small-volume residential customers will experience the highest percentage increase in rates because their bills are comprised proportionately more of service charges than volume charges when compared to large-volume residential customers. The authorized service charges are designed to recover customer costs including meter reading, billing and collecting expenses, depreciation, and return on the applicant's investment associated with meters and service laterals. The applicant incurs these costs regardless of the volume of gas used by its customers. Thus such costs are more appropriately recovered through fixed service charges than through volume charges.

Authorized gas supply service rates impact usage rates. The revised supply service rates provide a greater percentage increase to firm winter gas usage. The applicant's charge for the cost of firm gas increases during the winter months of November through April. The applicant's seasonal demand charge reflects the seasonal demand charges of Northern Natural Gas Company, its gas supplier. The applicant incurs additional pipeline capacity charges during the winter months to meet its firm service demand. Such costs, therefore, are appropriately recovered through a seasonal rate for firm service sales, resulting in a typical residential customer's annual bill, including the cost of gas, rising 7.81 percent.

During the hearing, proposed tariff issues arose. These issues were based on the Commission staff's proposed rates and tariff language for the unbundled service offering that were presented to the applicant before the hearing. The applicant did not object to such rates and tariff language. The applicant agreed to revise its tariffs, limiting language revisions to the changes necessary to assemble individual tariffs into a single document, to eliminate ambiguity, and to reflect utility practices and recognizing the revised language will not result in an increase

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in rates or a diminution of service other than as authorized elsewhere in this order. The applicant agreed to file the revised tariffs with the Commission.

Service and Service Extension Rules

Before the hearing, the Commission staff proposed making general changes to the applicant's service and extension rules to make them consistent with the Wis. Admin. Code ch. PSC 134 and current industry practices. The applicant was provided with a copy of the proposed changes to consider.

During the hearing, the applicant did not object to the staff's proposed rules. The applicant agreed to revise the proposed rules to make them more suitable for filing with the Commission, limiting the changes to those necessary to assemble the individual tariffs into a single document, to eliminate ambiguity, and to reflect utility practices and recognizing the revised language will not result in an increase in rates or a diminution of service other than what is authorized elsewhere in this order.

The applicant's tariff setting forth the Priority Use Program is dated as early as May 10, 1978, and much of the language is longer no appropriate. The Commission finds that it would be appropriate for the applicant to update the language to reflect current conditions provided the revised language does not result in a diminution of service. The applicant agreed to file the revised rules with the Commission.

Transportation Service

The applicant's tariff setting forth the rates and terms and conditions of service are outdated. They no longer reflect current transportation service practices. The applicant's Transportation Service tariff dates as early as November 1, 1993. The applicant's distinction of

firm and interruptible transportation service is no longer appropriate and should be combined into a new single transportation service schedule. The applicant stated its willingness to draft a tariff that requires transportation customers to enter into an end user allocation contract with Northern Natural Gas Company and to update tariff language to be consistent with current transportation practices. Superior, Water, Light and Power Company (SWLP) purchases gas from Northern Natural Gas Company under a single Transportation Service tariff that requires end use allocation contracts effective December 14, 1998. The applicant's transportation service Tariff should be similar to SWLP's transportation tariff, and the applicant needs to adopt and file with the Commission a revised transportation tariff similar to SWLP's transportation service tariff.

Staffing Levels

The applicant has seventeen permanent positions, one administrative, six clerical, and nine to ten operating personnel spread over several branch offices. This staff is supported by O&M dollars that, on a dollar per customer basis, is low when compared to other small utilities. Such low O&M dollars can be viewed as either an efficient use of resources or an indication of a lack or postponement of establishing, providing, and maintaining sufficient staff reasonably necessary for maintaining its distribution system's safety and reliability for its customers and the public. The record contains sufficient information upon which to question the applicant's O&M budget and the use of such dollars. The record, however, is insufficient to answer the question from either the applicant's or the Commission's point of view.

The applicant needs to perform a thorough and complete analysis of its O&M dollars and spending and to provide the Commission staff with a complete and full report. The object is to

determine the underlying reason(s) for the applicant's low O&M dollars per customer spending. The applicant's analysis should include, among other things, a report of their staffing levels, costs, and accomplishments as a function of distribution system maintenance, repairs, and accidents and of the direct and indirect financial and economic support they receive from their parent company and how each impacts the applicant's system's safety and reliability. The analysis should take into account the Wisconsin Administrative Code and all other appropriate federal and state rules and regulations for all testing and maintenance and include in the report the administrative rules and regulations considered and discuss how the applicant is meeting the rules' and regulations' requirements. Once it completes its analysis, the applicant must submit its findings, analysis, and conclusions to the Commission for review.

Effective Date

The Commission recognizes that the applicant has demonstrated a deficiency in earnings and that, because the Step I test year has already begun, the applicant has lost the opportunity to collect some of the revenues authorized by this order. For this reason, the order in this Final Decision can become effective one day after the date of mailing or personal service upon the parties to the proceeding.

Order

1. Midwest Natural Gas, Inc.'s, (applicant), Step I rates as set forth in Appendix C for natural gas service for its customers shall supercede the applicant's existing gas rates for service when such Step I rates become effective under the terms of this order.

2. The applicant shall file with the Commission the appropriate tariff language setting forth the rates for gas service as shown in Appendix C within 30 days of the effective date of this order.

3. The applicant's existing service and service extension rules for service admitted into the record as Exhibit 7 shall supercede the applicant's existing service and service extension rules when such service and service extension rules become effective under the terms of this order.

4. The applicant shall file with the Commission the appropriate tariffs consistent with the language setting forth the service and service extension rules admitted into the record as Exhibit 7 within 30 days of the effective date of this order.

5. The applicant shall file with the Commission a tariff setting forth an updated Priority Use Program to be, or, developed in cooperation with Commission staff within 60 days of the effective date of this order.

6. The applicant shall file with the Commission a tariff setting forth an updated Transportation Service Schedule to be, or, developed in cooperation with the Commission staff within 60 days of the effective date of this order.

7. The applicant's Step II rates as set forth in Appendix C for service effective on or after January 1, 2002, shall supercede the rates then in effect provided that the applicant has complied with all other provisions of this order and has informed the Commission, in writing, of the date that the authorized Step II rates are to become effective.

8. Before the rates authorized in this order become effective, the applicant shall inform the Commission in writing of the date on which the applicant plans to implement its

authorized rates and revised tariffs, shall file such rate schedules and revised tariffs with the Commission, and shall post the authorized rates in its offices and pay stations pursuant to Wis. Stats. §§ 196.19 and 196.21.

9. The applicant shall inform each customer of the new rates as required by Wis. Adm. Code § PSC 134.13(1)(d) within sixty (60) days of the effective date of this order.

10. The applicant shall conduct a review of its internal policies and procedures and develop appropriate written policies and procedures, informing the Commission staff about all unwritten policies for the staff to determine whether such policies should become written policies, providing the staff with a copy of all written policies and promptly responding to all staff's requests for additional information relating to such policies and procedures.

11. The applicant shall perform an analysis of their staffing levels and their O&M dollars per customer and submit to the Commission staff a written report of the applicant's findings, analysis, and conclusions within one year of this order's effective date.

12. The applicant shall contact the Commission staff before the applicant files its next rate case to discuss the filing requirements and necessary supporting documentation and detail.

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13. This order shall become effective upon personal service on the parties to this proceeding or one day after mailing, whichever is sooner.

Dated at Madison, Wisconsin, _____

For the Commission:

Kevin B. Cronin
Administrator
Natural Gas Division

LLD:RCB:pr:g:\order\pending\3670-GR-102 final

See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A

(CONTESTED)

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

Public Service Commission of Wisconsin
(Not a party but must be served)
610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

MIDWEST NATURAL GAS, INC.

by

Mr. Michael P. May, Attorney
Boardman, Suhr, Curry & Field, LLP
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P.O. Box 927
Madison, WI 53701-0927
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Courtesy Copies:

Mr. James A. Senty
Midwest Natural Gas, Inc.
P.O. Box 429
La Crosse, WI 54602

Comparative Income Statement

For the Step I Test Year Ending December 31, 2001

	Present Rates	Step I Rates	Percent Change
Operating Revenue:			
Firm Sales:			
Residential Revenues (Rg-1)	\$4,925,956	\$5,309,112	7.78%
Small Commercial Revenues (Cg-1)	351,293	385,743	9.81%
Medium Commercial Revenues (Cg-2)	502,668	533,987	6.23%
Large Commercial Revenues (Cg-3)	1,164,687	1,158,505	(0.53)%
Interruptible Sales:			
Large Commercial Revenues (Ig-1)	<u>1,655,500</u>	<u>1,767,469</u>	6.76%
Total Gas Sales Revenue	\$8,600,104	\$9,154,816	6.45%
Other Operating Revenue	<u>79,800</u>	<u>79,800</u>	
Total Operating Revenues	<u>\$8,679,904</u>	<u>\$9,234,616</u>	6.39%
 Operating Expenses			
Manufactured Gas Production Expense	\$ 3,700	\$ 3,700	
Purchased Gas Expense	5,880,300	5,880,300	
Distribution Expense	320,500	320,500	
Customer Accounts Expense	358,900	358,900	
Customer Service Expense	16,000	16,000	
Sales Promotion Expense	3,600	3,600	
Admin. & General Expenses	<u>314,600</u>	<u>314,600</u>	
Total Operation and Maintenance Expense	\$6,897,600	\$6,897,600	
Depreciation Expense	605,200	605,200	
Taxes Other than Income	137,200	143,265	
Income Taxes	216,700	431,890	
Provision for Deferred Income Taxes	65,000	65,000	
Investment Tax Credit Restored	<u>(1,700)</u>	<u>(1,700)</u>	
Total Operating Expenses	<u>\$7,920,000</u>	<u>\$8,141,255</u>	
 Net Operating Income	 <u>\$ 759,904</u>	 <u>\$1,093,361</u>	

Comparative Income Statement

For the Step II Test Year Ending December 31, 2001

	Present Rates	Step II Rates	Percent Change
Operating Revenue:			
Firm Sales:			
Residential Revenues (Rg-1)	\$4,925,956	\$5,344,259	8.49%
Small Commercial Revenues (Cg-1)	351,293	389,788	10.96%
Medium Commercial Revenues (Cg-2)	502,668	538,941	7.22%
Large Commercial Revenues (Cg-3)	1,164,687	1,158,968	(0.49)%
Interruptible Sales:			
Large Commercial Revenues (Ig-1)	<u>1,655,500</u>	<u>1,795,181</u>	8.44%
Total Gas Sales Revenue	\$8,600,104	\$9,227,137	7.29%
Other Operating Revenue	<u>79,800</u>	<u>79,800</u>	
Total Operating Revenues	<u>\$8,679,904</u>	<u>\$9,306,937</u>	7.22%
 Operating Expenses			
Manufactured Gas Production Expense	\$ 3,700	\$ 3,700	
Purchased Gas Expense	5,880,300	5,880,300	
Distribution Expense	320,500	320,500	
Customer Accounts Expense	358,900	358,900	
Customer Service Expense	16,000	16,000	
Sales Promotion Expense	3,600	3,600	
Admin. & General Expenses	<u>314,600</u>	<u>314,600</u>	
Total Operation and Maintenance Expense	\$6,897,600	\$6,897,600	
Depreciation Expense	605,200	605,200	
Taxes Other than Income	137,200	144,054	
Income Taxes	216,700	459,884	
Provision for Deferred Income Taxes	65,000	65,000	
Investment Tax Credit Restored	<u>(1,700)</u>	<u>(1,700)</u>	
Total Operating Expenses	<u>\$7,920,000</u>	<u>\$8,170,038</u>	
 Net Operating Income	 <u>\$ 759,904</u>	 <u>\$1,136,899</u>	

**Midwest Natural Gas, Inc.
Step I Rate Summary**

Distribution Service			Supply Options					
			Firm Sales			Interruptible Sales		
	Present Margin	Authorized Margin	FS Margin	COG ⁽¹⁾	Bundled	IS Margin	COG	Bundled
Residential, Rg-1								
Monthly Customer Charge	\$ 4.75	\$ 8.00			\$ 8.00			
Distribution Margin (Summer per therm)	\$ 0.1358	\$ 0.1360	\$ 0.0036	\$ 0.2871	\$ 0.4267	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.5071	N/A	N/A	N/A
Small Commercial & Indust., Cg-1								
Monthly Customer Charge	\$ 7.35	\$ 10.80			\$ 10.80			
Distribution Margin (per therm)	\$ 0.1285	\$ 0.1360	\$ 0.0036	\$ 0.2871	\$ 0.4267	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.5071	N/A	N/A	N/A
Medium Commercial & Indust., Cg-2								
Monthly Customer Charge	\$ 14.75	\$ 15.00			\$ 15.00			N/A
Distribution Margin (per therm)	\$ 0.0794	\$ 0.1099	\$ 0.0036	\$ 0.2871	\$ 0.4006	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.4810	N/A	N/A	N/A
Distribution Margin (Interruptible)	\$ 0.0449	\$ 0.0510						
Large Commercial & Indust., Cg-3								
Monthly Customer Charge	\$ 65.00	\$ 65.00			\$ 65.00			\$ 125.00
Distribution Margin (per therm)	\$ 0.0688	\$ 0.0688	\$ 0.0036	\$ 0.2871	\$ 0.3595	\$ 0.0030	\$ 0.2460	\$ 0.3000
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.4399	(Same rates apply)		
Distribution Margin (Interruptible)	\$ 0.0449	\$ 0.0510						
Administrative Charges for Supply Options:			Cost of Gas Rate Factors:					
IS-1 Administrative Charge (per therm)	\$ -	\$ 0.0030	12-Month Peak Demand (D-1 Annual)			\$ 0.0411		
Added Margin for Firm Sales (per therm)	\$ -	\$ 0.0006	6-Month Peak Demand (D-1 Winter)			\$ 0.0804		
Total FS-1 Admin. Charge (per therm)	\$ -	\$ 0.0036	Base Average Commodity			\$ 0.2278		
Monthly Customer Charge	\$ 60.00	\$ 60.00	Base Average Annual Demand (D-2)			\$ 0.0182		
Monthly Transportatin Admin. Charge	\$ -	\$ -						
Notes:								
(1) The firm COG has seasonal demand costs, so a Summer and Winter COG are listed.								

**Midwest Natural Gas, Inc.
Step II Rate Summary**

Distribution Service			Supply Options					
	Present	Authorized	Firm Sales			Interruptible Sales		
	Margin	Margin	FS Margin	COG ⁽¹⁾	Bundled	IS Margin	COG	Bundled
Residential, Rg-1								
Monthly Customer Charge	\$ 4.75	\$ 8.00			\$ 8.00			
Distribution Margin (Summer per therm)	\$ 0.1358	\$ 0.1360	\$ 0.0036	\$ 0.2871	\$ 0.4267	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.5071	N/A	N/A	N/A
Small Commercial & Indust., Cg-1								
Monthly Customer Charge	\$ 7.35	\$ 10.80			\$ 10.80			
Distribution Margin (per therm)	\$ 0.1285	\$ 0.1360	\$ 0.0036	\$ 0.2871	\$ 0.4267	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.5071	N/A	N/A	N/A
Medium Commercial & Indust., Cg-2								
Monthly Customer Charge	\$ 14.75	\$ 15.00			\$ 15.00			N/A
Distribution Margin (per therm)	\$ 0.0794	\$ 0.1099	\$ 0.0036	\$ 0.2871	\$ 0.4006	N/A	N/A	N/A
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.4810	N/A	N/A	N/A
Distribution Margin (Interruptible)	\$ 0.0449	\$ 0.0510						
Large Commercial & Indust., Cg-3								
Monthly Customer Charge	\$ 65.00	\$ 65.00			\$ 65.00			\$ 125.00
Distribution Margin (per therm)	\$ 0.0688	\$ 0.0688	\$ 0.0036	\$ 0.2871	\$ 0.3595	\$ 0.0030	\$ 0.2460	\$ 0.3000
(Winter per therm)	(Same Margin Rates)			\$ 0.3675	\$ 0.4399	(Same rates apply)		
Distribution Margin (Interruptible)	\$ 0.0449	\$ 0.0510						
Administrative Charges for Supply Options:			Cost of Gas Rate Factors:					
IS-1 Administrative Charge (per therm)	\$ -	\$ 0.0030	12-Month Peak Demand (D-1 Annual)			\$ 0.0411		
Added Margin for Firm Sales (per therm)	\$ -	\$ 0.0006	6-Month Peak Demand (D-1 Winter)			\$ 0.0804		
Total FS-1 Admin. Charge (per therm)	\$ -	\$ 0.0036	Base Average Commodity			\$ 0.2278		
			Base Average Annual Demand (D-2)			\$ 0.0182		
Monthly Customer Charge	\$ 60.00	\$ 60.00						
Monthly Transportatin Admin. Charge	\$ -	\$ -						
Notes:								
(1) The firm COG has seasonal demand costs, so a Summer and Winter COG are listed.								