

Service Date: May 13, 1986

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	)	UTILITY DIVISION
of GREAT FALLS GAS COMPANY for	)	
Authority to Increase Rates and Charges	)	DOCKET NO. 85.7.26
for Natural Gas Service.	)	ORDER NO. 5153b

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 request for a reclassification of rate classes. The Applicant 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 Interim Order No. 5153. This Order granted GFG \$696,173 in interim relief. The Commission also found that the SPI rate should be implemented on an interim basis.

4. On January 14, 1986, pursuant to a Notice of Public Hearing, a hearing was held in Great Falls, Montana.

5. On April 15, 1986, the Commission issued Order No. 5153a, as a final order in Docket No. 85.7.26. The Company was granted authority to implement on a final basis increased rates designed to generate \$412,064 in additional revenue on an annual basis. The Company was ordered to rebate the revenue which was overcollected under the interim order.

6. In its filing, the Company sought to include payroll expenses of \$60,087 associated with post-test year employees. These employees included: 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 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 Order No. 5153a, the Commission accepted MCC's adjustments. Elimination of these employees also reduced benefits and pension expenses by \$14,081 and payroll taxes by \$6,099.

7. When GFG filed its case, it requested a loss-and-unaccounted-for percentage of 1.9 percent. 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 rebuttal testimony, Mr. Geske changed the loss percentage to 2

percent. The 2 percent was a proxy for the industry average. MCC advocated the use of the most recent three-year average. In Order No. 5153a, the Commission accepted MCC's adjustment.

8. On April 25, 1986, the Commission received a Motion for Reconsideration, filed on behalf of GFG.

THE COMPANY'S MOTION FOR RECONSIDERATION

9. The Company challenges the Commission's disallowance of a portion of the request for payroll expenses as being "impermissibly [sic] arbitrary." The employee positions associated with the disallowed payroll, and the corresponding amount of payroll expenses, are as follows:

1. Night shift computer operator and part time computer programmer	\$15,709
2. Seasonal maintenance employee	4,232
3. Part time human resource secretary	<u>7,185</u>
Total	<u>\$27,126</u>
Benefits and Pension at 23%	<u>6,239</u>
Total Payroll Expense	\$33,355

10. In regard to the night shift computer operator and part-time computer programmer, the Company points out that these positions are replacements for a position which existed during the test year. The salary had not been reflected in test year payroll expense because it was being capitalized rather than expensed. Accordingly, the allowance for this expense does not violate the matching principle since it was being incurred on a capitalized basis during the test year.

11. With respect to the seasonal maintenance position, the Company expects to hire each summer for the foreseeable future a person to maintain the exterior grounds and building at the central office. Evidently, this person was hired just after the close of the test year. In its Motion, the Company states:

It is difficult to imagine what impact this person might have on rate base or revenues. Therefore, no matching principle violation exists.

Apparently, the prior practice was for full time employees from the central office to do periodic maintenance. However, according to the Company's Motion, the press of regular work does not allow the required maintenance to be performed in a satisfactory manner.

12. The Company also hired the part-time human resource secretary within 10 weeks of the close of the test year. Again, the Company states: "no offsetting revenue or rate base impact can be identified."

13. As an alternative, and in the event that the Commission refuses to reconsider the payroll adjustments, the Company challenges the Commission's decision regarding a loss-and-unaccounted-for gas percentage. The Company contends that if the above-described payroll expenses are restricted to test year levels, then the loss and unaccounted for gas percentage should be derived using test year levels.

## COMMISSION ANALYSIS AND DECISION

14. In the past, the Commission has insisted that test year employee levels be used to calculate revenue requirements because any other level of employees violated the historical test year concept, as used in Montana. When a historical test year is used, the relationship between volumes and investment should remain constant. To hold otherwise would encourage a post test year substitution of labor for capital (or vice versa), changing the efficiencies, economies, and productivities which created the test year volumes. This was the position of the MCC (which included the Company's counsel) when they successfully recommended rejecting the request of Montana-Dakota Utilities to use year-end employee levels (see Order No. 4834c, Docket No. 81.7.62, subsequently affirmed in AT&T Docket No. 83.11.80, Order No. 5044d).

15. 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. 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 this figure was in error, and that the correct figure was either 580,187 Mcf or 540,986 Mcf, depending upon the method of normalization (TR. pp. 175, 176). However, the Commission used 519,436 Mcf for the Malmstrom load.

16. With regards to the night shift computer operator and part-time computer programmer, the Commission finds that allowance of the expense associated with this position will not violate the matching principle described above. The position existed and was filled during the test year. This adjustment serves only to change the accounting treatment of that salary from capitalization to a payroll expense. As to the night shift computer operator and the part-time computer programmer, the Company's Motion is GRANTED.

17. In respect to the other two positions offered by the Company as adjustments to payroll expense, the Commission finds that these adjustments should be disallowed. Clearly, these adjustments violate the matching principle, as discussed above. In regard to both of these adjustments, the Company points out that neither of these positions will have an identifiable impact on revenues or rate base. Further, the Company contends that "there is no evidence whatsoever that the payroll expenses at issue herein will in any way impact other revenues, expenses or rate base." The Commission finds this contention questionable, in light of both the testimony of MCC witness Buckley (at pp. 7-8 of prefiled testimony) and Company witness Robinson (TR. 111-112). Even the Company's motion identifies certain potential effects on employee productivity and efficiency resulting from the seasonal maintenance position. In any event, this would be the Company's burden to satisfy, which it has not. As to the seasonal maintenance position and the part-time human resource secretary, the Company's motion is DENIED.

18. The Company also challenges the Commission's decision on the appropriate lost-and-unaccounted-for gas percentage. When the Company filed its case, it requested a lost-and-unaccounted-for percentage of 1.9 percent. 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 rolling three-year average for loss-and-unaccounted-for gas. In his rebuttal testimony, Mr. Geske changed the Company's proposed loss percentage to 2 percent, which is a proxy for the industry average. Mr. Geske reasoned that since the Company had a lower loss-and-unaccounted-for percentage, there should be a sharing of the improvement with stockholders. This proposal was rejected by the Commission in the final order of this Docket. At the hearing, Mr. Geske testified that the existing rates over the last three years have been based on a loss percentage of 2.98 percent. During this period, the Company experienced actual loss percentages of 1.34 percent, 1.62 percent, and 1.25 percent for 1983, '84, and '85, respectively.

19. The matching principle followed by the Commission relates sales volumes to the investment producing those volumes. In regard to the appropriate loss-and-unaccounted-for gas percentage, the Company's motion is DENIED.

## 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 pursuant to Section 69-3-102, MCA.

## ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS  
THAT:

1. Great Falls Gas Company shall file tariffs implementing Order No. 5153a of this Docket, as modified by this Order.

2. All motions not ruled upon are Denied.

3. The rates approved by Order No. 5153a of this Docket, as modified by this Order, shall become effective upon receipt of approved tariffs by the Commission.

DONE AND DATED this 5th day of May, 1986, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Trenna Scofield  
Commission Secretary

(SEAL)