Service Date: February 15, 1989

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 MONTANA-DAKOTA UTILITIES COMPANY, a Division of MDU Resources Group, Inc., for Authority to Establish Increased Rates for Natural Gas Service	UTILITY DIVISION DOCKET NO. 88.11.53 INTERIM ORDER NO. 5399

FINDINGS OF FACT

On November 28, 1988, Montana-Dakota Utilities Company (MDU, Company, or Applicant) filed with the Commission a general rate increase application for natural gas service. The filing was assigned Docket No. 88.11.53.

Applicant relied on a test year ending June 30, 1988, in seeking an annual increase in revenues of $1,623,009 or 3.64 percent. Included in the general filing was a request for interim relief in the amount of $1,234,730.

Pursuant to the Commission's rules on interim rate increases, ARM Sections 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel (MCC), parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide.

In its motion for temporary rate increase, MDU stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return contained in the Company's last general rate order for natural gas service (Docket No. 85.7.30, Order No. 5160a), pursuant to the Commission's Rules on interim rate relief.

PUBLIC SERVICE COMMISSION ADJUSTMENTS

The Commission accepts MDU's proposed interim adjustments except those discussed and altered below and throughout the remainder of this Interim Order. All Commission adjustments below, therefore, are made to the Company's proposed interim pro forma revenues, expenses, and rate base.

Gas Loss Factor

MDU proposes a 2.68 percent interim gas loss factor. This was the loss factor approved in the last general rate proceeding (Pages 26-29, Order No. 5160a, Docket No. 85.7.30). The Company then proposes a 1.19 percent loss factor be used in the Final Order because that is the Company's current loss factor as measured during the test year.

The Company's interim proposal could be accepted on the basis that it was the loss factor approved in the most recent Order issued by the Commission. Several other factors, however, persuade the Commission to approve the current 1.19 percent loss factor for interim purposes. First, 1.19 percent is the actual measurable loss factor. Approval of a 2.68 percent loss factor would allow the Company an opportunity to collect more than its actual level of expenses in this area. Second, the decrease in the loss factor is probably due, in large part, to the significant amount of distribution plant added since Docket No. 85.7.30 ($4.68 million or a 20.3 percent increase in gross distribution plant). This new investment is included in the proposed rate base filed by MDU. Proper matching suggests that the lower loss factor should be matched with the increased investment allowed in rate base. Third, the loss factor approved in Docket No. 85.7.30 was based upon the most current data available. Use of the current 1.19 percent loss factor is consistent with the methodology used in the last case. Use of the current 1.19 percent loss factor results in a $523,589 decrease in expenses.

Therm Billing Computer Costs

MDU was allowed to implement Therm Billing when the Commission issued Order No. 5316 in Docket No. 87.9.47. Finding of Fact No. 33 from that Order discussed the costs associated with reprogramming the computerized Customer Information System (CIS):

> MDU states that conversion costs for the computerized Customer Information System reprogramming are estimated at $75,000 to $100,000 (MDU Exh. 1, Application, p. 5). MDU is not proposing to recover these costs in this filing, and the Commission believes that it would be proper to address these costs in the next general rate filing as they are not yet measurable. MDU is, therefore, required to isolate these costs in the next general rate filing for the inspection of all parties in that proceeding.

The Company reported costs totaling $123,720 to convert the CIS for Therm Billing. Of that amount, $28,456 was included in the Company's Montana natural gas pro forma operating results. MDU expensed the entire amount during the test year. It is arguable that the programming needed to convert the CIS could provide benefits over several years; thus, amortizing these costs may be warranted rather than expensing them. The Commission believes that this issue is better decided after both MDU and MCC have had an opportunity to comment. Therefore, the Commission finds it proper to eliminate these costs for interim purposes, resulting in an expense reduction of $28,456.

Rate Case Expenses

MDU estimates that rate case expenses associated with this Docket will be $105,300, which is a 35.5 percent increase over the $77,704 incurred in Docket No. 85.7.30. This is a significant increase over the level of expenses incurred during the last Docket. It must be noted, however, that a rate design consultant was hired for this Docket, when it was done in-house in Docket No. 85.7.30.

The Commission finds it proper to allow $77,704 for rate case expenses in this Interim Order. This treatment allows for the use of actual figures from a previous Docket rather than estimates as proposed by the Company. The Company may well incur more than $77,704 in rate case expenses for Docket No. 88.11.53 and will be required to report its actual rate case expenses at the conclusion of this proceeding for consideration in the Final Order. The Commission finds a $13,798 expense de crease, reflecting a two year amortization, to be proper for interim purposes.

Prepaid Demand Charges

MDU proposes an adjustment to increase rate base by $390,060 to reflect a 13 month average of its prepaid demand charges. The per books rate base already contained $442,640 in prepaid demand charges, resulting in $832,700 of prepaid demand charges in the Company's proposed rate base.

Prepaid demand charges were not included in the rate base accepted by the Commission in Docket No. 85.7.30, as this is the first time that such a proposal has been made by MDU. The Commission believes that this issue is better decided after MDU and MCC have both had an opportunity to comment. The Commission expects a rigorous discussion of this issue by both parties. Therefore, the Commission finds it proper to eliminate prepaid demand charges for interim purposes, resulting in a rate base reduction of $832,700.

Construction Overheads

In Docket No. 85.7.30 the Commission specifically disallowed MDU's proposed overhead rates because the Company failed to prove the propriety of the new rates. Instead, the Commission found the overhead rates approved in Docket No. 83.8.58 to be proper. Additionally, the Company was requested to fully explain justify and analyze its construction overhead rates in the next rate case (Pages 17-19, Order No. 5160a, Docket. No. 85.7.30).

The Company changes its overhead rates annually, therefore, the overheads added to rate base during the 1/1/85 to 6/30/88 time period do not conform with the Commission's decision in Docket No. 85.7.30. The Commission finds it proper for interim purposes to restate these overheads in conformance with the rates approved in Docket No. 85.7.30. This adjustment results in a rate base decrease of $291,459, and a depreciation expense decrease of $15,054.

Conservation Loan Balances

Donald R. Ball's direct testimony discusses the fact that MDU has been unable to recover the interest differential tax credit defined by Section 15-32-107 MCA due to fluctuations in the Company's taxable Montana income. To rectify the situation MDU proposes to carry the conservation loan balances in rate base and make the tax credit available to offset rates to its Montana natural gas customers.

This is the first time that MDU has proposed this adjustment, thus it was not allowed in the last rate case. Additionally, wording contained in the statute clearly prohibits the Company from receiving the tax credit if the loan balances are included in rate base:

> A public utility whose purchases of or investments in conservation are placed in the rate base as provided in Title 69, chapter 3, part 7, may not receive a tax credit under subsection (3). (Subsection 6, Section 15-32-107 MCA) (emphasis added)

In light of this discussion, the Commission finds it appropriate for interim purposes to reject the Company's proposal. This decision results in a $1,046,058 rate base decrease and a $117,058 increase in Montana Corporation License taxes.

Pro Forma Interest

Using the adjusted rate base, the Commission calculated MDU's pro forma interest expense. Changes in pro forma interest expense cause a change in State and Federal Income taxes due to the deductibility of interest. As a result, the Commission finds it appropriate to recognize a $14,717 increase in State and Federal income taxes to properly reflect pro forma interest expense in this Interim Order.

Interim Revenue Requirement

Based on the above Findings of Fact, the following table shows that additional annual revenues of $411,924 are required by the Applicant in order to provide the opportunity to earn an overall rate of return of 11.17 percent.

Cost of Service/Rate Design

There are two general rate design issues which need to be addressed for the interim revenue increase of $411,924. Those issues are interclass revenue responsibility and intraclass rate design.

Before addressing these issues individually, the Commission finds that MDU's proposal to reduce the Base Rates for the residential, commercial, and industrial classes from $3.01, $6.02, and $265.80 per month to $3.00, $6.00, and $265.00 per month for each class respectively has merit in order to minimize potential customer controversy. These reductions are attributable to the removal of the PSC tax as an addition to the Base Rate. The Company proposes in this Docket to include the tax as a cost of service item to be captured in commodity charges.

Regarding interclass revenue responsibility, MDU suggests that in order to move interim rates closer to costs, any revenue increase should be allocated to the residential class, with the exception that all classes would be responsible for the PSC tax which would be reflected in commodity charges.

The Commission finds that for interim purposes an equal percentage interclass revenue responsibility is most appropriate. That is, an equal percent increase of .8891% should be made to Rates 60, 70 Firm, 70 Interruptible, and 85. The resulting interim rates will capture the allowed interim revenue in crease and the PSC tax for each customer class. Interim changes in Rates 62, 72, 81, 82, and 84 should be made as appropriate.

The cost of service for all classes of customers which MDU serves will be subject to close scrutiny in this Docket.

CONCLUSIONS OF LAW

Applicant, Montana-Dakota Utilities Company, is a public utility furnishing natural gas service within the State of Montana and is subject to the supervision, regulation and control of this Commission pursuant to Section 69-3-102, 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 pending a hearing or final decision."

The rate levels and spread approved herein are a reasonable means of providing the interim relief to Montana-Dakota Utilities Company. 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.

The Commission finds that the Company's filing in this Docket, as modified by this Interim 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-Dakota Utilities Company, is hereby authorized to implement on an interim basis rates designed to increase annual natural gas revenues by $411,924. The Base Rates are to be reduced to the closest whole dollar amounts as described in Finding of Fact No. 22. The remaining revenue deficiency is to be recovered by increasing the commodity charges on a uniform percentage basis as described in Finding of Fact No. 24.

Rate schedules shall comport with all Commission determinations set forth in this 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 herein. Any refunds will be computed using MDU's most recently determined return on equity.

The interim relief granted is to be effective for service rendered on and after the approval date of this Interim Order.

DONE IN OPEN SESSION at Helena, Montana, this 15th day of February, 1989, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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WALLACE W. "WALLY" MERCER, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Acting Commission 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.