Service Date: December 2, 1986

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

IN THE MATTER Of The Application Of	)	UTILITY DIVISION
MONTANA-DAKOTA UTILITIES, INC.	)	
For Authority To Implement The Gas Cost	)	DOCKET NOS. 86.4.20
Tracking Procedure To Establish Increased	)	86.11.58
Rates For Gas Service.	)	INTERIM ORDER NO. 5238

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INTERIM RATE ORDER

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FINDINGS OF FACT

1. On April 30, 1986, the Montana-Dakota Utilities Company (Company, Applicant, or MDU) filed with the Montana Public Service Commission (Commission) its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheets 87 and 88. The filing was given Docket No. 86.4.20; the Company revised its filing on May 22 and July 3, 1986. Until this Interim Order, the Commission had not allowed the rate changes proposed in Docket No, 86.4.20 to be reflected in MDU's approved rates.

2. On November 7, 1986, the Company filed with the Commission its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheets 87 and 88. This filing was given Docket No. 86.11.58. In its application, the Company stated that in the event that the proposed rate changes are not approved on a final basis by December 1, 1986, the Applicant requests that the proposed rates be approved on an interim basis, subject to refund.

3. The tracking procedure provides for adjusted rates on the basis of a Current Gas Cost Tracking Adjustment and an Un-reflected Gas Cost Tracking Adjustment amortized over a projected six-month sales period.

4. The development of the Current Gas Cost Adjustment in Docket No. 86.11.58 is based on the rates from Williston Basin Interstate Pipeline Company (WBIP) as authorized by the Federal Energy Regulatory Commission (FERC) in its Order of October 31, 1986. MDU offered three calculations of the Un-reflected Gas Cost Adjustment for the Commission's consideration in Docket No. 86.11 .58.

5. The first approach reflects the method traditionally employed in gas cost tracking applications and consists of the July, 1986, un-reflected gas cost balance less any projected recoveries through November, 1986. The remaining balance is amortized over the next six month period (December 1, 1986, through June 30, 1987) to establish the new recovery rate for this tracker period. By using this approach, the change from the current tracking adjustment and from currently authorized rates is an increase of 16.0 cents per Mcf for residential and commercial customers and a reduction of 63.3 cents per Mcf for industrial customers. This adjustment would amount to approximately $1,078,000 during the proposed effective period. There proposed changes are calculated in the following table:

	Residential and Commercial	Industrial Customers
Current Gas Cost Adjustment	$0.189	($0.235)
Un-reflected Gas Cost Adjustment	0.282	(0.057)
Total Tracking Adjustment	$0.471	($0.292)
PSC Tax Effect at .225%	$0.472	($0.293)
Less: Total Tracking Adjustment – Current (Including PSC Tax)	0.312	0.340
Net Increase (Decrease) in Current Rates	$0.160	($0.633)

6. The second approach takes the previously described calculation (first approach) one step further. As discussed in Finding of Fact No. 1, WBIP rates increased on May 2, 1986 (Docket No. 86.4.20), and such increase has not yet been reflected in authorized rates in Montana because the Commission did not approve the proposed rate chances in Docket No.

86.4.20. There are significant deferrals that have continued to increase the un-reflected gas cost account. This second approach reflects the ongoing deferrals through the month of November, 1986, in the same manner that recoveries provided by the un-reflected adjustment have been treated in all previous filings. Such ongoing deferrals amount to $825,459 for residential and commercial customers and $9,992 for industrial customers for the months of August through November, 1986. Under this second approach, the change from the current tracking adjustment and from currently authorized rates is an increase of 27.3 cents per Mcf for residential and commercial customers and a decrease of 56.0 cents per Mcf for industrial customers. This adjustment would amount to approximately $l,91l,000 during the proposed effective period. These proposed changes are calculated in the following table:

	Residential and Commercial	Industrial Customers
Current Gas Cost Adjustment	$0.189	($0.235)
Un-reflected Gas Cost Adjustment	0.395	0.015
Total Tracking Adjustment	$0.584	($0.220)
PSC Tax Effect at .225%	$0.585	($0.220)
Less: Total Tracking Adjustment – Current (Including PSC Tax)	0.312	0.340
Net Increase (Decrease) in Current Rates	$0.273	($0.560)

7. In view of the circumstances surrounding this Gas Cost Tracker filing, MDU offered a third approach. This calculation proposes amortization of the total un-recovered balance, adjusted to December 1, 1986, levels, over an extended twelve month period rather than the normal six months, as proposed in the second approach. MDU stated that the third approach is its preferred option. Under this preferred third approach, the change from the current tracking adjustment and from currently authorized rates is an increase of 14.9 cents per Mcf for residential and commercial customers and a decrease of 56.9 cents per Mcf for industrial customers. This adjustment would amount to approximately $1 ,006,000 during the six month

period December 1, 1986, through May 31, 1987. These proposed changes are calculated in the following table:

	Residential and Commercial	Industrial Customers
Current Gas Cost Adjustment	$0.189	($0.235)
Un-reflected Gas Cost Adjustment	0.271	0.007
Total Tracking Adjustment	$0.460	($0.228)
PSC Tax Effect at .225%	$0.461	($0.229)
Less: Total Tracking Adjustment – Current (Including PSC Tax)	0.312	0.340
Net Increase (Decrease) in Current Rates	$0.149	($0.569)

8. All three approaches reflect the amortization of the remaining balance of the special twenty-four month amortization which was previously authorized in Docket No. 84.9.60 and extended by Docket No. 86.9.53.

9. After much consideration, the Commission finds the third approach proposed in Docket No. 86.11.58 to be proper and approves that option in this Interim Order, subject to refund. According to MDU, deferral would remain at relatively high levels until such time as WBIP's higher May 2, 1986 rates are recognized in the Montana rates, as was proposed in 86.4.20. In previous filings, reflection of ongoing deferrals was not necessary because the current gas costs were generally very close to the costs allowed in rates, thereby causing minimal ongoing deferrals. In this instance, however, where the actual cost of gas is significantly higher than the cost authorized in rates, there are significant ongoing deferrals. If such known amounts were not recognized in this proposed December 1, 1986, gas tracker, there would be a significant buildup in the deferred balances which alone could cause an approximate 24.7 cents per Mcf increase in rates for residential and commercial customers and an increase of 7.2 cents per Mcf for industrial customers in the next tracker, June of 1987. The Commission believes that recognition of such known amounts at this time will minimize the impact because of larger sales volumes in the winter period and will stabilize rates in the long run. The Commission also finds

that, since all the costs and proposals found in Docket No. 86.4.20 are incorporated in the third approach in Docket No. 86.11.58, this Interim Order makes moot MDU's filing in Docket No. 86.4.20.

10. MDU's filing in Docket No. 86.11.58 contemplates an effective date of December 1, 3986, for the proposed rate changes, and the Commission agrees with that proposed effective date in this Interim Order.

11. The Commission finds MDU's application to be a complete filing.

12. A hearing in Docket No. 86.11.50 will be scheduled at a later date, and a proper public notice of that hearing will be immediately forthcoming following the determination of the hearing date.

13. An issue that the Commission would like to address in this proceeding is the question of whether or not continuing the gas tracker procedure is in the best interests of the Company's Montana consumers. The Commission would like to explore all the ramifications of totally eliminating tariff sheets 87 and 88; therefore, the Commission requests that this issue be addressed by MDU, Montana Consumer Counsel, and any other interested parties in this proceeding.

14. The criteria by which the Commission may determine an appropriate interim adjustment in a tracking procedure are found in past Commission gas tracking orders and in the Commission's rules regarding interim relief.

15. Past Commission orders have established the following criteria to he met in the MDU tracking procedure:

(a) Tracking increases are to be based on historic costs and volumes (Finding of Fact No. 6, Order No. 4476);

(b) Interest is not to be imputed on the deferred gas cost balance (Finding of Fact No. 25, Order No. 4476a);

(c) The appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case; furthermore, that mix should apply to both the current and un-reflected portions of a tracking procedure (Finding of Fact No. 5, Order No. 4742a); and

(d) The Company should not annualize for new sources of gas not having an actual production history within the test year (Finding of Fact No. 6, Order No,. 4742a).

16. The Commission's rules regarding interim relief are contemplated to provide relief on a "make-whole" basis and set forth the guidelines by which the Commission staff is to develop an appropriate level of interim relief. Among other things, the guidelines provide for normalization and annualization of test year booked net income and test year average rate base, utilizing the rate of return authorized in the Commission's most recent decision regarding the subject utility.

17. An examination of the Company's application and accompanying exhibits in this proceeding indicates that the criteria enumerated in Finding of Fact No. 15 have been met. Furthermore, the tracking adjustment represents nothing more than normalization and annualization of test year booked net income, and, hence, constitutes an adjustment contemplated in the Interim policy rules. Consequently, the Commission finds the Company's request for relief, as applied for under the third option in Docket No. 86.11.58, to be proper on an Interim basis.

18. However , the granting of this Interim should in no way be misinterpreted to mean that any issue in the case has been decided before all the evidence has been presented and heard during the course of these proceedings.

<u>Cost of Service/ Rate Design</u>

Background

19. On May 22, 1986, the Commission received: MDU's spring tracker, which was assigned Docket No. 86.4.20. The only testimony in this docket was received from the Company's witness Mr. Don Ball. On July 14, 1986, the Commission received a Motion for

Rejection of Filing from the Montana Consumer Counsel. In July, the Commission voted not to accept a motion to deny interim relief and deferred final action until a later date.

20. The main issues in Docket No. 86.4.20 revolve around MDU's request for approval to reflect changes in how Williston Basin Interstate Pipeline Company (WBIP) may now charge MDU and its customers for gas service. The charges WBIP may now assess MDU reflect Federal Energy Regulatory Commission (FERC) approved cost of service and rate design for WBIP. In turn, MDU proposed to revise its Montana tariff, specifically Rates 87 and 88, to reflect the FERC approved cost of service for MDU.

21. MDU's fall tracker (Docket No. 86.11.58) contains by reference the same request made in the spring tracker to revise Rates 87 and 88.

Commission Decision

22. The Commission approves, with the following caveats and qualifications, MDU' s request to account for changes in FERC approved WBIP gas costs in its gas tracking adjustments for Montana customers. First, the changes to Rates 87 and 88 are approved on an interim basis. However, the Commission in no way interprets the approved changes to restrict MDU' s gas supply source to WBIP.

23. The Commission fully intends to investigate its concerns with interruptible credits featured in both WBIP' s and MDU's rate design for both commercial and industrial customers. On one hand there is clear economic rationale for assessing firm loads a higher price than interruptible loads current electric and telephone prices in Montana reflect this rationale. But on the other hand, at both the transmission and distribution levels of service, the Commission is uncertain that current firm/interruptible gas price differentials are cost based. In addition to the discounts for industrial customers at both levels of service, the Commission is particularly interested in MDU' s apparent contention that the aggregation of interruptible commercial customers afford no benefits to WBIP (TR 91).

24. While approving MDU’s tracker proposal the Commission also has concern with WBIP’s establishment of MDQs and AEQs for the state of Montana. The Commission shares MCC’s concern that a diminishing Montana firm load should impact the levels of AEQs and/or MDQs (see MCC’s October 14, 1986 Brief in Docket No. 86.4.20, at page 7). The issue raised by the MCC has absolute and relative dimensions: absolute in the sense that MDU’s firm load is diminished, and relative in the sense of changes in annual and peak loads of firm customers in other states relative to Montana.

25. Finally, the tracker alternative which the Commission approves on in interim basis is the third approach, referred to in Finding of Fact No. 7, which proposes amortization of the total un-recovered balance, adjusted to December 1 levels, over an extended twelve month period rather than the normal six months.

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, is a corporation providing natural gas 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 rates and operations pursuant to MCA Section 69-3-102 and Title 69, Chapter 3, Part 3, MCA.

3. The Commission may, in its discretion, temporarily approve rate changes pending a hearing or final decision, Pursuant to Title 69, Chapter 3, MCA.

4. The rate levels and spread approved herein are a reasonable means of providing Interim relief to MDU. 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

1. Applicant, Montana-Dakota Utilities Company, is hereby granted interim relief in the amount of a 14.9 cents per Mcf increase for all residential and commercial customers and a 56.9 cents per Mcf decrease for industrial customers.

2. Such relief is to become effective for services rendered on and after December 1, 1986, and remain in effect until such time as a final decision is reached in this matter.

3. Applicant must file its new rates in compliance with the Findings of Fact in this Interim Order concerning rate design and cost of service.

4. Interim revenues granted herein are subject to rebate should the Final Order in this Docket determine that a lower revenue level is warranted. Such a rebate would include interest at the rate of the Applicant's last granted return on common equity.

5. The approval of this Interim Order makes moot all matters associated with Docket No. 86.4.20.

6. The Commission's concerns in Finding of Fact No. 13 should he addressed during the course of this proceeding.

7. The Commission determines that this is a complete filing.

DONE AND DATED this 1st day of December, 1986, by a 5 to 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:

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.

CONCURRING OPINION

DOCKETS 86.4.20 & 86.11.58

TOM MONAHAN – COMMISSIONER

These Dockets address costs incurred by MDU because of increased costs allowed by the FERC to their supplier, Williston Basin Interstate Pipeline Company. I am reluctantly concurring in the Commission's decision to allow those costs to be applied to MDU customers In the amount and manner set forth in this decision because, although I believe there is ample reason to consider MDU's gas acquisition policies have been imprudent and Williston Basin's gas purchase policies have been imprudent, I also have reason to believe that these matters will be investigated and resolved in the near future.

It is my opinion that there is a terrible danger to the well-being of MDU, WBIP and their parent company, Montana Dakota Resources Group, Inc. in allowing their natural gas prices to remain substantially above market price and competitive fuel prices. At this point Cenex, Conoco, and Exxon refineries, Western Sugar, St Vincents and Deaconess Hospital, all in Billings, have left the MDU system and are buying gas on the open market. I have had reports that Holy Rosary Hospital of Miles City is negotiating with Ecological Engineering System, Inc. of Northglen, Colorado to buy gas for a reputed $2.44 per MCF. Undoubtedly other industrial and commercial customers will depart the system. While I have no estimate of the number of residential customers burning wood, coal or fuel oil, the simple fact that these competitive fuels exist in vast quantities throughout MDU' s service area in eastern Montana guarantee that residential customers too will make the logical decision to curtail or eliminate the use of MDU natural gas. At this point we are teetering on the brink of a death spiral which will see departing customers force increased prices which will force more customers off the system which will force a further price increase and so on to destruction.

The bullet must be bitten and the longer it is delayed the greater the shock.

I will support the pass through of FERC established prices this one time. If satisfactory progress in seeking a solution to MDU’s dilemma is not made in a reasonable time, I will once again request an investigation by the Public Service Commission itself.