Service Date: December 30, 1983

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

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IN THE MATTER of the Application of THE MONTANA POWER COMPANY for Authority to Establish Rates for its Deferred Accounting Filing and IN THE MATTER of the Canadian Border Price Reduction from $4.94 to $4.40.	UTILITY DIVISION DOCKET NO. 83.1.5 ORDER NO. 4976a

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INTERIM ORDER

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FINDINGS OF FACT

1. On January 24, 1983, the Montana Power Company (MPC) filed an application to amortize the balance in its unreflected gas cost account for the period January 1981 through August 1982. The application sought a net revenue increase of $3,367,710 for gas supply costs incurred during that 20-month period that were not recovered through the then-existing rates.

2. The Canadian government, on April 12, 1983, announced a reduction in the international border price from $4.94 per MMBTU to $4.40 per MMBTU.

3. The Commission, on April 27, 1983, issued Interim Order No. 4976 in this Docket. That Order authorized MPC to begin the amortization of its gas cost account balance, $3,367,710, over a projected market in a 1-year period, and recognized a revised gas supply mix. The revised mix recognized the border price reduction to $4.40/MMBTU level on MPC's gas imported at the Aden border point. The net effect of the Order was to

reduce the annual natural gas utility revenues by $2,756,970.

4. According to MPC, it has explored over an extended period of time a filing that would recognize certain increased non-gas costs, while leaving the gas utility's total revenue level unchanged. This concept evolved throughout a period in which conditions affecting the gas utility changed. As originally proposed, MPC intended to make a filing which recognized its investment in a new 16-inch transmission line from Cut Bank to Morel, while holding rate base constant by means of a reduction of gas in storage. Storage gas had increased substantially in recent years as MPC struggled to deal with its take-or-pay obligation with a major Canadian supplier, Alberta and Southern Gas Co., Limited. With the Montana gas market declining precipitously, MPC was forced to place more gas in storage than is required by its market.

5. According to MPC, its examinations indicated that a filing was possible that recognized increased non-gas costs without affecting total rate levels, offsetting those increased costs by means of lower gas costs. The gas cost reduction would also be accomplished in part through a change in the method of pricing gas withdrawn from storage. The Last In First Out (LIFO) method formerly employed would be replaced by an average cost method when net withdrawals over an annual period exceed net injections. The Company's operating plan for the next several years contemplates net storage withdrawals and the result will be a substantially lower unit cost for gas withdrawn from storage.

6. While MPC indicated to interested persons in September and October meetings that it appeared unlikely that a filing could avoid some revenue deficiency, two events occurred which made possible a "no increase" filing First, the Federal Energy

Regulatory Commission (FERC) ruled on October 12, 1983, that MPC had no retroactive liability to gas producers for certain severance taxes. MPC had, under this Commission's orders, accrued between August 1979 and March 1981, a net severance tax account balance of $5,425,758. In accordance with the terms of Mr. J. F. Doran's letter to the Commission dated March 18, 1981, and with MPSC Order No. 4775, the FERC Order makes this balance available for flowback. Second, it became clear in October and early November that the 16-inch transmission line would not be completed in 1983. Instead, it appeared likely that at least one-half of the line, the segment from Augusta south to Morel, would be in service during the tracking period proposed in this filing (the 12-month tracking period ending August 1984). The investment in this portion of the pipeline represents almost $13 million based on construction estimates that were prepared prior to the date that the actual construction started.

7. On December 9, 1983, MPC made an amended filing in this Docket. The filing seeks to alter the basis for the existing rate levels so that increased levels of non-gas costs (through the non-gas cost component of the rate) are recognized, but offset through recognition of a lower level of gas costs (through the gas cost component of the rate). Additionally, the filing contains a gas cost tracking consideration and a proposal for the handling of the unreflected gas cost balances for two periods, as well as a proposed flowback of the severance tax accrual described above. MPC proposes that ratepayers receive a rate decrease effective for meter readings on and after January 1, 1984.

8. The many unusual aspects of this filing make an analysis along the lines of criteria for interim increases impractical, if not impossible. Upon cursory review, the present filing

does not resemble previous filings; thus, the usual comparisons cannot be made. In addition, because the filing presents substantive issues that may need exploration in the discovery and hearing process, the Commission specifically declines to make findings on the specifics of the application except as follows.

9. The only finding which seems necessary on the merits of this case at this preliminary stage of these proceedings deal with MPC's proposal for changing its accounting for storage gas in the interim period before a final order is issued. MPC proposes that the accounting method be changed from a LIFO method to an average cost method. The factual basis of the change is that MPC has taken more gas than is needed for its market. Based on the Commission's experience, the factual basis for this change is accurate; therefore, the accounting method change is justified on an interim basis.

CONCLUSIONS OF LAW

1. MPC is a corporation providing gas services within the State of Montana, and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Commission properly exercises jurisdiction over MPC's natural gas utility operations under Title 69, Chapter 3, MCA.

3. The Company is authorized to reduce rates on an interim basis, pending hearing on the merits (69-3-304, MCA) .

4. Because the December 9, 1983, filing constitutes an entirely new case, the 9-month deadline in this case shall run from that date.

ORDER

1. MPC's proposed rate schedules, Exhibit No. 5 of the filing are approved for meter readings on and after January 1, 1984. The unreflected gas cost amortization authority under Interim Order No. 4976 ceases accordingly.

2. MPC's proposed changes in accounting for natural gas injected into and withdrawn from storage are approved, effective as of September 1, 1983.

DONE AND DATED this 22nd day of December 1983, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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THOMAS J. SCHNEIDER, Chairman

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CLYDE JARVIS, Commissioner

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary
(SEAL)