Service Date: July 2, 1985

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	)	UTILITY DIVISION
MONTANA LIGHT & POWER COMPANY	)	
For Authority to Increase Rates And Charges	)	DOCKET NO. 85.5.18
For Electric Service Furnished in The State Of	)	
Montana.	)	INTERIM ORDER NO. 5145

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INTERIM ORDER

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FINDINGS OF FACT

On May 24, 1985, Montana Light & Power Company (ML&P, Company or Applicant) filed an application with the Montana Public Service Commission seeking increased system-wide revenues in the amount of $296,447, or 10.2 percent. This includes additional revenues of $281,789, or 15.9 percent, from electric sales and $14,658 from the sale of process steam to Champion International. Of the $281,789 electric revenue increase, ML&P estimates that $43,587 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, ML&P seeks a net electric revenue increase of $238,202, or a net increase of 13.6 percent.

2. Included in ML&P's filing for general rate relief was an application for interim rate relief, subject to rebate, in the amount of $218,262, based on a test year ended December 31, 1984. Electric revenues would be increased by $123,967 - $34,543 from Troy Electric rates and $89,424 from Champion International. The remaining interim revenue deficiency would be

recovered from Champion in the form of higher process steam and compressed air rates. Of the $123,967 interim electric revenue increase, ML&P estimates that $20,903 can be recovered from the BPA pursuant to the terms of the Company's Residential Purchase and Sale Agreement with BPA authorized by the Regional Act. Therefore, ML&P seeks a net interim electric revenue increase of $103,064, or 6.4 percent.

3. Beginning on July 1, 1985, there will be a change in the Company's Regional Act Exchange Credit necessitated by: (1) a change in BPA's Priority Firm Rate; (2) the elimination of the phase-in from the old to the new Average System Cost (ASC) methodology: and (3) an increase in the exchange ramp (qualifying load) from 90 percent to 100 percent. Ordinarily, the Company would file a revised tariff sheet to implement this change effective July 1, 1985. However, because ML&P has an application for a rate increase pending with the Commission, including a Motion for a Temporary Rate Increase, the Company filed revised tariff sheets in this Docket on June 12, 1985, to reflect these Exchange Credit changes. The figures in Finding of Fact paragraph Nos. 1 and 2 above reflect ML&P's related revisions as proposed in the June 14, 1985, filing.

4. Pursuant to the Commission's rules on interim rate increases, ARM Sections 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.

5. In its motion for temporary rate increase, ML&P stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return on equity contained in the Company's last Montana general rate order (Docket No. 82.4.22, Order No. 4947).

Accepted Company Adjustments

6. As stated above, Applicant made several adjustments in its interim filing to conform with the methodologies and return on equity approved in Order No. 4947. Of those proposed interim adjustments, the Commission accepts the following: ML&P's proposed average Rate Base of $3,425,356; ML&P's proposed return on equity of 11 percent; ML&P's

proposed postage expense adjustment of $144; and ML&P's proposed average water adjustment decreasing fuel expense by $43,919.

Cost of Capital

7. In Docket No. 82.4.22, ML&P proposed and the Commission accepted the following capital structure and associated costs (Order No. 4947, p. 4)

Type	Capital Structure	Cost	Weighted Cost
Long-Term Debt	25.50%	5.85%	1.49%
Common Equity	74.50	11.00	8.20
Total	100.00%		9.69%
Rate of Return			9.70% (rounded)

8. In the current Docket, ML&P proposes the following capital structure and costs (ML&P Exh. LF-l, Sch. 3 (Interim)):

Description	Amount	Percent	Cost	Weighted Cost
Long-Term Debt	$2,516,165	73.17%	11.00%	8.05%
Common Equity	922,481	26.83	11.00	2.95
Total	$3,438,646	100.00%		11.00%
Rate of Return				11.00%

9. In his testimony, Company witness Mr. Richard Miner explained the changes in capital structure and costs between the two Dockets. Mr. Miner discussed a brief history of ML&P's long-term debt financings and the reasoning for restructuring the debt component of ML&P's capital structure (ML&P Test of Richard Miner, p. 3) . He explained that ML&P and its parent company agreed that the Company's debt should be restructured to provide a more adequate return to the parent company:

> This led to the termination of the 6% note and the issuance of a new note in the amount of $2,516,166 to cover the capital infusions made by the parent company over the years. The cost of this new note was set at 11% to conservatively reflect the cost of long-term debt issued by electric utilities.
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> (ML&P Test. of R. Miner, pp. 3-4)

10. The Commission often allows the updating of changes in capital structure for interim purposes. In this instance, however, the nature and effect of the transaction which resulted in restructuring ML&P's debt causes the Commission to believe that this issue could be controverted in the general case, especially because of the parent/subsidiary relationship involved in the transaction. The Commission, therefore, finds the Company's proposed overall rate of return of 11.0 percent to be improper for interim purposes and, instead, finds the overall rate of return of 9.70 percent approved in Docket No. 82.4.22, Order No. 4947, to be proper in this Interim proceeding.

Labor Expense

11. In response to PSC Data Request No. 3, the Company addressed the issues of known and measurable labor expense increases resulting from signed contracts and the Overhead (Champion) portion of the proposed labor expense. The Company reported that all the proposed pro forma labor expense increases, except the supervisory increases, were the result of signed contracts specifying dates and amounts of increases. The supervisory increases represented projected or estimated increases. Because the Commission consistently rejects projections and estimates, the Company's proposed pro forma labor expense must be adjusted to reflect only those increases which are known and measurable per signed contracts. The Commission finds, therefore, that the reduction of labor expense in the amount of $1,742 to reflect the disallowance of projected supervisor labor expense is proper in this Interim proceeding.

12. Concerning the Overhead (Champion) portion of labor expense, the Company has indicated that the proposed $6,400 increase to this account reflected a decision between ML&P and its parent company to increase the Applicant's allocation of labor and materials relating to

employees doing work for both ML&P and its parent company. Similar to Finding of Fact paragraph No. 10, because of the nature and effect of this decision by ML&P and its parent Company, the Commission believes that this expense item could be controverted in the general case. The Commission, therefore, finds the Company's proposed increase in Overhead (Champion) labor expense in the amount of $6,400 to be improper in this Interim proceeding and adjusts the labor expense accordingly.

13. The net result of the above approved adjustments is a reduction, for Interim purposes, in labor expense in the amount of $8,142 (1,742 + 6,400 = 8,142).

FICA Tax

14. To conform with the approved labor expanse adjustments discussed above, the Commission finds a reduction in FICA Tax expense in the amount of $123 (1,742 X .0705) to be proper in this Interim proceeding.

Gain on Disposition of Assets

15. Concerning the retirement and sale of assets, ML&P witness Miner testified, "If a gain results from the disposition, Montana Light & Power Company does not recognize the gain but transfers it to the corporate office of the Parent Company. If a loss results, the Company sustains it and absorbs it through continued depreciation until the reserve is zero." (ML&P Exh. RM-1, Sch. 3, p. 3 of 3)

16. This accounting policy of the Applicant is highly irregular and contrary to approved utility accounting standards. Such disregard for fairness to ratepayers, whose rates have included the cost of purchasing these assets, requires corrective action in this Interim proceeding. In response to PSC Data Request No. 6, the Company responded that during the test year ML&P had realized a gain from the disposition or sale of assets in the amount of $246. Regardless of the small size of this adjustment, for the sake of correcting an obviously incorrect accounting method which could result in large amounts of money in some years, the

Commission finds an increase in net operating income in the amount of $246 to reflect the test year gain from the disposition or sale of assets to be proper in this Interim proceeding.

Revenue Requirement

17. Based on the approved adjustments in this Interim proceeding, the following table and chart shows that additional annual revenues in the amount of $165,224 are needed by the Applicant in order to provide the opportunity to earn an overall return of 9.70 percent:

Rate Base	$3,425,356
Rate of Return	X 9.70%
Required Return	$ 332,260
Income at Current Rates	167,036
Revenue Deficiency	$ 165,224

ML&P
Interim Revenue Requirement
12/31/84 Test Year

	ML & P Per Books	ML & P Adjustments	Approved PSC Adjustments	Approved Pro Forma	Increase For 9.70% Return	Approved Total
Operating Revenue	$3,272,737			$3,272,737	$165,224	$3,437,961
Operating Revenue Deductions						
O&M Expense						
Fuel	$857,294	($43,919)		$ 813,375		$813,375
Other O&M	1,886,808	144	$45,701	1,932,653		1,932,653
Total O&M Expense	2,744,102	($43,775)	$45,701	2,746,028		2,746,028
Depreciation & Amortization	198,842			198,842		198,842
Taxes Other Than Income	151,901		9,176	161,077		161,077
Gain From Sale of Assets	0		(246)	(246)		(246)
Total Operating Expenses	$3,094,845	($43,775)	$54,631	$3,105,701		$3,105,701
Net Operating Income	$177,892	$43,775	$(54,631)	167,036	$165,224	$332,260
Rate Base	$3,425,356			$3,425,356		$3,425,356
Rate of Return	5.19%			4.88%		9.70%

CONCLUSIONS OF LAW

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

3. If the final decision of the Commission is to disapprove the increase granted on an interim basis, the Commission will order a rebate thereof with interest of 11.0 percent to all customers. Section 69-3-304, MCA.

4. 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, Montana Light and Power Company, is hereby granted authority to implement on an interim basis increased rates designed to generate $165,224 in additional revenues on an annual basis.

2. Montana Light and Power Company is to file revised rate schedules reflecting a uniform percent increase to all rates and charges.

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, as effective July 1, 1985, pursuant to the Company's related filing of June 12, 1985, and reflecting the effects of this Interim Order.

5. Interim revenues granted herein are subject to rebate should the final order in this Docket disapprove this interim revenue increase. Pursuant to Section 69-3-302(2), MCA, the rebate interest rate will be the cost of equity capital last determined by the Commission, which is 11.0 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 interim relief granted in this Order is to be effective for electric service rendered on and after July 1, 1985.

DONE IN OPEN SESSION this 1st day of July, 1985 by a vote of 4 - 1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

JOHN B. DRISCOLL, Commissioner

DANNY OBERG, Commissioner

TOM M ONAHAN, Commissioner
DISSENTING

ATTEST

Trenna Scoffield
Commission Secretary
(SEAL)

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