

Service Date: February 17, 1978

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

* * *

| | | |
|----------------------------------|---|-------------------|
| IN THE MATTER of the APPLICATION |) | |
| of MONTANA-DAKOTA UTILITIES COM- |) | Docket No. 6441 |
| PANY for Authority to Establish |) | |
| Increased Rates for Natural Gas |) | Order No. 4369 a |
| and Electric Service. |) | (Cause No. 41741) |
| _____ |) | |

FINDINGS OF FACT

1. By stipulation of counsel and consent of the District Court, the Commission has before it the record of the evidence taken by the Court upon the trial of MDU's appeal of Order No. 4369. Under the provisions of R.C.M. 1947, Section 70-128 and the stipulation entered By counsel for the parties, the Commission was given until February 21, 1978 in which to enter an order following consideration of the evidence received by the Court. Having considered the evidence presented, and having carefully weighed that evidence against the evidence presented by MDU at the administrative hearing in this matter, the Commission issues this order as its response to the evidence and contentions of MDU.

2. The only matter raised by MDU in the trial held January 16 and 17, 1978, which is deemed to be of merit relates to the Commission's refusal to find a differential rate of return for the electric and gas utilities.

In Order No. 4369, Finding of Fact No. 10, the Commission stated that it would not consider the cost of equity to the two branches of the utility's operation separately, as MDU had failed

to present in evidence an exhibit allocating the capital structure between the branches. At trial, Mr. Wigmore sponsored Plaintiff's Exhibit 5, which provided this allocated capital structure data. Although MDU seemed to indicate that this data was unnecessary as the Commission could have applied different returns to the electric and gas rate bases, the Commission feels justified in requiring this information. These allocations are the only assurance the Commission can have that the capital structures employed by the utility are not substantially different for the two operations. As Exhibit 5 clearly shows, the source of the funds with which MDU operates its two businesses vary, and substantially impact the cost of capital to MDU.

3. Exhibit 5 indicated that the over-all rate of return for the natural gas utility should be .25% higher than that for the electric utility. The Commission disagrees with this process. In the Commission's opinion, the higher risk of the gas business is related to dwindling sources of supply, loss of market, and, specifically for MDU, limited resources with which to conduct exploration and development. These factors bear upon the risk to the equity holder, who does not enjoy the relatively safe return of the fixed obligations represented by debt and preferred stock.

4. MDU's allocation process produced the following capital structures, with revised cost rates shown:

MONTANA-DAKOTA UTILITIES CO.
COST OF CAPITAL SUMMARY
ELECTRIC & GAS

| | (000's) <u>Amount</u> | Capitalization <u>Rate</u> | <u>Cost</u> | <u>Return</u> |
|--|--------------------------|-------------------------------|--------------|---------------|
| Electric | | | | |
| Long-Term Debt Out- standing | \$ 77,040 | 59.25% | 7.19% | 4.26% |
| Preferred Stock | 12,029 | 9.25 | 8.27 | .76 |
| Common Stock Equity | <u>40,961</u> | <u>31.50</u> | <u>11.50</u> | <u>3.62</u> |
| Total | <u>130,030</u> | <u>100.00</u> | <u>-</u> | <u>8.64</u> |
| Gas | | | | |
| Long-Term Deb Out- standing | 45,799 | 45.65% | 7.67% | 3.50% |
| Preferred Stock | 16,571 | 16.52 | 5.73 | .95 |
| Common Stock Equity | 37,359 | 37.23 | 11.75 | 4.37 |
| Unamortized Gain on Reacquired Debt | <u>600</u> | <u>.60</u> | <u>-</u> | <u>-</u> |
| Total | 100,329 | <u>100.00%</u> | <u>-</u> | <u>8.82</u> |
| TOTAL | <u>\$230,359</u> | | | |

5. Utilization of the revised electric utility capital structure and cost rates produce a revenue deficiency of \$1,508,000, which compares to the Order No. 4369 determination of \$1,522,000. The revised revenue deficiency is calculated as follows:

(000)

| | | |
|-----------------------------|--------------|--------------|
| Electric Utility Rate Base | \$ 31,440 | |
| Required Rate of Return | <u>8.64%</u> | |
| Required Return | | 2,716 |
| Amount Available for Return | | <u>1,985</u> |
| Income Deficiency | | 731 |
| Revenue Deficiency | | \$1,508 |

6. The revised natural gas utility capital structure and cost rates produce a revenue deficiency of \$774,000, which compares to the Order No. 4369 finding of \$658,000. The revised revenue deficiency is calculated as follows:

| (000) | |
|-----------------------------|--------------|
| Electric Utility Rate Base | \$ 35,030 |
| Required Rate of Return | <u>8.82%</u> |
| Required Return | 3,090 |
| Amount Available for Return | <u>2,715</u> |
| Income Deficiency | 375 |
| Revenue Deficiency | \$ 774 |

CONCLUSION OF LAW

1. The returns on equity determined above are appropriate, and the Commission finds that the resulting returns are fully adequate and comply with all legal standards.

ORDER

1. The Commission will accept for filing natural gas tariffs which recover the revenue deficiency indicated in Finding No. 6, and which reduce electric revenues in order to recover only the revenues determined appropriate in Finding No. 5. Those tariffs, if promptly filed, shall be effective for services on and after March 1, 1978.

DONE IN OPEN SESSION ON FEBRUARY 17, 1978 by a 4 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Gordon E. Bollinger, Chairman

P. J. Gilfeather, Commissioner

Thomas J. Schneider, Commissioner

James R. Shea, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of this Order. Judicial review may be obtained by filing within thirty (30) days from the service of this Order a petition for review pursuant to Section 82-4216, R.C.M. 1947.