

Service Date: May 28, 1982

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

\* \* \* \* \*

IN THE MATTER of the Application of )  
MONTANA-DAKOTA UTILITIES CO. for Au- )  
thority to Implement the Gas Cost )  
Tracking Procedure to Establish In- )  
creased Rates for Gas Service. )

UTILITY DIVISION  
DOCKET NO. 81.10.98  
ORDER NO. 4855a

APPEARANCES

FOR THE APPLICANT:

Joseph R. Maichel, Attorney at Law, 400 North Fourth, Bismarck,  
North Dakota 58501.

John Alke, Hughes, Kellner, Sullivan and Alke, Attorneys at  
Law, 406 Fuller Avenue, Helena, Montana 59601.

FOR THE INTERVENORS:

James C. Paine and John C. Allen, Staff Attorneys, Montana  
Consumer Counsel, 34 West Sixth Avenue, Helena, Montana  
59620.

Jerome Anderson, Anderson, Brown, Gerbase, Cebull & Jones,  
P.C., 100 Transwestern I, 404 North 31st Street, Billings,  
Montana 59101. Appearing on behalf of Intervenors Pierce  
Packing Company, Midland Empire Packing Co., Midland Foods  
Distribution Company and Midland Foods, Inc.

C. W. Leaphart, Leaphart Law Firm, Attorneys at Law, 1 North  
Last Chance Gulch, Helena, Montana 59601. Appearing on  
behalf of Intervenors Great Western Sugar Company and Holly  
Sugar Company.

FOR THE COMMISSION:

Eileen E. Shore, Staff Attorney  
Opal Winebrenner, Staff Attorney  
Dan Elliott, Administrator, Utility Division  
Dennis Crawford, Deputy Administrator, Utility Division

BEFORE:

GORDON E. BOLLINGER, Chairman  
 JOHN B. DRISCOLL, Commissioner  
 HOWARD L. ELLIS, Commissioner  
 CLYDE JARVIS, Commissioner  
 THOMAS J. SCHNEIDER, Commissioner

FINDINGS OF FACT

1. On October 30, 1981, the Montana-Dakota Utilities Company (MDU) filed with the Montana Public Service Commission (PSC) its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU Tariff Sheets 87-M and 88-M.

2. The application contemplated the following increases:

	<u>Residential &amp; Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	104.506¢	113.657¢
Unreflected Gas Cost Adjustment	85.201¢	85.201¢
Less: Total Tracking Adjustment Approved in Docket No. 81.4.45, Order No. 4802a	<u>(128.505)</u>	<u>(135.231)</u>
Net Increase	<u>61.202¢</u>	<u>61.627¢</u>

3. The Commission, finding that the Applicant had complied with filing criteria specified in previous tracking orders, granted, on an interim basis, the amount applied for. The increased rates became effective for service rendered on and after December 1, 1981.

4. Although the rates would be in effect only six months, the annual value of the increase was:

	<u>Residential &amp; Commercial</u>	<u>Industrial Customers</u>
Unit Rate Increase	61.202¢	63.627¢
Annual Volumes from MDU Docket 81.7.62 at Sales Base Pressure	<u>13,442,079 Mcf</u>	<u>4,473,000 Mcf</u>
Total	\$ 8,226,821	\$2,846,036

5. A hearing was held January 6, 1982, pursuant to notice at the City Library, 510 North Broadway, Billings, Montana. The hearing was held immediately following the Docket No. 81.7.62 hearing and that record was incorporated into this docket.

6. Testimony given at the hearing established that MDU has, for the most part, complied with Commission directives. One aspect of MDU's case, however, exceeds the Commission ordered \$100 million loan guarantee ceiling pertaining to Frontier Gas Storage Company:

Q. Could I refer you to Exhibit C, Page 3 of 7.

A. Yes.

Q. Under the column "Inventory Balance," line "Adjustment for Annualized Purchased Gas Volume from Exhibit A," there is a figure there of 132 million, plus, dollars, is that correct?

A. Pardon me, sir?

Q. There is a balance of 132, plus, million dollars, is that correct, under the column, "Inventory Balance," in the line "Adjustment for Annualized Purchased Gas Volume from Exhibit A"?

A. Yes, I believe that figure should be moved down one line to where it says, "Total." Thank you for pointing that out.

Q. And with regard to that total, how much of that is associated with Frontier? Well, how much is owned by the Frontier?

A. All of it.

Q. And this Company sought authorization from the Commission with regard to, what, \$100 million as far as the Frontier Storage Project docket was concerned?

A. Yes.

Q. All right. So, we're talking about \$32 million more than what was authorized, is that correct?

A. That is correct, yes.

(Mr. Paine cross-examining Mr. Ball, Tr. pp. 27, 28).

7. Mr. Ball later indicated, in response to cross-examination by Ms. Shore, that limiting the inventory balance to \$100 million would decrease the cost of gas by about 1¢/Mcf. The Company will compute the precise amount, advise the Commission of any overcollection and amortize the balance over the June 1, 1982 - December 1, 1982 period.

8. On February 19, 1982 the Federal Energy Regulatory Commission (FERC) issued an order granting MDU a certificate to make sales for resale to Colorado Interstate Gas Company and MIGC, Inc. and approved rates applicable to such sales in Docket No. CP81-316 et al.

9. These interstate sales were to commence March 1, 1982. On March 3, 1982, MDU filed with the Commission, pursuant to the

stipulation submitted July 31, 1981 regarding conditions of interim rate increase, its application for an interim rate decrease.

10. The total amount attributable to the Montana decrease is computed as follows:

	Residential and Commercial	Industrial	Total
1. Current Gas Cost Without Off Systems Sales (per Docket No. 81.10.98)	104.506¢	113.657¢	
2. Current Gas Cost With Off System Sales (per Docket No. 81.10.98)	<u>71.986¢</u>	<u>78.290¢</u>	
3. Gas Cost At- tributable to Off System Sales	32.52 ¢	35.367¢	
4. Sales Base Pres- sure Volumes from Sch. J-2	<u>13,442,079 Mcf</u>	<u>4,473,000 Mcf</u>	
5. Total Gas Cost Component	\$ 4,371,364	\$1,581,966	\$5,953,330
6. Total Fixed Cost Component From Revised Sch. H-14, P. 1 (MT portion) as filed 3/3/82			<u>\$1,778,486</u>
7. Total Revenue Decrease From Off System Sales			<u>\$7,731,816</u>

11. The transaction contemplates total sales of 20 Bcf per year on a firm basis for five years.

12. In this order, only the gas cost portion attributable to the sale is approved on a final basis. The fixed cost portion was discussed in the order for Docket No. 81.6.57.

Gas Pricing for Frontier Storage Gas

13. In Order No. 4802a the Commission indicated that it intended to investigate accounting methods for all Frontier Storage gas, possibly pricing it as if high priced Sections 102, 103 and 108 gas were injected instead of pricing gas at the system average.

14. At that time, and subsequently, MDU has argued that such an action is prohibited because the Frontier transaction, including the proposed adjustment, is subject to FERC approval.

15. Parties were requested to submit briefs on the issue, and both MDU and the Consumer Counsel did so.

16. After reviewing the arguments presented, and the practical ramifications of such a change, the Commission finds that it is not appropriate at this time.

17. In declining to act on the issue at this time, however, the Commission does not find that such an adjustment is preempted by FERC. That issue is reserved for later proceedings.

18. The Commission may address this issue at any time, but will most certainly take it up in the event of a change in FERC's

deregulation philosophy as it pertains to old gas or in the event of speeded up deregulation of natural gas. The Company is ordered to be prepared with alternatives to ameliorate the effect of these contingencies on its gas prices and is directed to file them immediately upon any final action changing the deregulation status quo.

19. The Commission is interested in the cost of native natural gas in storage and realizes that, effectively, it's cost would be determined by the capital and variable costs needed to recover it. If these costs were less than current NGPA prices then native gas (or any portion of it) should be added to current storage balances in arriving at an optimum storage inventory level, thereby allowing MDU to purchase less gas to meet this level. The following exchange between Commissioner Driscoll and MDU witness Price points this out:

- Q. If gas were close to \$3, would some of the gas in those fields at that time then be considered economically recoverable?
- A. It's possible.
- Q. Is there a report in-house that the Company used to determine that the 23.2 BCF in those two fields were no longer recoverable? Is there some kind of a document that you can refer us to?
- A. There's no document, but we couldn't deliver the gas from those fields when the level reached that low amount.
- Q. Why is that?
- A. Why is that? Because we couldn't physically remove the gas. The pressure was so low that it would not produce.

- Q. You indicated earlier that with compression techniques, you could get the last few MCF of gas in your 152 billion cubic feet in those same fields. Would similar compression techniques be available to get this native gas?
- A. It's possible. It's possible at that time if the gas was high enough priced, we could put enough pressure to pull the pressure down to five pounds. Instead of 25 or 30 pounds, it was down to when we considered it to be abandoned or to be no longer producible.
- Q. When was the last time that you evaluated the native gas to see if it could possibly be recoverable given the present price of energy?
- A. We haven't had to contemplate recovering that gas under present conditions, and certainly we've never made a study to see if we can and would recover it, but I'm sure that if we got down to that level, we'd do everything we could to recover what we could economically.
- Q. In making your decisions to purchase gas from other sources that you're buying into the system now, haven't you compared what the cost would be to get 23.2 billion cubic feet that you may have in-house already, with the cost of procuring it outside the system?
- A. What you're proposing is not practical under the circumstances. You can't say, "I'm going to go in and drill down to the bottom of that storage field and withdraw that 23 billion because it's cheaper gas." The field is full of gas that we've stored.
- Q. That's not what I'm proposing. I'm proposing a readjustment of your storage in view of some possibility that you may now be able to recover it. Have you not even contemplated that?
- A. We have not had to contemplate that because, as you know, our storage volumes are up to where they can supply the gas which we require at this time. (Tr. pp. 113-115).

The Company is ordered to perform an engineering study to obtain the necessary capital and variable costs per Mcf in order

to recover 0-5 Bcf, 6-10 Bcf, 11-15 Bcf, 16-20 Bcf and 21-23.2 Bcf and present the results in its November, 1982 gas tracking filing.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and proceedings in this matter.
2. The rates and charges authorized herein are just, reasonable and not discriminatory.

ORDER

1. Rates approved on an interim basis are hereby made final. The rate decrease associated with the gas cost component of off line sales is also made final.
2. Any overcollection as specified in Finding of Fact No. 7 will be amortized over the June 1 - December 1, 1982 period.
3. Any motions not ruled upon herein are denied.

DONE AND DATED this 17th day of May, 1982, by a vote of 5 -0

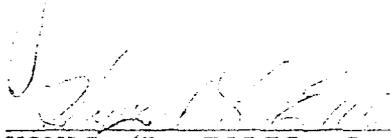
BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.



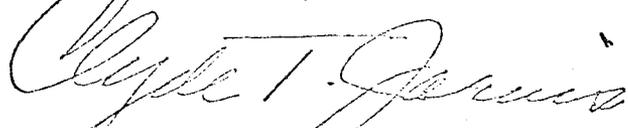
GORDON E. BOLLINGER, Chairman



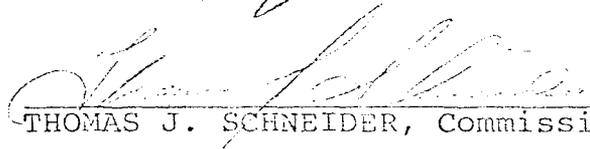
JOHN B. DRISCOLL, Commissioner



HOWARD L. ELLIS, Commissioner

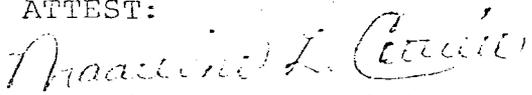


CLYDE JARVIS, Commissioner



THOMAS J. SCHNEIDER, Commissioner

ATTEST:



Madeline L. Cottrill  
Commission Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806 ARM.