

Service Date: July 29, 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 of)	UTILITY DIVISION
MONTANA-DAKOTA UTILITIES, CO., a Divi-)	
sion of MDU RESOURCES GROUP, INC., for)	
Authority to Establish Permanent Increased)	DOCKET NO. 85.7.30
Rates for Gas Service in the State of Montana.)	ORDER NO. 5160b

ORDER ON MOTION FOR RECONSIDERATION

1. On June 2, 1986, the Commission issued Final Order No. 5160a in this Docket.
2. On June 23, 1986, Montana-Dakota Utilities Company (MDU or Company) filed a Motion for Reconsideration concerning the following issues:

- 1) Finding of Fact Nos. 83 and 84;
- 2) Unamortized Gain on Reacquired Debt;
- 3) Interclass Revenue Allocation; and,
- 4) Transportation Rates.

FINDING OF FACT NOS. 83 AND 84

3. Finding of Fact No. 83 discusses current gas market conditions and encourages MDU to reevaluate the Company's gas acquisition policies; it also questions MDU's review process for Williston Basin Interstate Pipeline's (WBIP) rate increase applications before the Federal Energy Regulatory Commission (FERC). The Company's motion does not specifically criticize these findings and the Commission continues to believe that they are correct.

4. MDU contends that Finding of Fact No. 84 is incorrect in concluding that MDU has been afforded additional flexibility to pursue alternative gas supply, that WBIP's "full requirements" provision relating to MDU has been removed, and that new transportation rates are available to MDU.

5. The Commission believes that its conclusions are basically correct. WBIP's "Statement of Nature" in its Application in FERC Docket No. RP86-10-000 plainly states that its proposed Rate G-1 is available for both full and partial requirements customers. WBIP's proposed Rate G-1 is now in effect, and specifically states that WBIP will cooperate in reducing demand quantities which -will be replaced by transportation volumes not adversely affecting BIP.

6. The Commission agrees with the Company's discussion of this issue to the extent that WBIP transportation rates have not yet been approved by the FERC. In view of current trends, however, the Commission is optimistic that the transportation rate proposals made by WBIP will be approved in some form within a reasonable length of time. Moreover, it does not seem unrealistic to expect that, under these circumstances' the Company would begin assessing supply options to both maintain flexibility during the interim and to assess its role in enhancing future opportunities. It is encouraging that MDU "is desirous of pursuing gas supply flexibility with WBI(P)". In view of this desire and the obligation to maintain low gas costs for its ratepayers, the Commission is curious as to the existence and extent of the Company's active support for transportation availability in WBIP's proceedings before the FERC.

UNAMORTIZED GAIN ON REACQUIRED DEBT

7. The Commission has traditionally deducted unamortized gain on reacquired debt from rate base. This practice was recently declared unlawful in MDU vs. PSC and MCC, Cause No. 50903 (First Judicial District, June 24, 1985). This District Court decision is currently on appeal to the Montana Supreme Court (Cause No 85-488).

8. On October 28, 1985, the Commission approved Interim Order No. 5160 in this Docket; subject to refund, the Company was authorized to collect a return on its unamortized gain on reacquired debt.

9. MDU now argues that the Commission may not reserve ruling on the unamortized gain issue, continuing the interim nature of the collections pending the Supreme Court ruling. The Commission disagrees.

10. The Company's remedy when the Commission fails to issue a timely final order is to place its proposed rates into effect, subject to refund with interest. In this case, a final decision was issued on every issue, save one; with respect to the one reserved issue, the Company continues to collect rates reflecting its full request. The Commission sees no sense in the position that the Company should then be able to place its entire rate request into effect, as if no final order had been issued. In fact, a final order has been issued, and all parties know what the Commission's decision is on all other contested issues. Regardless of how the technical questions are resolved, the Company would not ultimately be entitled to any additional revenues, or even to their time value.

11. In essence, MDU is seeking to take advantage of what should be a very short time lag, in order to protect revenues to which the forthcoming Supreme Court decision may say it is not entitled. The Commission believes that this possible result should be avoided. Finally, the Commission rejects the Company's complaint of an "uneven playing field." The situation which the Company seeks to compare involved an issue of retroactive ratemaking, while this case does not.

INTERCLASS REVENUE ALLOCATION

12. MDU requests that the Commission make clear and articulate its reasoning for adopting the Montana Consumer Counsel's (MCC) allocation of any increased revenues. The MCC's proposal allocated 75 percent of the increase to the residential class and the balance to the commercial class.

13. To generalize, the Commission's reasoning for adopting the MCC's 75/25 residential/commercial split of any increased revenue requirements is similar to MDU's:

Q. Mr. Castleberry, what philosophy did you rely upon in developing your specific rate proposals in this case?

A. I have relied basically on a common sense approach of balancing the numerous and sometimes conflicting rate making objectives. Perhaps some of the best known objectives were those listed by James C. Bonbright in his book *Principles of Public Utility Rates* published in 1961. (See Exh. No. J, p. 18)

14. To be specific, two conflicting objectives (or constraints) include equilibrating class rates of return and moderation of rate impacts. With the former, one could equilibrate class rates of return from either an embedded or marginal cost study. There was little agreement, however, between the two parties on the proper embedded or marginal cost study that should be used to allocate costs. Based only on embedded cost studies, it is difficult to accept the MCC's 75/25 split; however, the MCC, as indicated in the Order, holds that it is class rates of return based on a marginal cost study, not an embedded study, that are relevant (Finding No. 131). Moreover, MDU's marginal cost study, while a move in the right direction, was found to have serious flaws (Finding Nos. 143-144). That is, the MCC holds that rates of return from properly computed marginal cost studies are one proper basis of interclass revenue allocations.

15. Another reason for adopting the MCC proposal is to moderate price increases. In past dockets (e.g., Docket No. 83.9.68, Order No. 5936b, Finding Nos. 39-41), MDU has used the same moderation argument to not raise certain classes' revenue requirements by as much as would otherwise be justified. In this docket, MDU received about a 6.9 percent increase in overall revenues (see Finding No. 112). Relative to this overall system increase, the residential class received about a 10.3 percent increase, an amount exceeding the overall system average by about 50 percent. The Commission would note that whereas in this docket MDU argues for increasing the residential class' revenue requirement by greater than one and one-half times the overall percent increase of 6.9 percent, in its most recent electric rate filing (Docket No. 86.5.28), Mr. Castleberry proposed to constrain revenue increases so that "... no class receive an increase greater than one and one-half times the overall percentage increase in sales revenue requested..." Based on Mr. Castleberry's testimony in this electric docket, the results of the MCC proposal in the current docket would seem reasonable.

TRANSPORTATION RATES

16. The two issues raised by MDU on transportation rates include: (1) confirmation that MCC's witness Mr. James Drzemiecki transposed the calculation of Rates 81 and 82 and (2) clarification of Finding No. 167.

17. With regard to the latter issue, the Commission would clarify that Finding No. 167 should read:

167. Mr. Castleberry's pricing concerns for WBIP seem applicable to MDU. Mr. Castleberry's above testimony would seem to call into question the low and unchanging level of Rate 97, given the "dynamic and volatile gas market of today," and the resulting high levels of Rates 81 and 82. The current price for Rate 97 and methodology to compute Rates 81 and 82 will remain in effect, however, until such time as a more desirable method to compute transportation prices is proposed.

18. With regard to the former issue, the Commission acknowledges the transposition of Rates 81 and 82 in Mr. Drzemiecki's testimony and, in turn, the Commission's Order (Finding No. 163). Rates 81 and 82 must be recomputed using the same methodology on which the current rates are based. In the recomputation, MDU must incorporate the most current data available; e.g., the increased marginal commodity cost of gas of \$3.9391/MCF as reflected in Attachment B, page 2 of 2 of the Company's compliance filing.

CONCLUSIONS OF LAW

1. The Applicant, Montana-Dakota Utilities Company, furnishes natural gas service to consumers in Montana, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. §69-3-101, MCA.

2. The Commission properly exercises jurisdiction over the Applicant's rates and operations. §69-3-102, MCA, and Title 69, Chapter 3, Part 3, MCA.

3. The rate level and rate structure approved herein are just, reasonable, and not unjustly discriminatory. §69-3-330, MCA.

ORDER

1. The Montana-Dakota Utilities Company shall file rate schedules which reflect the Findings of Fact in this order.

2. All motions and objections not ruled upon are denied.

3. The Commission reserves ruling on the issue of rate base exclusion of unamortized gain on reacquired debt in the amount of \$205,371, pending final disposition of Supreme Court Docket No. 85-488. To this extent, Order No. 5160a does not supersede Interim Order No. 5160, and return collected on this amount remains subject to refund.

4. This Order is effective for service rendered on and after July 15, 1986.

DONE AND DATED at Helena, Montana this 15th day of July, 1986, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

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.