

Service Date: November 24, 1986

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

* * * * *

IN THE MATTER of the Montana)	UTILITY DIVISION
Public Service Commission's)	ORDER NO. 5236
Investigation of Federal Tax)	DOCKET NO. 86.11.62
Reform Impacts on Public)	Sub 1 (Anaconda Division)
Utility Revenue Requirements.)	Sub 2 (AT&T Communications)
		Sub 3 (Butte Water Co)
		Sub 4 (General Tel Co of NW)
		Sub 5 (Great Falls Gas Co)
		Sub 6 (Montana-Dakota-Elec)
		Sub 7 (Montana-Dakota-Gas)
		Sub 8 (Montana Light & Power)
		Sub 9 (Montana Power Co-Elec)
		Sub 10 (Montana Power Co-Gas)
		Sub 11 (Mountain Bell)
		Sub 12 (Mountain Water Co)
		Sub 13 (NW Telephone Systems)
		Sub 14 (Pacific Power & Light)

* * * * *

ORDER TO SHOW CAUSE

* * * * *

Whereas the Tax Reform Act of 1986 has recently been passed by Congress and signed by the President, enacting what have been described as the most significant and comprehensive tax law changes since World War II; and

Whereas changes affecting the utility industry include lowering the marginal tax rate to 34 percent, causing unbilled revenues to be included in taxable income, generally lengthening the life over which most utility property is depreciated, repealing the ITC, requiring capitalization of construction period interest and other overhead expenses, eliminating the reserve method for bad debt charge offs, requiring that contributions in aid of construction be included in taxable income, requiring that the gain on reacquired securities be included in taxable income, modifying the computation of the corporate minimum tax, and reducing the deductibility of certain business expenses; and,

Whereas these changes may have a substantial impact on the revenue requirements of privately owned utilities regulated by the PSC;

Now, therefore, the Commission enters the following conclusions of law and ORDER TO SHOW CAUSE why the respondents' existing public utility rates and charges should not be deemed unreasonable and unjust and that further proceedings be initiated to change them:

CONCLUSIONS OF LAW

1. The Commission has authority to supervise, regulate and control public utilities. §69-3-102, MCA.
2. Respondents are public utilities subject to the Commission's jurisdiction. §69-3-101, MCA.
3. The Commission may regulate the mode and manner of all investigations and hearings of public utilities. §69-3-103, MCA.

4. The Commission may inquire into the management of the business of all public utilities, shall keep itself informed as to the manner and method in which the same is conducted, and shall have the right to obtain from any public utility all necessary information to enable the Commission to perform its duties. §69-3-106, MCA.

5. Public utilities are required to render their services at just and reasonable rates. §69-3-110, MCA.

6. The Commission has a duty to enforce Montana's public utility laws, and may institute an investigation of the rates, tolls, charges, rules, practices and services of a public utility. §§69-3-110 and 324, MCA.

ORDER

1. Respondents shall, by February 1, 1987, file sufficient information to demonstrate that their current rates for public utility service remain just and reasonable taking into account the Tax Reform Act of 1986.

2. Filings made pursuant to this Order shall include information founded in and reconcilable with the Commission's Minimum Filing Requirements, ARM, §§38.5.101, et seq. Requests for waivers of the minimum filing requirements may be granted, and shall be included in the Respondents' filings.

3. The test year submitted shall include operating results for a 12 month period, adjusted to account for the Tax Reform Act.

In no instance shall the test period begin prior to January 1, 1985. Where utilities have already submitted rate filings based on a 1985 or later test year, schedules contained therein may be revised to reflect changes caused by the Tax Reform Act.

4. Rate design shall be calculated using the uniform percentage method, although alternate proposals may also be offered and accepted where revenue requirements are changed.

5. Cost of capital may be included at the level considered appropriate by each utility, although changes from currently authorized levels must be justified. The Commission has been monitoring the declining level of interest rates and authorized rates of return and may find that these factors should be reflected in the evaluation of any particular filing.

6. Upon receiving the filings required pursuant to this Order, the Commission will determine whether sufficient cause exists to further investigate respondents' rates and charges. Filings will be reviewed as quickly as possible given the Commission's limited resources. Filings will also be subject to review by other interested parties such as the Montana Consumer Counsel.

7. Copies of filings made pursuant to this order shall be filed with the Commission and the Montana Consumer Counsel. Copies need not be served on other respondents unless so requested in writing.

8. Commission staff will convene a procedural conference to discuss future proceedings prior to further Commission action.

DONE AND DATED this 24th day of November, 1986 by a vote of 4-0.

DOCKET NO. 86.11.62, ORDER NO. 5236

5

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting 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.