

Service Date: December 7, 1984

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 COM-)	UTILITY DIVISION
PANY for Authority to Implement the)	DOCKET NO. 84.10.67
Gas Cost Tracking Adjustment Proce-)	ORDER NO. 5102
dure.)	

* * * * *

INTERIM RATE ORDER

* * * * *

FINDINGS OF FACT

1. On October 22, 1984, the Montana-Dakota Utilities Company (Applicant, Company or MDU) filed with the Montana Public Service Commission (Commission) its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheets 87-M and 88-M.
2. The tracking procedure provides for increasing rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Tracking Adjustment amortized over a projected six-month sales period. Because the Unreflected Gas Cost Adjustment has been previously established in Docket No . 84.9.60 and approved on an interim basis in Order No. 5087 of Docket No. 84.5.21, the Company requested no new or additional Unreflected Adjustment in Docket No. 84.10.67. The Applicant, therefore proposed the following adjustments, which are approved by the Commission on an interim basis in Docket No. 84.10.67:

	<u>Residential and Commercial</u>	<u>Industrial</u>
<u>Current Gas Cost Tracking Adjustment:</u>		
Gas Cost Adjustment - October 1, 1984	78.0¢	84.9¢
Current Gas Cost Adjustment	<u>13.7¢</u>	<u>14.9¢</u>
Cumulative Current Gas Cost Adjustment December 1, 1984 Through May 31, 1985	91.7¢	99.8¢
<u>Unreflected Gas Cost Adjustment:</u>		
Unreflected Gas Cost Adjustment (Effective October 1, 1984 Through September 30, 1986) A/	<u>38.1¢</u>	<u>38.1¢</u>
Total Tracking Adjustment to be Effective December 1, 1984 Through May 31, 1985	<u>129.8¢</u>	<u>137.9¢</u>
Less: Total Tracking Adjustment Effective Through November 30, 1984.	<u>116.1¢</u>	<u>123.0¢</u>
Increase (Decrease)	<u>13.7¢</u>	<u>14.9¢</u>

A/ Pursuant to Docket No. 84.9.60, Stipulated Settlement Agreement, for Docket No. 84.5.21.

3. On August 31, 1984, members of the Commission staff met with representatives of MDU and Montana Consumer Counsel (MCC) at the behest of MDU. This was the first of a series of meetings aimed at discussing the proper handling of MDU gas trackers in the context of MDU v. PSC, Cause No. 84-13-H, (D.Mont.), and FERC Docket No. 82-487-000, Joint Application of MDU and Williston Basin Interstate Pipeline Co.

4. These aforementioned discussions have resulted in a Settlement Agreement (Settlement), which has been given the Docket No. 84.9.60. The provisions of the Settlement call for the approval of the Current Gas Cost adjustment as filed in Docket No. 84.5.21, effective October 1, 1984, on an interim basis. The Unreflected portion of Gas Cost adjustment is to be based on the

total Unreflected balance as of September 30, 1984, with an amortization period of two years, beginning October 1, 1984, rather than the usual tracking amortization period of six months.

5. The Settlement in Docket No. 84.9.60 also called for a Final Order in Docket No. 84.10.67 on or before December 1, 1984. The approval of such a Final Order, however, is contingent upon the implementation of the Williston Basin Interstate Pipeline (WBIP) by the Federal Energy Regulatory Commission (FERC). Since the FERC has not yet approved the implementation of WBIP, a Final Order in Docket No. 84.10.67 can not yet be issued. Because the Commission believes that the FERC approval of WBIP is imminent, granting interim approval of the proposed increases in Docket No. 84.10.67 is proper in accordance with the Settlement in Docket No. 84.9.60. The implementation of these rate increases on an interim basis will prevent an accumulation of unreflected gas costs in the deferred gas cost account, and maintain the settlement provisions in Docket No. 84.9.60.

6. For more details and information concerning the Settlement, refer to Docket No. 84.9.60.

7. In conjunction with this interim order, it is essential to note that the Commission is deeply concerned with the level of MDU's gas rates. Regular NGPA price increases, coupled with the Company's extraordinary take-or-pay obligations, have had a drastic impact on gas costs. The NGPA provides, however, that certain gas sources will be deregulated on January 1, 1985. At the hearing in this Docket, MDU expressed optimism that significant reductions in both price and take-or-pay levels will result from negotiations pursuant to the deregulation.

8. Because of the hardships imposed by current gas rates, and the unique one-time nature of the negotiated decreases, the Commission firmly believes that any decrease should be promptly flowed through to benefit ratepayers. Such decreases will clearly benefit consumers; and should also benefit the Company by protecting its markets; MDU has itself concluded that market value of its gas is substantially below current prices. Because of these dual benefits, the Commission expects that MDU will have the incentive to flow through any material producer price decreases as soon as possible. These decreases would, of course, be balanced against those producer price increments still occurring under the NGPA.

9. To assist the Commission in its obligation to monitor these important gas cost developments, MDU is directed to file monthly reports beginning January 1, 1985. These reports should detail the status of MDU's producer price and volume renegotiation efforts, including any new prices and affected volumes that have been finalized. Any changes from rates and projected volumes shown in Exhibit A, Docket No. 84.10.67, should be noted.

10. A hearing was held, pursuant to Notice, concerning all the matters in Docket No. 84.10.67 on November 14, 1984, in the City Library, Billings, Montana.

11. Included with the filing to increase rates was a request for waiver of the minimum filing requirements.

12. The criteria by which the Commission may determine an appropriate interim adjustment in a tracking procedure are found in past Commission tracking orders and in the Commission's rules regarding interim relief.

13. Past Commission orders have established the following criteria to be met in the MDU tracking procedure:

- (a) tracking increases are to be based on historic costs and volumes (Finding of Fact No. 6, Order No. 4476);
- (b) interest is not to be imputed on the deferred gas cost balance (Finding of Fact No. 25, Order No. 4476a);
- (c) the procedure used by the Company in calculating proposed rates in tracking proceedings should provide for the maintenance of the 12.5 percent lifeline discount differential between "Winter" and "Remainder of the Year" rates (Finding of Fact No. 20, Order No. 4742);
- (d) the appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case; furthermore, that mix should apply to both the current and unreflected portions of a tracking procedure (Finding of Fact No. 5, Order No. 4742a); this requirement is currently the subject of litigation in MDU vs. PSC. Cause No. 84-13-H, (D.Mont); and

(e) the Company should not annualize for new sources of gas not having an actual production history within the test year (Finding of Fact No. 6, Order No. 4742a).

14. The Commission's rules regarding interim relief are contemplated to provide relief on a "make-whole" basis and set forth the guidelines by which the Commission staff is to develop an appropriate level of interim relief. Among other things the guidelines provide for normalization and annualization of test year booked net income and test year average rate base, utilizing the rate of return authorized in the Commission's most recent decision regarding the subject utility.

15. In granting the interim levels found appropriate herein, the Commission finds it has accomplished its goal of establishing an equitable and expeditious means of passing through the rising cost of gas due to the Natural Gas Policy Act of 1978. The Commission also is cognizant of the beneficial effect of such a policy on the Company's overall financial risk.

16. Section 69-3-304, MCA, provides for rebate provisions in the event that any revenue increases authorized by this Interim Order are found to be unjustified in the Final Order in this Docket. The Commission will issue a Final Order in this Docket following the approval by the FERC for the implementation of the WBIP.

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company,- is a corporation providing service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, "The Commission may, in its discretion, temporarily approve increases pending a hearing or final decision."

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to MDU. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Order are found to be unjustified in the final order in this Docket.

ORDER

1. Applicant, Montana-Dakota Utilities Company is hereby granted interim relief in the amount of 13.7¢ per mcf for all residential and commercial customers and 14.9¢ per mcf for industrial customers.

2. Such relief is to become effective for service rendered on and after December 4, 1984, and remain in effect until such time as a final decision is reached in this matter.

3. Rates will be filed in such a manner as to maintain the 12.5 percent rate differential between "Winter" and "Remainder of the Year" rates. The winter rates shall apply for services rendered on and after December 4, 1984, through April 3, 1984.

4. Pursuant to Findings 7 through 9 of this Interim Order, MDU is directed to file monthly status reports detailing the status of MDU's producer price and volume negotiations.

5. Interim revenues granted herein are subject to rebate should the final order in this docket determine that a lower revenue level is warranted. Such a rebate would include interest at the rate of the Applicant's last granted return on common equity.

6. The Commission, in granting the aforementioned rate increases based on the Settlement Agreement in Docket No. 84.9.60, finds a waiver of the provisions of Rate 88 to be proper so that the agreed upon proposal is to be used.

7. The Commission determines that this is a complete filing and grants the Company's request for a waiver of the Minimum Filing Requirements.

DONE IN OPEN SESSION this 4th day of December, 1984, by a vote of 3 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Thomas J. Schneider, Chairman

John B. Driscoll, Commissioner

Danny Oberg, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.