Forces Impacting The Natural Gas Business

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January 25, 2006
Michigan House Energy and Technology Committee

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Operating Environment

- High and Volatile Market Prices
- Consequences to the Distribution Business
- Regulatory Response
- SEMCO Initiatives
- Strategies for Customers

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- Serves approximately 282,000 customers across the state
- Headquartered in Port Huron, also serving markets in Battle Creek, Holland, Niles and portions of the Upper Peninsula
- Also owns ENSTAR Natural Gas Company in Alaska (121,000 customers)
- New York Stock Exchange Listed: SEN

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High, Volatile Natural Gas Prices

- Natural gas - the most attractive fuel
- Supply/Demand Imbalance
- Simple Economics

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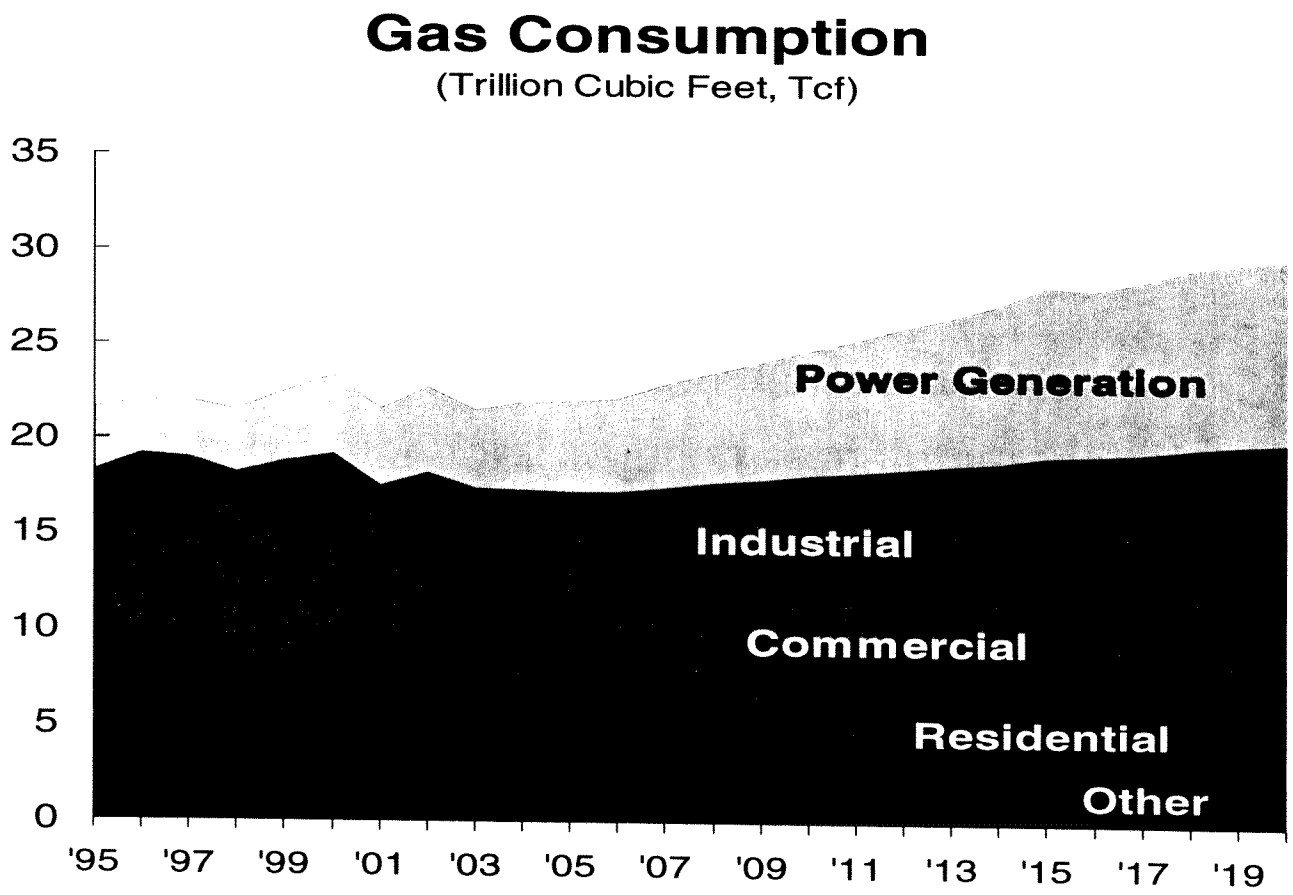
Gas Demand Outlook
Energy and Environmental Analysis (EEA)



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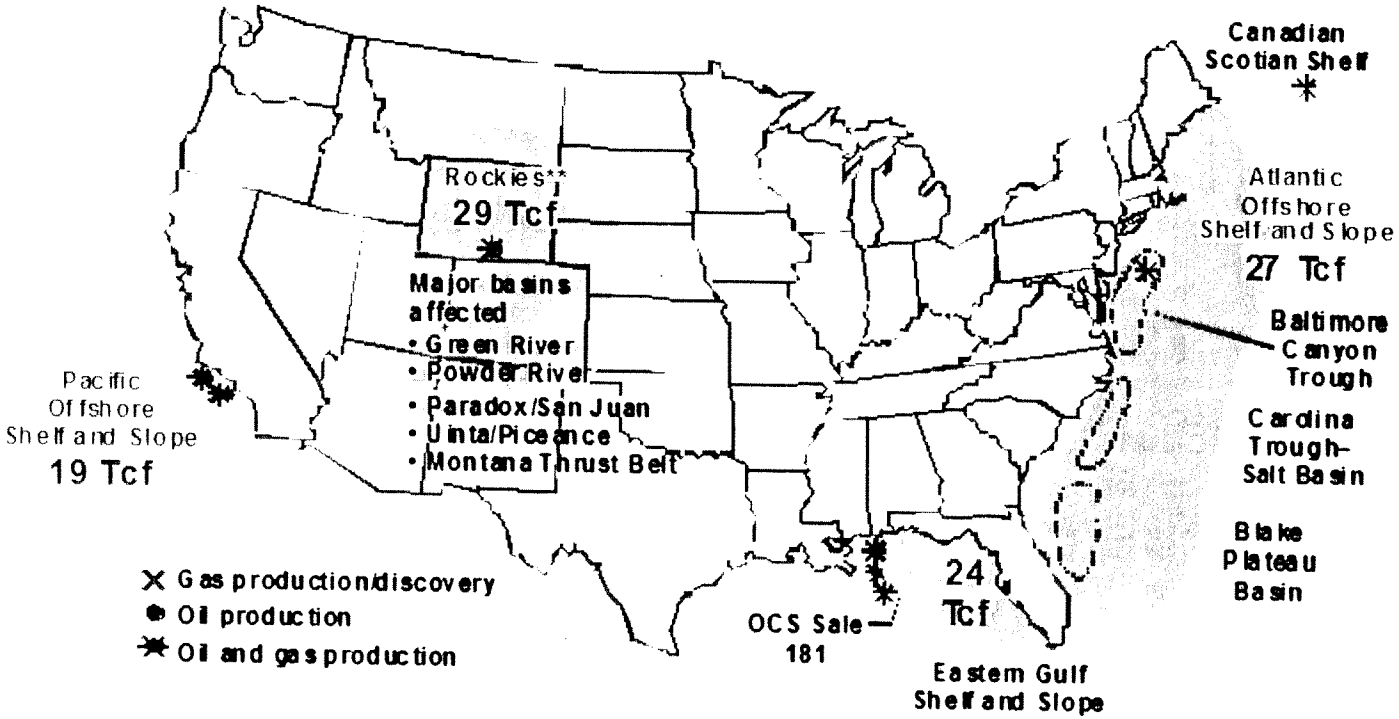
US Lower-48 Undiscovered Gas Resources Subject to Access Restrictions*



Source: Cambridge Energy Research Associates

Note: 20.7 Tcf have restrictions or are off limits

* 9.9 Tcf are off limits for exploration and development

** An additional 10.8 Tcf of the Rockies gas resources are available with restrictions

May 2003

Impact on the Gas Distribution Business

- "The Four Horsemen"
  - Conservation by Customers
  - Uncollectible Expenses from Customers
  - Working Capital
  - Lost and Unaccounted for Gas

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Rate Design

- Two different types of rates
  - Base rates
    - Designed to recover costs associated with running the business
      - Employee costs
      - Facilities
      - Capital
      - Lost and Unaccounted for Gas
  - Gas Costs Recovery (GCR)
    - Designed to recover costs associated only with the purchase of natural gas
      - The Commodity
      - Pipeline Transportation
      - Storage
    - SEMCO is not permitted a profit in recovering the cost of natural gas

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Base Rates

- Base rates
  - Base rate components:
    - Customer Charge (Fixed)
    - Service Charge (Volumetric)
  - Rates are set through exhaustive regulatory process where the interests of customers and investors are considered.
  - Rate cases occur only when the cost of capital (allowed rate of return) is not earned.

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Regulatory Response

- Reasoned approach to GCR adjustments
- Emergency Billing Rules
  - Extension of payment due date
  - No shutoffs or late charges on estimated bills
  - Shutoff protection for low-income customers (including seniors)
  - $50/month cap on settlement agreements
  - Limits on required deposits
- Insure reliable supply for customers

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SEMCO Initiatives

- Get the message out
- Conservation encouraged
- Flexible budget billing plan
- Low income assistance – government programs and charitable contributions
- SEMCO will lower its GCR cost to customers in February by approximately 15%

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National Natural Gas Supply Strategies

- Domestic natural gas reserves are substantial
- Balanced energy/environmental policies required
- Maximize domestic reserves/production
- Liquid Natural Gas (LNG)

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Conclusions

- High and volatile natural gas prices are the challenge
- Develop additional domestic supply
- Tools are available to help customers manage their bills
- Companies will continue strategies to assist customers, seek additional supplies and make operations as efficient as possible

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