Service Date: October 29, 1985

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	) UTILITY DIVISION
COMPANY For Authority To Establish	) DOCKET NO. 85.7.30
Increased Rates For Gas Service.	) INTERIM ORDER NO. 5160

FINDINGS OF FACT

1. On July 19, 1985, the Montana-Dakota Utilities Company (MDU, Company, Applicant) filed with the Commission a general rate increase application for gas service. The filing was assigned Docket No. 85.7.30.

2. The application seeks an annual increase in revenues of $5,219,108. Rate schedules filed with the application reflect an overall increase of 9.1% for gas service.

3. Included in the general filing was a request for interim relief in the amount of $4,705,854.

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 (MCC), 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, MDU 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 gas rate order (Docket No. 83.8.58, Order No. 5090b), pursuant to the Commission's Rules on interim rate relief.

PUBLIC SERVICE COMMISSION ADJUSTMENTS

6. Unless otherwise stated herein the Commission accepts MDU'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 MDU's proposed proforma revenues, expenses, and rate base.

Rate 97 Revenue

7. In response to PSC Data Request No. 27, MDU stated that a change to Rate 97 revenues had been discovered resulting in a modification of revenues from $17,439 to $24,591. The Commission finds this known and measurable update to be proper and, therefore, approves an increase of $7,152 to Rate 97 revenues.

Loss Factor-Cost Of Gas

8. MDU proposed a distribution gas loss factor of 3.55 percent (Statement G, Rule 38.5.157, page 2 of 9). In response to MCC Data Request No. 2, the Company said that the proposed the average losses 3.55 percent loss factor represents experienced on the Montana system for the years 1982 and 1984 and of an unrepresentative that the 1983 data was excluded because year end loss factor.

9. Since this could be a highly contested issue in the Final portion of this rate case (see the testimony of MCC witness, Mr. Al Clark), the Commission favors review of the loss
factor utilized in Docket No. 83.8.58. On Statement G, Rule 38.5.157, page 2 of 15 from that previous MDU gas docket, the approved pro forma gas loss factor was 2.466 percent:
Lost and Unaccounted For 1,305,352 Mcf Deliveries 52,936,862 Mcf Loss Factor 2.466%

10. To be consistent with the Interim Rules, and especially considering the

potential controversy of this issue, the Commission finds the utilization of 2.466 percent as the gas loss factor to be proper in this Interim proceeding. The Commission, therefore, finds a resulting decrease in cost of gas in the amount of $526,022 to be appropriate.

11. In approving a 2.466 percent gas loss factor for this Interim proceeding, the Commission realizes that gas loss factors ranging from 2.067 percent to 2.86 percent could be calculated given the data on Statement G, Rule 38.5.157, page of 2 of 15 from Docket No. 83.8.58. The Commission believes, however, that the appropriate comparisons for Interim purposes are the system proforma losses and deliveries. This is the loss factor that was actually approved in Docket No. 83.8.58 because the Montana portion of the losses was merely the product of an allocation which included some transmission losses. This is important since transmission losses are not being considered in this MDU distribution rate case.

12. As tests of reasonableness for the 2.466 percent loss factor, the Commission points to a couple of interesting facts. MDU's response to MCC Data Request No. 3 showed that the average distribution loss factors for the Company's other jurisdictions are as follows:

North Dakota	1.10%
South Dakota	1.85%
Wyoming	2.25%

These levels are considerably lower than MDU's proposed 3.55 percent loss factor for Montana and somewhat lower than the approved Interim level of 2.466 percent. The Company says that the losses in Montana are attributable to the age of the distribution system in Montana (see MDU response to MCC Data Request No. 3), but the Company also is in the process of replacing and upgrading those areas of its Montana distribution system requiring such projects (see J.R. Michael testimony, p. 14). Such efforts should reduce the Montana loss factor.

13. Overall, therefore, the Commission views a Montana loss factor of 2.466 percent for Interim purposes as reasonable and consistent with the loss factor approved in Docket No. 83.8.58.

Labor Expense

14. On pages 34-37 of Order No. 5020b, Docket No. 83.8.58, the Commission discussed its concerns for MDU's labor expense. In summary of its concerns over this issue, the Commission stated, "...{T}he Commission strongly adds that this entire issue will be examined very closely in MDU's next general gas filing." (MPSC Order No. 5020b, Finding No. 96, p. 37)

15. In the current docket, MDU is requesting an increase in labor expenses of $201,782, or 3.9984% (Statement G, Rule 38.5.157, p. 3 of 9).

16. In response to PSC Data Request No. 25, MDU provided a breakdown of labor expense into the categories of Officers, Nonunion, and Union from 1980 through 1984 actual and the pro forma amount proposed in this rate case. The Company's response also showed the CPI inflation rate and the average number of employees for each category for those same years. Analysis of MDU's response to that data request showed that the Company's labor force has been receiving increases consistently exceeding the rate of inflation.

17. To follow through with its concerns expressed in Order No. 5020b, the Commission believes that an Interim adjustment should be made to MDU's labor expense. On the
surface, the Company's proposed labor increase of 3.9984 percent may seem quite reasonable, but when that is compared with the CPI rate of inflation of 2.6 percent for the first seven months of the 1985 (see MDU response to PSC Data Request No. 25), MDU's proposed increase seems quite high. MDU's year to year increase in labor expense has consistently exceeded the inflation rate, as indicated by analysis of PSC Data Request No. 25.

18. Rather than eliminate the proposed increase in labor expense entirely, the Commission believes that this Interim should reflect an acceptable and reasonable level of labor expense that should not be contested. Any increase beyond this level, however, should be closely scrutinized for propriety and reasonableness.

19. Based on the above discussion, the Commission finds 2.6 percent, MDU's report of 1985 CPI inflation per its response to PSC Data Request No 25, to be the proper amount of labor expense increase allowed in this Interim proceeding. The Commission, therefore, finds a reduction in labor expense in the amount of $70,571 to be appropriate.

20. The Commission finds this adjustment to conform with the intent of its order in Docket No. 83.8.58 where the Commission stated, "The purpose or intention of the Commission is not to attempt to override or negate contracts resulting from the collective bargaining process, but the Commission feels compelled to give MDU a strong message that labor expense percentage increases of this magnitude are indeed questionable, given the present rate of inflation, unless such increases are offset by productivity gains" (MPSC Order No. 5020b, Finding No. 92, p. 34). For Interim purposes, therefore, the approved adjustment to labor expense is totally proper.

FICA Tax

21. The approved Interim adjustment to labor expense results in a $7,866 reduction in FICA taxes. The Commission determines that this adjustment is appropriate since this reduction coincides with the Commission approved Interim labor expense reduction of $70,571.

Rate Case Expense

22. The Company proposed to reduce rate case expense by $35,130 (Statement G, Rule 38.5.157, page 6 of 9). In its analysis of this adjustment, MDU estimated 1985 rate case expense at $70,000. In Docket No. 83.8.58 on the same corresponding page, MDU estimated 1983 rate case expense to be $50,000. This increase in estimated rate case expense seems unreasonable in the Interim proceeding.

23. Given the fact that this MDU filing reflects only the MDU Montana distribution operations and that MDU has thus far sponsored two less witnesses

than in Docket No. 83.8.58, the Commission feels that the estimate of 1985 rate case expense should be less than the amount estimated for the 1983 rate case expense, at lease for this Interim Order. The Commission believes, then, that a reasonable amount of estimated 1985 rate case expense is $40,000. The Commission, therefore, finds a further reduction in rate case expense in the amount of $15,000 to be proper in this Interim proceeding.

Advertising Expense

24. In its response to PSC Data Request No. 14, the Company provided the amount of advertising expense associated with "Straight Talk" that had been allocated to Montana. Because the Federal Energy Regulatory Commission stated in its Audit Report of MDU that the Straight Talk program was primarily for influencing public opinion concerning legislation, the Commission believes that the related expense should be disallowed in this Interim proceeding. The Commission, therefore, finds a reduction to advertising expense of $4,049 to be proper.

Industry Association Dues Expense

25. In its response to PSC Data Request No. 7, MDU provided a calculation of the adjustment to industry association dues expense in conformance with the approved adjustment in Order No. 5020b of Docket No. 83.8.58. The Commission believes that the Company's calculation in its response to PSC Data Request Mo. 7 is in conformance with the adjustment approved in Order No. 5020b. The Commission finds, therefore, that a reduction to industry association dues expense in the amount of $62,541 is proper in this Interim proceeding.

Construction Overheads Adjustment

26. MDU proposed to utilize its new rates in computing construction overheads in this filing. In its response to PSC Data Request No. 17, MDU provided related calculations in conformance with the overhead rates approved in Order No. 5020b of Docket No. 83.8.58. In order to show consistency of utilizing approved methodologies and adjustments from Order No. 5020b for issues of

potential controversy in this case in determining a proper level of Interim rate relief, the Commission believes the use of the overhead rates approved in Order No. 5020b is proper in this Interim proceeding. Since the Company's calculations in its response to PSC Data Request No. 17 are performed in conformance with Order No. 5020b, the Commission finds a reduction in depreciation expense of $878 and a net decrease in rate base of $20,168 to be proper.

Fringe Benefits Expense

27. In its filing, Statement G, Rule 38.5.157, page 5 of 9, MDU proposed a decrease of $17,951 to fringe benefits expense. In response to PSC Data Request No. 27, the Company provided a recalculation of Rate 97 revenues and fringe benefits expense reflecting updated information. In Finding No. 7 of this Interim Order, the Commission accepted the adjustment to Rate 97 revenues. The Commission, however, does not accept, for Interim purposes, the update to fringe benefits expense because this issue will likely be controverted in the Final portion of this rate case (see the testimony of MCC witness Clark).

Pro Forma Interest Expense

28. 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 approved in Order No. 5020b, the Commission finds an increase to Montana Corporation License Tax in the amount of $16 and an increase to Federal Income tax in the amount of $103 to be proper in this Interim proceeding.

REVENUE REQUIREMENT

29. The following table shows that additional annual revenues in the amount of $4,002,799 are needed by the Applicant in order to provide the opportunity to earn an overall return of 10.84 percent:

Montana-Dakota Utilities Company - Docket No 85.7.30
Interim Revenue Requirements Chart
To Produce 10.84 Rate of Return 3
Test Year: December 31, 1984

	MDU Per Books	MDU Pro. Forma Intrm. Adjustments	MDU Pro Forma	Total PSC Adjs. to MDU Pro Forma	Approved Interim Pro Forma	Increase Required For 10.84% Return	Approved Interim Total
Operating Revenues	$71,789,554	($12,391,326)	$50,398,228	$ 7,152	$59,405,380	$4,002,799	$63,408,179
Expenses:							
Cost of Gas	$ 513,121	$50,545,001	$51,058,122	($ 526,022)	$50,532,100		$50,532,100
Operating and Maintenance	8,128,071	147,671	8,275,742	(152,161)	8,123,581		8,123,581
Total O&M Expenses	8,641,192	50,692,672	59,333,864	(678,183)	58,655,681		58,655,681
Depreciation	1,097,509	9,282	1,106,791	(878)	1,105,913		1,105,913
Taxes Other Than Income	902,297	4,967	907,264	(7,859)	899,405	$ 4,003	903,408
State Income Taxes				46,866	46,866	269,919	316,785
Federal Income Taxes-Current	29,546,372	(31,199,076)	(1,652,704)	297,825	(1,354,879)	1,715,284	360,405
Total Income Taxes	29,546,372	(31,199,076)	(1,652,704)	344,691	(1,308,013)	1,985,202	677,189
Deferred Income Taxes	31,850	(3,423)	28,427	0	28,427		28,427
Investment Tax Credits	374,467	0	374,467	0	374,467		374,467
Amortization of Investment Tax Credits	(2,398)	0	(2,398)	0	(2,398)		(2,398)
Total Operating Expenses	$40,591,289	$19,504,422	$60,095,711	($ 342,229)	$59,753,482	$1,989,205	$61,742,687
Amortization of Pre-1974 Gain on Debt	0	14,000	14,000	0	14,000		14,000
Net Operating Income	$31,198,265	($31,881,748)	($ 683,483)	$ 349,381	($ 334,102)	$2,013,594	$1,679,492
Average Rate Base	$15,409,816	$ 103,819	$15,513,635	($ 20,168)	$15,493,467		$15,493,467
Rate of Return	202.46%		-4.41%		-2.16%		10.84%

COST OF SERVICE/RATE DESIGN

30. Given an interim increase of $4,002,799, there are two general issues requiring Commission decisions. The first is interclass revenue responsibility, and the second is rate design within a given class. The following findings address each issue in turn.

31. Regarding interclass revenue responsibility, there appears some agreement between MDU and the MCC. Both agree that the industrial class (Rate 85 customers) should receive no increase in revenue requirement on an interim basis. Both also agree that a large share of the interim revenue increase should be recovered from residential customers; however, the precise amounts differ. Given the MCC's concerns with MDU's embedded cost of service study, the commission finds merit in only allocating 75 percent of the interim increase to residential customers. The balance shall be recovered from General Service (Rate 70) customers.

32. In terms of recovering the interim increase in revenue responsibility, the Commission finds merit in deviating from the practice of applying a uniform percent increase. The Commission's reasons for deviating from a uniform percent increase largely stem from efficiency and rate stability concerns.

33. For the residential class (Rate 60), the Commission finds that two rate design changes must be made. First, a base rate of $3.00 must be tariffed in lieu of the minimum bill proposed by MDU; tariffing the base rate now, instead of in the final order in this docket, will reduce the extent to which the commodity price deviates from the marginal commodity cost. Also, if the base rate is not tariffed on an interim basis, residential customers would, other things being equal, face rising commodity prices out of this interim, followed by declining commodity prices out of the final order in this docket.

34. As with the service charge (or base rate) issue, both MDU and the MCC agree that the residential inverted block rate structure should be eliminated. The issue before the Commission, then, is to make such a change now or in the final order. The Commission finds, once more r that the change must be made in this interim order.

35. Regarding the General Service (Rate 70) class, the Commission finds, for the same reasons set forth above, that a service charge of $6.00/month should be tariffed out of this interim order. Both MDU and the MCC concur on eliminating the minimum bill. Any remaining revenue adjustment must be a uniform percent change to the firm and interruptible commodity prices.

36. Due to a difference of opinion between the MCC and MDU, the Commission finds no merit in tariffing a base rate for the industrial class in this interim order. The issue of how large a base rate to tariff for this class will be decided upon in the final order in this docket.

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 Tit' e 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 Montana-Dakota Utilities 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.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Montana-Dakota Utilities Company, is interim basis in additional

hereby granted authority to implement on an increased rates designed to generate $4,002,799 revenues on an annual basis.

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

3. Interim revenues granted herein are subject to rebate should the final order in this Docket disapprove this interim
Pursuant to the amendment of Section the rebate interest rate will be the cost of revenue increase. 69-3-302(2), MCA,
equity capital last determined by the Commission, which is 13.35 percent.

4. Nothing in this Interim Order precludes the Commission from adopting in its final order, after review of the entire record in this Docket, a revenue requirement different from that contained in this order.

5. The interim interclass revenue responsibility and intra-class rate design must reflect the Commission's decisions in Findings of Fact 30 through 36.

6. The interim relief granted in this order is to be effective for natural gas service rendered on and after November 1, 1985.

DONE IN OPEN SESSION at Helena, Montana, this 28th day of October, 1985 by a vote of 3-2.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

____
CLYDE JARVIS, Chairman

____
HOWARD L. ELLIS, Commissioner

____
DANNY OBERG, Commissioner

____
TOM MONAHAN, Commissioner
Dissenting

JOHN B. DRISCOLL, Commissioner
Dissenting

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 with ten (10) days. See 38.2.4806.