Service Date: December 4, 1985

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

* * * * * *

IN THE MATTER Of The Application	)	
Of PACIFIC POWER & LIGHT COMPANY	)	UTILITY DIVISION
To Adopt Increased Rates For Elec-	)	DOCKET NO. 85.10.41
tric Service.	)	INTERIM ORDER NO. 5169
	)	

FINDINGS OF FACT

1. On October 3, 1985, Pacific Power & Light Company (PP&L, Company or Applicant) filed an application with the Montana Public Service Commission seeking increased rates in the amount of $3,500,000. Of the $3,500,000, PP&L estimates that $1,295,000 can be recovered from the Bonneville Power Administration (BPA) pursuant to the terms of the Company's Residential Purchase and Sale Agreement with BPA authorized by the Pacific Northwest Electric Power Planning and Conservation Act (Regional Act). Therefore, PP&L seeks a net increase of $2,205,000, or a net increase of 8.5 percent.

2. Included in PP&L's filing for general rate relief was an application for interim rate relief, subject to rebate, in the amount of $3,500,000, based on a test year ended March 31, 1985. Table C of the interim filing shows that, net of the BPA exchange credit, PP&L requires $2,299,000.

3. Pursuant to the Commission's rules on interim rate increases, ARM Section 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel, parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

4. In its motion for temporary rate increase, PP&L stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return contained in the Company's last Montana general rate order (Docket No. 84.7.38, Order No. 5128). The Company claims, however, that the associated exhibits in the Interim filing demonstrate that the amount of the requested Interim relief of $3,500,000 is $600,000 less than the revenue

requirement that would be justified by the adjustments, methodologies, and rate of return approved in Order No. 5128.

PUBLIC SERVICE COMMISSION ADJUSTMENTS

5. As stated above, Applicant made several adjustments in its interim filing to conform with the methodologies and rate of return approved in Order No. 5128. Of those proposed interim adjustments, the Commission accepts, unless otherwise stated herein, PP&L's proposed interim adjustments except for those discussed and altered below and throughout the remainder of this Interim Order. All Commission adjustments below, therefore, are made to PP&L's proposed proforma revenues, expenses, and rate base.

ALLOCATION NOTES

6. PP&L filed the Interim request using newly calculated allocation notes based on test year data. The Company's proposed allocation notes are considerably higher in magnitude for Montana's portion of responsibility in the integrated system than the allocation notes utilized and approved in Order No. 5128. As a result, much of PP&L's requested increase in annual revenues is due to the substantial increase in Montana's purported allocated responsibility to the PP&L system.

7. This dramatic increase in Montana's allocation percentages will certainly be a controverted issue in this rate case. The Commission believes, therefore, that for purposes of the Interim the allocation notes approved in Order No. 5128 should be utilized. The Commission, therefore, finds a related decrease in revenues of $537,000 and a decrease in expenses of $620,000 and a decrease in rate base of $6,915,000 to be proper in this Interim proceeding.

ALLOCATION OF DEPRECIATION EXPENSE AND RESERVE

8. As a result of PSC Data Request No. 1, the Company filed revised figures utilizing the allocation notes approved in Order No. 5128 of Docket No. 84.7.38 (see above discussion in Finding of Fact Nos. 6 and 7). Examination of PP&L's revised filing revealed an inconsistency concerning depreciation expense and the related reserve. In Docket No. 84.7.38, PP&L had allocated

Montana-Colstrip transmission depreciation expense and reserve using Note 1. In its revised filing complying with PSC Data Request No. 1 in this Docket, however, the Company allocated those accounts using Note 2B. To be consistent with using the allocation notes approved in Docket No. 84.7.38, the Commission finds that Note 1 should be the allocation factor utilized rather than Note 28. The Commission, therefore, finds a reduction in depreciation expense of $335,000 and a decrease in depreciation reserve (increase in rate base) of $230,000 to be proper in this Interim proceeding.

WASHINGTON GENERATING TAX

9. PP&L proposed to include Contract Hydros and QF Contracts as applicable to the calculation of the Washington Generating Tax. Contract Hydros and QF Contracts, however, were explicitly excluded from the calculation of this tax in Docket No. 84.7.38. The Commission, therefore, finds such exclusion and a related decrease in Washington Generation Tax of $28,000 to be proper in this Interim proceeding.

INVESTMENT TAX CREDIT

10. In its Interim filing, PP&L did not fully reflect the rate base effect of investment tax credits ln this case. To correct that omission, therefore, the Commission finds a reduction in rate base of $260,000 to be proper in this Interim proceeding.

DAVE JOHNSTON COAL - RECLAMATION COSTS

11. In its Interim filing, PP&L included an adjustment for reclamation costs in calculating the Dave Johnston coal expense. Since such an adjustment was not included in the same coal expense calculation in Docket No. 84.7.38, the Commission finds the elimination of the said reclamation costs adjustment in the calculation of Dave Johnston coal expense to be proper in this Interim proceeding, resulting in a reduction in coal expense of $36,000 and a fuel inventory (rate base) reduction of $7,000.

CENTRALIA COAL - RECLAMATION COSTS

12. In its Interim filing, PP&L proposed an adjustment to Centralia coal reclamation costs to reflect new reclamation rates. Since these new rates have not yet been approved in a Commission order and very likely will be a controverted issue in the general portion of this rate case, the Commission finds the elimination of the reclamation costs associated with the new, proposed rates to be proper in this Interim proceeding, resulting in a reduction in coal expense of $26,000 and a fuel inventory (rate base) reduction of $3,000.

PRO FORMA INTEREST EXPENSE

13. Using the adjusted rate base, the Commission calculated an adjusted tax effect of interest on construction. By utilizing the approved Interim rate base and the weighted cost of long-term debt, the Commission finds an increase to Montana Corporation License Tax in the amount of $1,000 and an increase to Federal Income Tax in the amount of $5,000 to be proper in this Interim proceeding.

REVENUE REQUIREMENT

14. The following table shows that additional annual revenues in the amount of $1,703,000 are needed by the Applicant in order to provide the opportunity to earn an overall return of 11.12 percent: (See Table)

PP&L 85.10.41 -- INTERIM
REVENUE REQUIREMENT TO PRODUCE 11.12% RETURN
TEST YEAR - MARCH 31, 1985

(000)

	PP&L Pro Forma	Total Accepted Adjustments	Accepted Pro Forma	Incre for 11. Retu
Operating Revenues	$31,504	($537)	$30,967	$1,7
Operating Revenue Deductions				
Operating Expenses	$18,981	($1,608)	$17,373	
Depreciation and Amortization	2,848	(208)	2,640	
Taxes other Than Income	1,216	(113)	1,103	
State Income Taxes	277	121	398	1

Federal Income Taxes				
FIT @ 45 %	1,757	773	2,530	7
ITC @ 85 %	(898)	0	(898)	
Net Federal Income Taxes	859	773	1,632	7
Deferred Income Taxes	859	(23)	344	
Income Taxes Deferred in Prior Years	(92)	44	(48)	(4
Investment Tax Credit Adjustment				
Deferred	892	0	892	
Restored	0	0	0	
Net ITC Adjustment	892	0	892	
Amortization of Proceeds from Sale	(139)	20	(119)	
Total Operating Revenue Deductions	$25,209	($994)	$24,215	$8
Net Income	$ 6,295	$457	$ 6,752	$8
Average Rate Base	$75,352	($6,955)	$68,397	
Rate of Return	8.93%		9.87%	

REVISED PRICES

15. In its original filing PP&L proposed that the interim revenue increase result in a uniform percent increase to each rate class revenue level (Motion, pg 2).

16. On October 18, 1985, PP&L submitted a request to revise its original interim proposal (Ms. Lorie Harris letter to Mr. Ted Otis, October 14, 1985). The revised interim proposal would tend to cause price changes that moved toward the PP&L final proposal. The final proposal is based on methods largely accepted by the MPSC in the most recent case -- Docket No. 84.7.38 (Order No. 5128).

17. The revised proposal features rate spread goals resulting from the 1985 LRIC study (Exh. 13). PP&L further proposed to 1) apply the Large General Service increase to exclusively the demand price element and 2) apply a greater portion of the Residential increase to the initial block of the bundled energy/demand price element than the tail block -- reducing by one-half the difference between the two blocks.

18. PP&L cites a concern that an interim uniform percent change could cause some prices to move in the wrong direction, resulting in a greater final change than would otherwise be the case. The greater final change would cause customer confusion and general disruption.

19. In Docket No. 84.7.38, as well as the several prior cases, the MPSC largely accepted the PP&L LRIC calculation for purposes of developing rate spread goals. In Docket No. 84.7.38, as well as the several prior cases, the MCC did not contest the PP&L calculation.

20. Providing continuity in prices is a valid rate-setting goal. It would be unnecessarily disruptive to move prices in the wrong direction in the interim causing a more dramatic change in the final. For these reasons, the MPSC accepts the revised interim proposal to utilize the 1985 LRIC study to develop rate spread goals (See Exh. 17, Table 17-3).

21. The 1985 LRIC suggests a Large General Service marginal energy cost of $.0226 (Exh. 13, Tables 13-10 & 13-11). The existing price is $.03118/kwh -- 38% greater than its corresponding cost. Based on this disparity, the MPSC approves of the revised interim proposal to exclude the Large General Service energy price element from an interim increase.

22. The 1985 LRIC study suggests that the Residential marginal energy and demand costs are $.0237 and $.0283/kwh, respectively -- a total bundled marginal energy/demand cost of $.0520/kwh (annual average, Exh. 13, Tables 13-10 & 13-11) A 10% winter/summer differential results in $.05393 (winter) and $.0490/kwh (summer)*. The existing tail block energy/demand prices are $.0558 (winter) and $.0507 (summer) -- only 3.5% greater than the corresponding cost. This alone would indicate that the residential energy/demand price structure is fairly accurate with the existing inverted differential. However, net of the BPA exchange credit, the tail block prices are currently $.0517 (winter) and $.0466 (summer). Furthermore, the LRIC results are presented in March 1985 dollars. The midpoint of the time period in which Docket No. 85.10.41 prices will be in effect suggests that beginning-of-year 1987 dollars is more appropriate. Escalating the LRIC results to account for one and three-fourths years of inflation (@5.2%) indicates residential marginal energy and demand costs of $.0589 (winter) and $.0536 (summer) -- significantly greater than the existing tail block prices excluding the effect of the BPA exchange credit.

23. The MPSC finds that the revised interim proposal to flatten the residential inversion lacks any reference to the LRIC study results. The LRIC results do not readily indicate that it is appropriate to reduce the inverted differential. Although it may make sense to exclude the summer tail block price from an increase (effectively increasing the winter/summer differential), the LRIC

evidence in no way suggests that it would be appropriate to relatively reduce the winter tail block price.

24. The MPSC authorizes PP&L to reflect additional interim revenues in prices by applying the 1985 LRIC in the development of rate spread goals. Given the rate spread goals, prices should be revised by applying uniform percentages to all price elements within the price schedule in which PP&L proposes a change in the final --including basic charges. The exception is that the Large General Service increase is to be applied to the demand and basic elements, exclusively. The basic charges should be subject to the percent changes to allow them to float with, at least, inflation. This allows the basic charges to maintain a constant real value and would tend to prevent the more dramatic changes, such as that proposed by PP&L in this docket.

CONCLUSIONS OF LAW

1. The Applicant, Pacific Power & Light Company, furnishes electric service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, 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 Pacific Power & Light Company. 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.

5. The Commission finds that the Company's Interim rate application, as modified by this Order, complies with the Commission's Interim rate increase rules. ARM 38.5.501 et seq.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Pacific Power & Light Company, is hereby granted authority to implement on an interim basis increased rates designed to generate $1,703,000 in additional revenues on an annual basis.

2. Pacific Power & Light Company is to file revised rate schedules pursuant to Finding of Fact Nos. 15-24 herein.

3. Rate schedules filed shall comport with all Commission determinations set forth in this Interim Order.

4. The Applicant's tariff submittal shall reflect the current BPA Exchange Credit for the qualifying schedules.

5. Interim revenues granted herein are subject to rebate should the final order in this Docket disapprove this interim revenue increase. Pursuant to the amendment of Section 69-3-302 (2), MCA, approved by the 48th Legislature, and effective October 1, 1983, the rebate interest rate will be the cost of equity capital last determined by the Commission, which is 14.0 percent.

6. Nothing in this Interim Order precludes the Commission from adopting in its Final Order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this Order.

7. The interclass revenue responsibility and intra-class rate design must reflect the Commission's decisions in Findings of Fact 15 through 24.

8. The interim relief granted in this Order is to be effective for electric service rendered on and after December 2, 1985.

DONE IN OPEN SESSION at Helena, Montana this 29th day of November, 1985 by a 4 - 1 vote.

FOOTNOTES

*Actual seasonal LRIC values are $.0626 (winter) and $.0355 (summer) -- a 76% difference. The 10% differential is used here to provide a direct comparison with the prices which feature only a 10% differential.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner
Dissenting

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Trenna Scoffield
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.