Service Date: August 12, 1976

BEFORE THE UTILITY DIVISION

DEPARTMENT OF PUBLIC SERVICE REGULATION
OF THE STATE OF MONTANA
PUBLIC SERVICE COMMISSION

IN THE MATTER OF the Application of GREAT FALLS GAS COMPANY for Authority to Increase Rates and Charges for Natural Gas Service.	))))))	UTILITY DIVISION DOCKET NO. 6324 ORDER NO. 4278

Interim Rate Relief

APPEARANCES

For the Applicant:

CARTER WILLIAMS and RICHARD F. GALLAGHER, Attorneys at Law, P. O. BOX 1645, Great Falls, Montana 59403

For the Montana Consumer Counsel:

GEOFFREY L. BRAZIER, Montana Consumer Counsel, 330 Fuller Avenue, Helena, Montana 59601

For the Executive Agencies of the United States of America:

CAPTAIN DOUGLAS M. RAWLINGS, Attorney at Law, Malmstrom Air Force Base, Great Falls, Montana 59402

Other Appearances:

MARK A. CLARK and JACK BURKE, Attorneys at Law, The Montana Power Company, Electric Building, 40 East Broadway, Butte, Montana 59701, representing
The Montana Power Company

For the Commission:

RUSSELL L. DOTY, JR., Attorney at Law

Before:

GORDON E. BOLLINGER, Chairman
P. J. GILFEATHER, Commissioner

THOMAS G. MONAHAN, Commissioner
JAMES R. SHEA, Commissioner
GEORGE TURMAN, Commissioner

DISCUSSION

On or about June 17, 1975, GREAT FALLS GAS COMPANY (Applicant) petitioned this Commission for an order authorizing Applicant to increase the rates charged its customers in order to produce increased revenues. On or about September 26, 1975, Applicant filed its First Amended Petition and on or about January 13, 1976, Applicant filed its Second Amended Petition. The Applicant seeks increased rates and charges for natural gas service. The Applicant also seeks a ten (10) cents per mcf additional charge to aid in the financing of a gas supply acquisition program.

The Commission adopted a split hearing procedure for this docket and set the first phase of the hearing at 1:00 p.m. on March 15, 1976, in the Senate Chambers, State Capitol Building, Helena, Montana. The second half of the hearing was set at 10:00 a.m. on April 20, 1976, in the basement meeting room of the First Federal Savings and Loan Association, 601 First Avenue North, Great Falls, Montana.

Under the rules adopted by the Commission for this docket, the Applicant’s direct case was presented in the first phase and all parties were given the opportunity to cross-examine the Applicant's witnesses. The first phase lasted five days and was adjourned on the afternoon of March 19, 1976. In support of its petition, the Company submitted the testimony of seven witnesses and statistical and other data contained in fifteen prefiled exhibits plus some twenty other exhibits which were filed throughout both phases of the hearing. Not all of the offered exhibits were admitted. The Company's witnesses and the general subject of their testimony, in order of their appearance, were:

Mr. Earle E. Garrison …………….. Policy
Mr. Robert W. Creek ..………….. Cost-of-Service and other Financial Data

Mr. Wayne D. Monteau ………	Cost of Capital and Rate of Return
Mr. William W. Ballard ………	Potential for Finding Additional Gas in Montana
Mr. William S. Croft ………….	The Benefits to Montana from Increased Drilling -- More Competition from Gas Purchasers
Mr. Larry D. Geske …………..	The Company's Proposed Gas Supply Acquisition Program
Mr. James S. Duda ……………	Allocated Cost of Service Study and Rate Form

During the second phase of the hearings, the intervenors and staff presented their witnesses, and all parties were given an opportunity to cross-examine them. The Commission staff presented two witnesses, Dr. E. Jeffery Livingston and Dr. John W. Rettenmayer, who offered their joint testimony on the cost of capital of Great Falls Gas Company by their prefiled testimony and five exhibits. The Montana Power Company, intervenor, presented Rodger L. Billings, who offered testimony on The Montana Power Company's gas supply situation and the utilization of its gas transportation system by others by his prefiled testimony and two exhibits. Warren G. McConkey presented testimony on the gas use patterns and cost of service of Malmstrom Air Force Base.

On April 20, 1976, at about 7:00 p.m., an evening session was held for the convenience of public witnesses who desired to offer testimony. Mr. Larry D. Geske, Executive Vice President for the Applicant, presented a brief synopsis of the Applicant’s case and the testimony of a number of witnesses was received. The evening session adjourned at approximately 10:00 p.m.

The Applicant presented rebuttal testimony by Mr. Geske, and the second phase of the hearings adjourned on April 21, 1976 at 5:00 p.m.

Any motions or objections contained in the hearing record and not ruled upon therein are hereby denied.

After this case had been submitted, and in response to press reports that the Commission was considering an interim increase in this docket, the Consumer Counsel interposed an objection to the authorization of any interim rate relief. This objection was based upon the Consumer Counsel's interpretation of RCM 1947, Section 70-113. The objection is denied.

The Commission, having considered all admissible evidence and the Briefs and Proposed Findings of all the parties, now makes the following:

FINDINGS OF FACT

General

1. Public notice of this hearing was legally given by means of publication in the February 20, 1976 edition of the Great Falls Tribune.

2. The Great Falls Gas Company is a public utility furnishing natural gas service in the City of Great Falls, Montana, and surrounding vicinity and is subject to the regulatory jurisdiction of this Commission.

3. Applicant last received a base rate increase in 1972 by this Commission's Order No. 4069. A purchased gas adjustment for those rates was granted by Order No. 4147, but none of the purchased gas adjustments so allowed have covered more than the actual increased cost of gas purchased by the Applicant. Revenues generated under the 1972 rate schedule for actual test year 1975 normalized (Exhibit 19) were $245,612 after the disallowance of certain operating expenses discussed below.

4. The 1975 actual normalized earnings of $245,612 yield a 6.76 percent rate of return on Applicant's original cost rate base-depreciated of $3,633,923 for test year 1975. Existing rates and charges do not provide the Applicant with a fair return.

5. The Applicant's rates and charges should be increased to provide the Company with a fair return.

Rate of Return

6. Applicant's long-term debt after issuance of its industrial revenue bonds was $1,382,000. The embedded cost of debt is 6.84 percent.

7. Applicant's equity capital, much of which was acquired through retained earnings, which earnings were left after consistent dividend payments of approximately 7 percent, is $2,231,000. Total permanent capital of the Company is $3,613,000, with a debt-equity ratio of 38.25 percent debt and 61.75 percent equity.

8. There are certain investor risks inherent in the gas distribution and supply business today in Montana due to several significant factors, including, but not limited to, the decreasing gas supply, possible curtailments to consumers, and increasing gas prices. These factors must be, and have been, considered in the determination of a proper rate of return. These factors are counter-balanced to some extent, in the case of the Applicant, by the fact that Applicant is a closely held corporation. An Additional factor considered in the setting of Applicant's rate of return is Applicant's high equity to debt ratio.

9. Applicant's cost or equity capital, derived from discounted cash flow and comparable earnings analysis performed by the staff witnesses Rettenmayer and Livingston, was shown to be in the range from 11.2 to 13.27 percent. Because of the closely-held nature of the Applicant, and because Applicant's capital structure contains such a high percentage of equity, the Commission finds 11.8 percent to be a fair return on Applicant's equity capital.

10. The evidence showed that Applicant's average 1975 rate base, at original cost depreciated, was $3,633,923. This rate base was computed, using average 1975 figures, as follows:

	Gas plant in service …………………………………..	$6,130,622
Less:	Accumulated depreciation ……………………………	2,249,267
	Accumulated deferred federal income taxes ……..…	299,250

	Contributions in aid of construction ……………..…	28,827
	Advances for construction ……………………………	2,592
	Accumulated deferred federal income tax credit, pre-1971 ……………………………….	37,712
	Land held for future use ………..……………………	109,104
	Construction work in progress ………………………	526
		$3,403,344
Add:	Cash working capital requirements …………………	132,944
	Prepayments ……………………………………………	27,527
	Materials and supplies ………………………………..	70,108
	Average 1975 Rate Base ……………………………..	$3,633.923

11. The Commission has chosen to use an average rate base, as opposed to actual year-end rate base, because an average rate base results in a better matching of test year revenues and expenses with the plant that produced them.

12. Land held for future use and construction work in progress have been excluded from the rate base as they do not fall within the statutory requirement of property "used and useful" found in RCM 1947, Section 70-106. This conclusion was borne out by testimony and cross-examination. Advances for construction have been deleted as this fund consists of customer-contributed capital, rather than investment by the Applicant. Although this fund will be repaid at some future time to customers who furnished it, in all likelihood it will be replaced by new customer advances, resulting in a revolving fund of customer advances.

13. Based on Finding of Fact No. 6 concerning Applicant's embedded debt cost, based on Finding of Fact No. 8 concerning adjustments to cost of equity capital because of the nature of Applicant's operation, and based on Finding of Fact No. 9 concerning cost of equity capital, the Commission finds that a fair, reasonable, and just rate of return for Applicant on its original cost rate base depreciated in the amount of $3,633,923 is 9.91 percent.

14. The Applicant incurred normalized operating expenses for test year ended December 31, 1975, including purchased gas adjustment expense, in the amount of $7,603,323, excluding $5,000 paid to the chairman of the Executive Committee, and $15,850 for exploration and development.

15. There was no substantial evidence supporting the reasonableness of the services rendered by the chairman of the Executive Committee for his annual salary and it is, accordingly, not allowed an operating expense.

16. The operating expenses for exploration and development sought to be included by the Applicant did not produce any utility service or commodity used or useful to the customers of the Applicant.

17. Total allowable actual normalized operating revenues, including purchased gas adjustment revenues, were $7,859,674 for calendar year 1975.

18. Based on Finding of Fact No. 14, the Applicant's net operating revenues should be $360,122 in order to realize a return on rate base of 9.91 percent.

19. Of every dollar of revenue generated, .5151 percent is payable in federal and state income taxes.

20. Based on Findings of Fact Nos. 17, 18, and 19, Applicant requires a rate schedule which generates revenues, including purchased gas adjustment revenues, totaling $8,095,826, which is computed as follows:

1975 normalized revenues, including purchased gas adjustment revenues ……………………………………..		$7,859.674
Allowable normalized operating expenses, including purchased gas adjustment expenses ……………	7,603,323	
Adjusted normalized operating revenue …………………..	$ 245,612	
Allowable operating revenues at 9.91 percent of $3,633,923 rate base ……………………………………..		$ 360,122
Actual adjusted operating revenues from above …………		245,612
Required revenue increase before adjustment for taxes ……………………………………………………….		$ 114,510
Required revenue increase after adjustment for taxes ....………………….		$ 236,152
Total required revenue from base rates and purchased gas adjustment revenues ………………………		8,106,366

21. Applicant's witnesses approved the concept of a "flattening" of the Great Falls Gas Company rate structure. Under a flattened rate structure, consumers in every class would pay the same amount for a unit of gas. The Commission requires additional time to study the allocated cost of service evidence submitted in this case, and accordingly, is deferring any major adjustments in Applicant's rate structure until the final order in this docket. Until that final order, Applicant shall collect the additional revenues authorized herein on a uniform or volumetric basis. This type of increase as opposed to a uniform percentage increase, will not have the effect of increasing the existing differences in the rates paid by different classes of consumers.

Gas Supply

22. The Great Falls Gas Company purchases its entire gas supply from The Montana Power Company pursuant to a 20-year contract dated November 12, 1958, which was approved by the Commission on June 19, 1959.

23. It is possible that Applicant will experience curtailments of its supply from The Montana Power Company. This same possibility confronts all direct Montana Power customers throughout the state. Applicant's concern for assuring its customers an adequate and reasonably priced supply of gas for the foreseeable future is shared by the Commission.

24. Applicant demonstrated no ability to deliver any gas discovered under a surcharge plan to its consumers in Great Falls. Although the Applicant and Intervenor Montana Power both furnished the Commission with memoranda concerning the Commission's authority to order Montana Power to carry over its pipelines gas owned by Applicant, Applicant in its Reply Memorandum acknowledged that the Commission is without authority to enter such an order in this docket.

25. During the hearing on this application, the Commission set a deadline for negotiations between the Applicant and Montana Power on the pipeline question. This deadline was extended once, but negotiations proved unsuccessful.

26. To permit Great Falls Gas Company to build a pipeline into the north-central Montana gas fields, which pipeline would parallel the existing Montana Power pipeline, would be a needless waste of resources, and would result in a significant increase in rates to Applicant's customers.

27. The question of the Commission's authority to order a regulated utility to carry through its pipelines natural gas owned by another regulated utility is not properly before the Commission in this docket.

28. Absent a proven ability to deliver any gas discovered under a surcharge plan to the Applicant's Great Falls customers, the Commission is unwilling to consider the legality of a customer-contributed exploration and development capital fund.

CONCLUSIONS OF LAW

1. The rates approved herein are reasonable and just, and leave the Applicant in a sound financial position, capable of rendering adequate service and of competing with other industries for new capital.

2. The volumetric increase authorized by this order is an equitable means of apportioning among Applicant's customers the increased revenues required by the Company.

3. The Commission has authority under RCM 1947, Section 70-113, to approve an interim increase in utility rates following a public hearing on a rate increase application.

4. Without passing upon the merits of the legal issue posed, Montana Power could not be ordered in this docket to carry gas developed and owned by the Applicant. Accordingly, as there was no financially feasible means of transporting any gas Applicant might develop demonstrated in this proceeding, the Commission has not made a determination of the legality of a surcharge as requested by the Applicant, and the requested surcharge must be denied.

ORDER

1. Applicant is hereby ordered to file with this Commission revised rate schedules reflecting a constant volumetric increase to all classes of customers adjusted for pressure base.

2. The filed tariffs shall be for natural gas delivered during the next full billing period after August 15, 1976.

3. The requested surcharge is denied.

4. If the Commission in its final order does not allow an increase to Applicant in an amount equal to or exceeding the amount authorized herein, then under the provisions of RCM 1947, Section 70-113, as amended by chapter 115 L. 1975, the Commission will order a rebate to all consumers for the amount collected hereunder which exceeds the final rate. In the event a rebate is directed by the final order herein, provision shall be made herein to cause all uncollected rebates to be escheated to the State of Montana, in the manner provided by law.

DONE IN OPEN SESSION aat a meeting of the PUBLIC SERVICE COMMISSION held August 4, 1976, by a vote of 5-0.

Gordon E. Bollinger, Chairman

P.J. Gilfeather, Commissioner

Thomas G. Monahan, Commissioner

James R. Shea, Commissioner

George Turman, Commissioner

ATTEST:

Gail S. Behan, Secretary

(SEAL)

I realize that small utility companies have very serious problems in meeting the increased costs of Canadian gas which is being passed through to them by the Montana Power Company.

However, excessive costs of fuel are imposing a very servere hardship on the entire public sector in Montana. There are many families and businesses who will not be able to cope with these rapidly increasing costs.

The rising cost of gas will force many small businesses to close their doors. In fact large businesses too are adversely affected by rising fuel costs. Just in January of 1977, Great Western Sugar of Denver, Colorado which has a Montana plant located in Billings announced a layoff of over 300 people at one of its out of state plants. The rising cost of fuel (natural gas) was given as one of the reasons.

Fuel is an essential to actual life in Montana – just as food, clothing and shelter. Without fuel to consume it would be most difficult for life to exist. These increased gas costs are going to be severely felt by many people dependent on gas to heat their homes.

It is for these reasons principally that I strongly dissent to this increase order. "Temporary increases historically become permnanent."

Therefore, I vote no and dissent to the Great Falls temporary rate increase.

JAMES R. SHEA, Commissioner