

Service Date: December 8, 1988

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) UTILITY DIVISION
of GREAT FALLS GAS COMPANY for)
Authority to Issue Unsecured Debt) DOCKET NO. 88.10.35
in the Amount of \$5 Million.) ORDER NO. 5375a

DEFAULT ORDER

BACKGROUND

1. On October 5, 1988, Great Falls Gas (GFG) filed an application seeking authority to issue a \$5,000,000 debenture, which will be placed with the Montana Board of Investments. The proceeds will be used to acquire all of the assets of Cody Gas Company (CGC). The initial interest rate was estimated to be 11.2 percent.

2. On October 26, 1988, the Commission issued Order No. 5375, which extended the time period to review this application from 30 to 60 days.

DISCUSSION

3. Section 69-3-501, MCA, provides as follows:

Regulation of issuance of securities and creation of liens by utilities. (1) Whenever a public utility furnishing electric or gas service in the state has revenue derived from sources in Montana which exceeds \$5 million or

5% of its gross revenue, the utility's right to issue, assume, or guarantee securities and to create liens on its property in the state is subject to the regulation and supervision of the commission, as set forth in this part.

(2) The public utility, when authorized by order of the commission and not otherwise, may issue stocks and stock certificates and may issue, assume, or guarantee other securities payable at periods of more than 12 months thereafter for the following purposes:

- (a) the acquisition of property;
- (b) the construction, completion, extension, or improvement of its facilities;
- (c) the improvement or maintenance of its service;
- (d) the discharge or lawful refunding of its obligations;
- (e) the reimbursement of money actually expended for said purposes from income or from other money; or
- (f) any other purpose approved by the commission.

4. Section 69-3-504, MCA, states that the Commission shall approve the petition for authorizing the proposed securities transactions unless the Commission finds:

- (1) such transactions are inconsistent with the public interest;
- (2) the purpose or purposes thereof are not permitted by this part; or
- (3) the aggregate amount of the securities outstanding and proposed to be outstanding would exceed the fair value of the properties and business of the public utility.

5. GFG stated purpose for incurring a securities obligation is for the acquisition of CGC. CGC is an intrastate gas transmission and distribution company based in the northwestern Wyoming community of Cody. CGC owns and operates approximately

370 miles of transmission and distribution pipelines and related equipment and serves approximately 4,418 customers in and around Cody, Wyoming. CGC is presently managed by Colorado Interstate Gas (CIG) and owned by Coastal Corporation.

6. In the application, GFG notes that this Commission in certain of its rate orders has encouraged it to reduce its equity ratio. GFG stated in the application that after the issuance of the proposed debt, GFG's debt ratio will approximate 58 percent debt and 42 percent equity. The Commission has indeed made known its concerns about the high equity ratio of GFG in past rate orders. However, as a point of clarification, the Commission has never suggested this situation be addressed by issuing additional debt to acquire another utility in another state.

7. After the purchase of CGC, GFG plans to operate CGC as a separate division of GFG with separate books for each company. According to GFG, CGC's books will be kept consistent with the FERC Uniform System of Accounts. The portion of common expenses attributable to CGC will be charged directly to its FERC Uniform System of Accounts. The Commission finds that a detailed cost accounting system must be developed to ensure that costs are

properly allocated among the two operating divisions (Cody and Great Falls). With respect to payroll expenses, all employees (including officers) of GFG who perform work for CGC, must account for that time using detailed time records. Anything less than this will be found to be unacceptable.

8. An issue which the Commission explored through data requests, was whether GFG intended to serve customers in Great Falls with gas purchased in Wyoming. GFG responded that "At the present time, GFG does not plan to use gas from Wyoming to serve its Montana load. But GFG hopes that opportunities for lower purchased gas cost will be presented as a result of this acquisition but no specific plans or transportation routes have been developed." The Commission finds that response to be very vague.

GFG is directed to keep the Commission informed of any plans to begin using new sources of supply, 60 days prior to: 1) the delivery of such new gas, or 2) the construction of any new transmission facilities.

9. With respect to the purchase of CGC, the Commission directs GFG to file a copy of all documents relating to the purchase, including the purchase agreement, within five working days of the purchase date. In addition, GFG is to file monthly

financial reports which show results for both the Great Falls and Cody divisions. The Commission directs GFG to provide copies of all rate filings made on behalf of the Cody Gas Division after the purchase.

10. The Commission finds that the application by GFG to issue a debenture in the amount of \$5 million to acquire Cody Gas Company is in the public interest and for purposes provided in Section 69-3-501, MCA. The transaction will not result in the amount of the outstanding securities exceeding the fair value of GFG's business or property. The petition is thereby approved. However, the approval is conditioned on the assurance that the customers of the Great Falls division will be no worse off as a result of this transaction. The Commission will care fully review this purchase in all future rate cases, with the expectation that the customers of the Great Falls division are in fact better off as a result. This application is very unusual and the findings in this order are not to be taken by any party as precedent for future Commission decisions.

CONCLUSIONS

1. Great Falls Gas Co. is a public utility furnishing gas service to customers in the Great Falls, Montana, area, and is

subject to the supervision, regulation, and control of this Commission pursuant to Section 69-3-102, MCA.

2. Section 69-3-501, MCA, provides for the regulation of issuance of securities and creation of liens by gas and electric utilities.

3. Section 69-3-504, MCA, specifies the conditions under which the Commission shall approve a petition by utility to incur securities obligations if the purpose of the issuance of the security is permitted in Section 69-3-501, MCA, the transaction is in the public interest, and the aggregate amount of the securities outstanding and proposed to be outstanding would not exceed the fair value of the properties and business of the public utility.

4. The proposed issuance of an unsecured debenture in the amount of \$5 million will be for lawful objects as specified in Section 69-3-501, MCA.

5. The transaction is consistent with the public interest.

6. The amount of the outstanding and the proposed securities issued will not exceed the amount of the value of the business and property of GFG.

ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of Great Falls Gas Company, filed on October 5, 1988, for authority to issue a \$5 million unsecured debenture, and to use the proceeds to acquire the assets of Cody Gas Company, is approved.

2. Approval of the transaction authorized shall not be construed as precedent to prejudice any future action of this Commission.

3. Section 69-3-507, MCA, provides that neither the issuance of securities by Great Falls Gas Company pursuant to the provisions of this Order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.

4. This Order shall be effective upon execution.

DONE IN OPEN SESSION at Helena, Montana, this 2nd day of December, 1988, by a vote of 4 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting Commission Secretary

(SEAL)