

Service Date: July 28, 1987

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

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IN THE MATTER Of The MONTANA)
PUBLIC SERVICE COMMISSION'S) UTILITY DIVISION
INVESTIGATION OF FEDERAL TAX) DOCKET NO. 86.11.62 - Sub 10
REFORM ACT IMPACTS ON PUBLIC) INTERIM ORDER NO. 5269a
UTILITY REVENUE REQUIREMENTS)
FOR MONTANA POWER COMPANY'S)
NATURAL GAS UTILITY)
_____)

FINDINGS OF FACT

On November 24, 1986, the Montana Public Service Commission (PSC or Commission) initiated this Docket with an Order To Show Cause that existing rates for public utilities are just and reasonable following the Tax Reform Act of 1986 (TRA). All respondents were ordered to provide the information required by the Commission's minimum filing requirements on or before February 1, 1987. Following those filings, it became immediately apparent that a consistent interpretation of the TRA was necessary in order to evaluate the information.

On March 4, 1987, the Commission issued a Preliminary Procedural Order in this Docket. Order No. 5236a asked parties to file briefs which addressed 12 issues and invited parties to comment on any other issues. The first round of briefs were to be filed by March 27, 1987 with answer briefs due on April 10, 1987. A number of companies and Montana Consumer Counsel (MCC) asked for an

extension of time to file their briefs. At its March 16, 1987 agenda meeting, the Commission approved an extension of time to file opening and answer briefs. The new dates were: First briefs due by April 7, 1987, and answer briefs due by April 21, 1987.

Initial Briefs were received from Montana Consumer Counsel (MCC), Butte/Anaconda Water Company (B/AW), Montana-Dakota Utilities Company (MDU) (electric and gas), Montana Power Company (MPC) (electric and gas), AT&T, General Telephone Company of the Northwest (GTE), Great Falls Gas Company (GFG), Mountain Bell (MB), Mountain Water (MW), and Northwestern Telephone Systems (NWTS). Montana Light & Power Company (ML&P) declined to make any comments in this Docket noting that no taxes are included in the Company's rates. Pacific Power & Light company (PP&L) did not file comments in the first round, but did file an Answer Brief. Answer briefs were also received from MCC, AT&T, MDU (electric and gas), MPC (electric & gas), MB, and PP&L.

On June 8, 1987 the PSC issued Order No. 5236c, which included PSC decisions on issues raised in Order No. 5236a. Subsequently the PSC issued data requests asking respondents for updated information, using their February filings as a foundation, so that the effect of Order No. 5236c could be exactly quantified.

Several parties requested reconsideration of Order No. 5236c. On July 1, 1987 the PSC issued Order No. 5236d, which affirmed Order No. 5236c. Order No. 5236c found that:

Interim rate orders may be issued in individual sub-dockets where Commission review of the utilities responsive filings determines that existing rates may be excessive.

The responses to PSC data requests received from MPC's gas utility indicated that it was exceeding its rate of return by \$230,426. Reflected in this amount were stipulations between the MCC and MPC on the issues of rate basing the southern half of MPC's new 16" natural gas pipeline (Order No. 5260) and rate of return/capital structure issues (Order No. 5269).

Further data requests were made of MPC on June 23, 1987 to reflect adjustments thought to be reasonable by the PSC for interim purposes:

- A. Amounts included in MPC's gas tracking Docket No. 86.12.68 for severance tax working interest adjustments and the Bond-Fogelson adjustment were limited to actual 1986 levels.
- B. Deferred Income Taxes associated with the potential future payment of a dividend from Canadian-Montana Gas Co. and Canadian-Montana Pipeline Company to MPC were excluded.
- C. Property taxes were recalculated to exclude storage gas consistent with the July 8, 1986 Tax Appeals Board decision relating to MDU storage gas.
- D. Gas costs for the twelve months ended December, 1986 of \$1.365 were included.

In its response to the PSC's June 23 requests, MPC asserted that use of \$1.365 for average unit gas costs could be distortionary, since actual gas costs for the ten month actual, two month estimate period of September, 1986 through August, 1987 showed gas costs to be \$1.478/Mcf.

The PSC finds that MPC gas cost estimates and their implementation have consistently produced material differences - primarily over collections:

<u>Period</u>	<u>Overcollection</u>
1/1/81-8/31/82	(\$3,367,710)
9/1/82-8/31/83	(\$3,533,246)
9/1/83-8/31/84	\$3,091,444
9/1/84-8/31/85	\$5,758,439
9/1/85-8/31/86	\$4,307,492
9/1/86-8/31/87 (est)	\$1,400,000

While the Commission is extremely cautious about using estimated information, it appears that a middle of the road approach in this instance would yield a reasonable result. Therefore, the PSC finds a midpoint between the gas cost estimated by MPC of \$1.478 and the 12 month ended December, 1986 actual result of \$1.365 to be proper. The result is a unit average gas cost of \$1.421.

The effect of the above changes, in addition to Order No. 5236c effects and the gas cost of \$1.421/Mcf indicates that MPC's gas utility is exceeding its rate of return by \$1,894,577. The PSC finds that MPC should immediately reduce its gas rates by this amount.

Pursuant to the Order To Show Cause, rate design shall be calculated using the uniform percentage method, which is to be applied to all customers rates except those receiving special rate treatment (NGI and IMR rates).

Commission audit activity has detected potential overpayments and undercollections from the gas utility to others.

The PSC is uncertain about whether or not such amounts should be

reflected in rates. Accordingly, the PSC is desirous that this matter be explored further in the future.

Accompanying MPC's initial filing in this Docket was a motion to dismiss the Company from the Show Cause Order in this proceeding. Based on its findings in this Interim Order, the Commission denies the Company's motion to dismiss for the purposes of this Interim Order.

* This result is achieved by interpolation between the revenue requirements found on pp.1 and 18 of MPC's July 22 responses to PSC data requests of June 23.

CONCLUSIONS OF LAW

The Applicant, Montana Power Company, furnishes natural gas service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, MCA.

The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

Section 69-3-304, MCA, provides in part . . . "The Commission may, in its discretion, temporarily approve increases or decreases pending a hearing or final decision."

The rate levels and spread approved herein are a reasonable means of providing this interim annual revenue reduction for Montana Power Company.

The Commission finds that the Company's filing in this Docket, as modified by this Order, complies with the Commission's Interim rules. ARM 38.5.501 et seq.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

Applicant, Montana Power Company, is hereby ordered to implement on an interim basis decreased rates designed to reduce annual natural gas revenues by \$1,894,577.

Montana Power Company is to file revised rate schedules pursuant to Finding of Fact Nos. 11 and 12.

Rate Schedules filed shall comport with all Commission determinations set forth in the Interim Order.

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 Interim Order.

The interim annual revenue reduction granted in this Interim Order is to be effective for natural gas service rendered on and after August 1, 1987.

DONE IN OPEN SESSION at Helena, Montana, this 27th day of July, 1987, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting Secretary

(SEAL)

NOTE: Any interested party may request that the Commission

reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.