Service Date: April 15, 1986

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

* * * * *

IN THE MATTER of the Application	) UTILITY DIVISION
of GREAT FALLS GAS COMPANY for	) DOCKET NO. 85.7.26
Authority to Increase Rates and	) ORDER NO. 5153a
Charges for Natural Gas Service.	)

APPEARANCES

FOR THE APPLICANT:
Van C. Wilgus, Attorney for the Applicant, P.O. Box 2229, Great Falls, Montana 59403

FOR THE INTERVENORS:
James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620, appearing on behalf of the consuming public of the State of Montana

FOR THE COMMISSION:
Timothy R. Baker, Attorney at Law, 2701 Prospect Avenue, Helena, Montana 59620, appearing on behalf of the Commission

BEFORE:
Clyde Jarvis, Chairman & Hearing Examiner Howard L. Ellis, Commissioner Danny Oberg, Commissioner

FINDINGS OF FACT
PART A
BACKGROUND

1. On July 15, 1985, Great Falls Gas Company (Applicant or GFG) filed a general rate case. The application requested an increase of $1,187,498. Included in the general case was a motion for interim relief in the amount of $1,187,498, the same increase requested in the general filing.

2. Included in the July 15th filing was an interim for a reclassification of rate classes. The Applicant request requests the incorporation of a new Industrial - Interruptible Propane-Based Dual Fuel User (SPI) rate. This rate is for industrial

customers using in excess of 100,000 Mcf/year and which have the capability of using propane or butane in lieu of natural gas.

3. On August 16, 1985, the Commission issued a Notice of Application and Proposed Procedural Order.

4. On August 16, 1985, the Commission issued Interim Order No. 5153. This Order granted GFG $696,173 in interim relief. Conclusion of Law in Order No. 5153 reads:

> 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 14.50% to all customers, as was agreed by the Applicant.

In Interim Order No. 5153 the Commission found that the SPI rate should be implemented on an interim basis.

5. On September 3, 1985, the Commission issued a Procedural Order.

6. On December 20, 1985, the Commission issued a Notice of Public Hearing.

7. On January 14, 1986, pursuant to the Notice of Public Hearing, a hearing was held in the Bonanza East Room in the Ponderosa Motel, Great Falls, Montana.

8. The Montana Consumer Counsel (MCC) has participated in this Docket on behalf of natural gas utility consumers since the inception of these proceedings.

PART B

RATE OF RETURN

9. During the hearing Mr. Wilgus, the attorney for GFG, introduced a stipulation between the Company and MCC. Part of the stipulation dealt with the appropriate cost of capital for the Applicant. The parties have agreed that the cost of longterm debt is 9.1 percent. Cost of equity included in the stipulation is 14.5 percent. This

is the same return on equity the Commission found in Order No. 4914a, Docket No. 82.4.25.

10. Based upon the evidence in the record, the Commission accepts the stipulation by the parties on the cost of capital. While the Commission accepts a return of equity of 14.5 percent in this Docket, it notes that interest rates have declined sharply in recent months. GFG should not presume that this return on equity will be allowed in every rate case. Acceptance of the stipulation on rate of return results in an overall cost of capital of 11.72 percent as shown below:

Description	Ratio	Cost	Weighted Cost
Long-term Debt	51.5%	9.10%	4.69
Common Stock	48.5%	14.50%	7.03
	100.0%	11.72%	

11. In Docket No. 82.4.25, the Applicant was granted an equity ratio of 45.2 percent. The equity ratio approved above has increased to 48.5 percent. The Commission does not intend to allow excessive equity ratios in future rate cases. Mr. Robinson testified at the hearing that the next time the Company raises capital, it will do so using long-term debt (TR. p.121). Efforts to maintain a reasonable equity ratio should be an ongoing goal of the management of GFG.

PART C

RATE BASE

12. In the Applicant's original filing a year-end test year was used, adjusted for post-test year additions. MCC filed testimony in opposition to the use of a year-end rate base and argued that post-test year additions should be disallowed. In his rebuttal testimony Mr. Quast adopted an average test year adjusted for post-test year additions. Both parties agree that average rate base is $7,979,689. Use of average rate base is a long established Commission policy. Further, this method is specified in the Minimum Filing Requirements. In future rate cases GFG shall make filings which comply with the Minimum Filing Requirements, or the filing

will be rejected as being deficient. The Commission accepts the average rate base amount of $7,979,689 in the computation of the approved rate base in this case.

13. GFG proposes to include $210,781 in post-test year additions to rate base. This amount is the average of posttest year additions net of retirements. Included in the posttest year additions are: the new Customer Operating and Information System (COIN); main, service, and meter and regulator replacement; tools and equipment; larger phone system; transportation equipment; computer and software; structures and improvements; and furniture. The Company argued that if the additions were not allowed, the Company would be denied its right to a fair and reasonable rate of return.

14. MCC witness Buckley in his prefiled direct testimony indicated that post-test year additions were considered by the Commission in Docket No. 83.8.58, Order No. 5020b. In that Order the Commission rejected the inclusion in rate base of posttest year additions. This practice was upheld by the District Court in Cause No. 50903, Opinion and Order dated June 24, 1985 (Exh. MCC-1, p.10). During the hearing, Mr. Paine conducted extensive cross-examination of Mr. Quast on the subject of posttest year additions to rate base. Some of the additions were related to line extensions in the Castle Heights area. Mr. Quast agreed that line extensions are generally considered to be revenue producing. Mr. Quast indicated that the Company had adjusted operating revenues in consideration of the additional volumes in that area of the city. Mr. Quast stated that the adjustment to operating revenues would be under Sheila Rice's testimony (TR. p.133). Later in the hearing during redirect examination by Mr. Wilqus, Mr. Quast changed his answer to indicate that no additional revenues had been included in this case for the Castle Heights area due to conservation on the rest of the Company's system (TR. p.153).

15. Mr. Paine also questioned Mr. Quast as to reduced maintenance expenses which would occur as a result of the replacement of such items as mains, meters, and service lines. Mr. Quast agreed that maintenance expenses would probably be reduced as a result of this type of post-test year addition (TR. p.l42). However, Mr. Quast testified that maintenance expenses in this case were increased over the test year level, due to payroll adjustments (TR. p.139).

16. Mr. Quast was asked about the matching of depreciation expense and post-test year rate base additions. In the current case the company included depreciation expense for the posttest year additions to rate base. Mr. Paine asked Mr. Quast if the Company had included depreciation on the existing items in the rate base in the year following the test year which ended May 31, 1985. Mr. Quast testified that the company did not increase depreciation expense for plant in service beyond the test year.

17. After a review of the evidence, the Commission finds that the proposal to include post-test year additions in rate base is not consistent with the use of a historic test year. There is clear precedent on this issue as noted in Finding of Fact No. 14. Even without that precedent, the Commission would find that the post-test year additions proposed by GFG should be rejected. While requesting rate base additions, the Company did not increase revenues for the Castle Heights area. Where the additions would reduce maintenance expenses, the Company did not reflect such reductions. Further, for the post-test year additions a full year of depreciation was included in the case. However, the Company did not bring forward additional depreciation for existing plant in service. This method of treating depreciation expense violates the matching principle. Based on the reasoning above, the Commission rejects the addition of post-test year plant to rate base. As a result of this decision, depreciation expense is reduced by $20,252.

18. Both GFG and MCC used an amount of $133,217 for materials and supplies in their calculation of rate base. That amount was calculated by taking an average of Materials and Supplies for the years 1981 to 1985 ($114,651) and averaging that average with the Materials and Supplies balance at May 31, 1985 ($151,783). After studying this issue the Commission finds that an alternative method of computing Materials and Supplies should be used. The Commission finds merit in taking an average of Materials and Supplies for 1984 and 1985. The resulting balance for Materials and Supplies is $152,763.

19. GFG contests MCC witness Buckley's adjustment to Cash Working Capital. Mr. Buckley contends that natural gas rates incorporate the Company's property tax liability, but said rates generate monies for the Company prior to actual payment of these taxes. Mr. Buckley utilizes a 60 percent-of-claimed property taxes as an offset to cash working capital, maintaining that the Company has use and enjoyment of monies for their property tax liability for a period of time prior to payment of the taxes to the taxing authorities.

20. The Company argues that this adjustment fails to recognize GFG's legal and enforceable liability to collect funds required to pay GFG's property taxes (Exh. 24, p.6).

21. The Commission recognizes that such a proposed adjustment to cash working capital in no way jeopardizes the incorporation into the setting of rates, the actual claimed property taxes. Rather, it simply recognizes that Applicant has the use and enjoyment of such funds between the time they are received and the time such taxes are paid. The Commission accepts Mr. Buckley's recommended adjustment.

21. The Commission, therefore, finds the foil-owing rate base to be proper:

Net Utility Plant in Service	$7,979,689
Materials and Supplies	152,763
Cash Requirements	295,541
Less: Customer Contributed Capital	(806,939)
	$7.621 054

PART D

REVENUE REQUIREMENTS

22. In the proposed orders received by the Commission from both MCC and GFG, the normalized test year volumes were 4,700,232 Mcf. The Malmstrom Air Force Base load included in the normalized test year loads is 519,436 Mcf. Originally Mr. Buckley had reduced the Malmstrom load by 42,000 Mcf, based upon estimates of loss of load provided by GFG. During the hearing the Commission staff introduced Exhibit Staff-1 which indicated that the actual volumes for Malmstrom for the 12 months ended November 30,1985 were 616,083 Mcf. Later in the hearing, Ms. Rice testified that there was an error in the 616,083 Mcf figure. The correct figure

according to Ms. Rice is 580,187 or 540,986 Mcf depending on the method of normalization (TR. pp.175, 176). It is clear that use of 519,436 Mcf for Malmstrom is a conservative approach. Test year volumes are found by the Commission to be 4,700,232.

23. As was noted in Finding of Fact No.9, the Company and MCC entered into a stipulation. The parties agreed to increase operating revenues by $55,005. This adjustment is comprised of two parts: (1) $28,077 from the sale of scrap, vehicles and misc. and (2) interest income of $53,855 amortized over a two year period. In agreeing to this adjustment, the Company has asked the Commission to find that miscellaneous losses of a nonrecurring nature also be utilized as an adjustment to operating revenues in future rate cases. The terms of the stipulation regarding operating revenues are accepted by the Commission. However, as to the Company's request for a finding that miscellaneous losses be reflected in future rate cases, the Commission declines to make such a finding. If losses occur, it will be the Company's burden of proof to show that ratepayers should pay for them.

24. Revenues associated with test year volumes are found to be $20,060,296. Additional revenues from the stipulation are $55,005. Thus the Commission finds that total operating revenues in this Docket are $20,115,301.

25. When GFG filed its case, it requested a loss-and-unaccounted-for percentage of 1.9 percent (see 38.5.158 p.2 of 2). During the discovery process the Company indicated that the most recent three year average for loss-and-unaccounted-for gas was 1.4 percent. In recent cases, the Commission has used a three year average for loss-and-unaccounted-for gas. In his rebuttal- testimony, Mr. Geske changed the loss percentage to 2 percent. The two percent was a proxy for the industry average. Mr. Geske reasoned that since GFG had a lower loss and unaccounted percentage, there should be a sharing of the improvement with stockholders. MCC advocates the use of the most recent three year average, noting that current rates have been based on a loss percentage or 2.98 percent. In view of the use of a 2.98 percentage for loss-and-unaccounted-for gas, while

the Company actually experienced lower '1osses, the Commission believes that most of the benefits have been enjoyed by the shareholders. Further, it is obvious that the customers of GFG are entitled to the most efficient service the Company can provide. The Commission finds that the use of the most recent three year average for loss-and-unaccounted-for gas (1.4 percent) is appropriate in this case.

26. Based upon the normalized test year volumes of 4,700,232 Mcf, and a loss-and-unaccounted-for percentage of 1.4 percent, the Commission finds a purchased gas cost of $15,954,779.

27. The remaining issues in the revenue requirements section of this order deal with operating and maintenance expenses. Both parties have agreed to a reduction of $25,558 in expense associated with the Employee Stock Option Plan (ESOP). At the time of the filing, it was anticipated that the ESOP program presently in effect for non-union personnel would be a subject of negotiation in contract discussions with the Company's bargaining unit employees. However, during contract negotiations, it was determined that the union employees would not participate in the ESOP program during this next contract period. Reduction of ESOP expense in the amount of $25,558 is accepted by the Commission.

28. Mr. Buckley removed $8,280 of expense associated with promotional advertising, pursuant to Montana law. At page 3 of his rebuttal testimony, Mr. Robinson stated that for purposes of this case, the Company would remove the $8,280. In accepting this adjustment, the Commission would note that these expenses are clearly not allowable under present Montana law.

29. In its original filing the Company requested $22,917 in legal expenses. Both parties have agreed to an $8,917 reduction in legal expenses. The adjustment is made up of two parts: (1) a two year amortization of $13,C00 which would not be of an ongoing and recurring nature and (2) a cost decrease of $2,417. The Commission finds that legal expenses should be reduced by $8,917.

30. MCC and the Company have agreed to a reduction of $5,187 associated with a gas leak survey. In its original filing the Company requested $8,000 for a gas

leak survey. Updated information indicated that the actual cost of the survey was $2,813. The Commission accepts the $5,187 reduction in expense agreed to by the parties.

31. Both parties have agreed that the proper amount of uncollectible expense in this Docket is $140,723. This is a reduction of $53,681 from the amount originally filed by GFG. The Commission finds the proper amount of uncollectible expense in this Docket to be $140,723.

32. The Applicant in its filing, transferred $36,921 in expense to nor-utility subsidiaries to reflect time spent by employees of GFG on non-utility business. MCC increased this adjustment by 10 percent or $3,692. The Company does not agree with the adjustment, stating that the amount of time spent by GFG on subsidiary business actually declined during the past twelve months (Exh.13 p.7). Two facts weigh against the argument put forth by the Company: (1) officers salaries have increased during the past twelve months, and (2) Mr. Geske discussed during the hearing the formation of a new subsidiary (Triangle Grain Company). The Commission finds merit in the adjustment proposed by MCC and adopts it. To determine the estimate of expenses to be transferred, the Company used five percent-of officers salaries. This is not adequate, and for future cases the Commission directs GFG to keep detailed time records for time spent by all utility employees on non-utility business.

33. MCC does not agree with full funding of the incentive program. Mr. Buckley made a 50 percent reduction to the plan on the basis that the 1985-1986 fiscal year's return on equity is not known and measurable. The Commission has several concerns with the current incentive plan. First, there is clear benefit to shareholders from a plan which is based on meeting return on equity goals. In spite of this benefit, consumers are asked to pay 100 percent of the cost of the incentive plan. Next, if rates are set on the basis of fully funding the incentive plan, what happens if the rate of return goal is not met? Clearly, the funds not paid to employees would flow to the bottom line. The Commission accepts the adjustment of $15,990 to the incentive plan, as proposed by MCC. The Applicant is urged to

study the incentive plan to see what improvements can be made to respond to the concerns discussed above.

34. GFG in its filing sought to include payroll expenses of $60,087 associated with post-test year employees. These employees include: a night shift operator and part time computer programmer, a seasonal building maintenance employee, a part-time human resource secretary, a fitter apprentice and a consumer advocate. In his rebuttal testimony, Mr. Robinson agreed that $19,261 should be eliminated because the fitter apprentice would not be hired prior to the January 14th hearing date. MCC eliminated all post-test year employees based upon the matching principle and Commission precedent. In a recent AT&T Docket, the Commission rejected an MCC adjustment to reflect post-test year employee reductions because it violated the matching principle. The Commission does not agree with reflecting post-test year employees and will continue to take that position. The Commission finds considerable merit in the concept of the consumer advocate position proposed by the Company, but will not reflect costs associated with the position for the reason noted above. Elimination of the post-test year employees reduces payroll expenses by $60,087, benefits and pension expenses by $14,081, and payroll taxes by $6,099.

35. The Commission finds that GFG is entitled to $412,064 as shown in the following schedule:

GREAT FALLS GAS

REVENUE REQUIREMENT
DOCKET NO. 85.7.26

	GFG Proposed Rates	MCC Adj.	PSC Adj.	Accepted Pro Forma	Increase Required to Produce 11. 72% Return	Total
Operating Revenues	$19,632,941	$1,415,546	$482,360	$20,115,301	$412,064	$20,527,365
Cost of Service						
Gas Purchased	15,903,736	977,083	51,043	15,954,779		15,954,779
Other Operations:						
Distribution	519,322					
Customer Accounts	656,492					
Customer Services	213,060	(196,196)	(195,473)	2,652,327		2,652,327
Admin. & General	1, 289,130					
Maintenance	169,796					
Depreciation	400,852	(20,252)		380,600		380,600
Rental Income	0					
Other Gas Supply Expense	0					
Taxes:						
Other Than Income	204,716	(6,194)	(6,960)	197,756		197,756
Federal Income-Current	0					
(Net-Inv. Cr.)	(145,356)	266,718	263,671	118,315	176,755	295,070
Federal Inc. Tax Deferred	114,602	(10,012)		104,590		104,590
State Income	(19,842)	45,157	44,678	24,836	27,814	52,650
Current Deferred-Fed. & State	0					
Total	$19,306,508	$1,056,304	$156,959	$19,433,203	$204,569	$19,637,772
Utility Operating Income	326,433	359,242	325,401	682,098	207,495	889,593
Late Paymt. Assmt. (Net of Taxes)	3,566	29	29	3,595		3,595
Adjusted Utility Operating Expenses	329,999	359,271	325,430	685,693	207,495	893,188
Rate Base	$7,852,765	($249,398)	($231,711)	$7,621,054		$7,621,054
Rate of Return	4.20%			9.00%		11.72

PART E

OTHER ISSUES

36. A charge of $.0125 per Mcf was requested by the Company for funding of the Gas Research Institute (GRI). During the hearing the staff asked Mr. Geske if the charge for funding GRI would increase in the future. He answered that the Federal Energy Regulator`, Commission (FERC) had already approved a new charge of $.0135 (TR. p.73). The Commission will approve the charge of $.0125 to fund GRI, but cautions the Company that any increase in this charge will have to be fully justified. GFG should take an active role in selecting research projects and evaluating results. Also, in future cases it will be up to GFG to prove that there are clear ratepayer benefits from this expense.

37. The Company is requesting a charge of $ 0111 per Mcf to recover amounts in the balancing account associated with zero interest loans. This is a routine adjustment which was approved by the Commission in Docket No. 81.4.44, Order No. 4804a. The charge of $.0111 per Mcf to recover amounts in the zero interest loan balancing account is approved by the Commission.

38. GFG has requested approval of a one percent per month late charge on past due accounts. Commercial accounts which are 30 days past due and residential accounts which are 60 days past due would be subject to the proposed charge. There was no testimony from any party in this Docket which opposed the proposed late charge. The Commission has approved late charges for Montana-Dakota Utilities and Consumers Gas Company. In his direct testimony, Mr. Terwilliger stated that the late payment charge will not be applied to any account where a written payment agreement has been made between the customer and GFG and has been complied with, or, where the LIEAP program is being utilized up to the point where the funds are exhausted and the recipient has full responsibility for the account. Subject to those limitations, the Commission approves a late charge of one percent per month on commercial accounts 30 days past due and residential accounts 60 days past due. In the Company's next rate case, the results of implementing the late charge should be set forth in detail.

39. The Applicant has proposed a new rate design for a propane based industrial incentive (SPI) rate. This rate is for industrial customers that use in excess of 100,000 Mcf of natural gas per year and have the capability of using liquid propane or butane in lieu of natural gas.

40. The Montana Refinery Company is the only industrial customer that is currently eligible for the proposed SPI rate. The refinery can currently import liquid propane from Canada at a cost substantially below the tariffed price of natural gas.

41. Montana Refinery has indicated that if the SPI rate is not made available to them they intend to meet all of their fuel needs with imported Canadian propane and therefore, totally discontinue purchases of gas from GFG.

42. The total loss of the Refinery's gas load would likely have an adverse impact on the rates of other customer classes, increasing their rates by $.055 per Mcf. The adverse impact is caused by the loss of contribution to the recovery of fixed system costs. With the SPI rate the customer impact is expected
to be $.012 per Mcf. The impact is smaller because the contribution to the fixed system costs is reduced but not totally eliminated.

43. The SPI rate was designed to keep the Montana Refinery on the GFG system. The rate is designed to recover the total cost of gas plus a portion of the fixed system costs. The rate will not fall below the marginal cost of serving the refinery load.

44. Negotiations between the Refinery and GFG have produced a contract for a minimum purchase of gas of 200,000 Mcf from GFG per year by the Refinery.
45. Larger discounts are available for purchases greater than 200,000 Mcf annually. The price of the natural gas will decrease by $.1068 for the next 50,000 Mcf and by $.2136 for all other Mcf over ~50,000 Mcf annually to encourage the Refinery to substitute natural gas for their production propane.

46. The SPI rate consists of a flexible commodity charge for natural gas based on the cost of Canadian propane. The propane index shall be the average of the

wholesale prices of propane from Edmonton, Alberta, (in U.S. dollars) as quoted by the Oil Price Information Survey (OPIS) weekly for the most recent trading day occurring on or before the first day of the billing month. The proposed rate is $4.3788 per Mcf, at 13.28 psia which is equivalent on a BTU basis to $.41 per gallon of propane. Adjustments to the price can be made utilizing the index discussed above if the propane cost changes by more than 1.5 percent. The increases or decreases shall be accounted for in a balancing account which shall be factored into rates annually.

47. Indexing increases shall only occur if the price of Edmonton wholesale propane exceeds $.41 (U.S.), delivered to Great Falls, Montana. The SPI rate may not exceed the firm excess rate class of service less three percent.

48. The SPI rate may not fall below the average cost of gas purchased by GFG during the month when deliveries occur plus 10 percent.

49. GFG proposes that the reduced gas costs from the implementation of the SPI rate to the Montana Refinery be reflected as a uniform increase to all other Mcf prices.

50. The Commission believes that the Montana Refinery will likely leave the customer base of GFG if the SPI rate is not approved. Without the SPI rate, all customers must recover the total contribution that the refinery makes towards the fixed system costs. With the SPI rate the other customers would only have to make up a portion of the fixed system costs that are currently allocated to the refinery. Therefore, the Commission finds that the SPI rate should be implemented.

CONCLUSIONS OF LAW

1. Great Falls Gas Company is a public utility furnishing natural gas service to consumers in the State of Montana. As such, it is subject to the supervision, regulation and control of this Commission. Section 69-3-102, MCA.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Great Falls Gas Company is hereby granted authority to implement on a final basis increased rates designed to generate $412,064 in additional revenue on an annual basis. These revenues are in place of and not in addition to revenues granted in Interim Order No. 5153. Great Falls Gas Company shall rebate the revenue which was overcollected under Order No. 5153 with interest at the rate of 14.5 percent. The decreased rates shall be spread on a uniform cents per Mcf basis to all classes except the SPI rate class.

2. As soon as possible after the issuance of this Order, Great Falls Gas is to meet with the Commission staff and Montana Consumer Counsel to discuss the filing of tariffs pursuant to this Order. At that meeting, all relevant rate changes shall be implemented into the new tariffs.

3. The rates approved in this Order shall become effective upon receipt of approved tariffs by the Commission. DONE IN OPEN SESSION this 14th day of April, 1986, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Clyde Jarvis, Chairman

Danny Oberg, Commissioner

Howard L. Ellis, Commissioner

ATTEST:

Trenna Scoffield
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.