

Service Date: December 26, 1990

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

* * * * *

IN THE MATTER of the Application)
of the MONTANA POWER COMPANY's) UTILITY DIVISION
Unreflected Gas Cost Account)
Balance as of August 31, 1990,) DOCKET NO. 90.12.84
its Gas Tracking Proposal for the)
Period September 1, 1990 to August) INTERIM ORDER NO. 5528
31, 1991, IMR Differential)
Recovery, and NGI Recovery.)

)

FINDINGS OF FACT

1. On December 6, 1990, the Montana Power Company (MPC) filed its annual gas tracking application, which was denominated Docket No. 90.12.84. MPC seeks approval of deferred gas costs, as well as a gas cost for purposes of computing the base cost of gas for the ensuing period. It also seeks to recover balances which have accrued because of the difference between sales made at the Interruptible Market Retention (IRM) rate and interruptible industrial gas rate.

2. The rate and revenue impacts of the filings are as follows:

The Montana Power Company
Natural Gas Utility
Revenue Impact by Rate Class at the Proposed Tracking Market

	Residential	Service	Industrial	General Interrup. Utility	Total
Gas Cost Decrease					
\$ (808,580)	\$ (649,010)	\$ (330,218)	\$ (342,177)		\$ (2,129,985)
Adj. Unreflected Gas Cost Balance (8/31/90)					
117,186	94,059	45,980	47,645		304,870
Rev. Req. Adj. Assoc. w/ Continued Amort. of Sev. Tx & Wrk. Int.					
(23,437)	(18,812)	(8,360)	(8,663)		(59,272)
Rev. Req. Adj. Elimination					

End of Amort. Period for:					
A&S and Energy Oils;					
Bond - Fogelson	46,874	37,624	20,900	21,657	127,055
Elimination of Basic Unit					
Amort. - End of Amort.					
Period for:					
1. A&S and Energy Oils	(714,832)	(573,763)	(292,598)	(303,195)	(1,884,388)
2. Bond - Fogelson	82,030	65,842	33,440	34,651	215,963
Severance Tx & Wrk. Int.					
Basic Unit Amort Change	(11,719)	(9,406)	(4,180)	(4,331)	(29,636)
Net Revenue Change	\$ (1,312,478)	\$ (1,053,466)	\$ (535,036)	\$ (554,413)	\$ (3,455,393)
Less:					
Unreflected Gas Cost					
Balance Currently in Rates	\$ (210,934)	\$ (169,307)	\$ (87,780)	\$ (90,960)	\$ (558,981)
Add:					
90% IMR Revenue					
Differential Balance (8/31/90)	\$ 410,149	\$ 329,208	\$ 167,199	\$ 173,254	\$ 1,079,810
Less:					
90% IMR Revenue Differential					
Balance (8/31/89) Currently	\$ 585,928	\$ 470,297	\$ 242,439	\$ 251,218	\$ 1,549,882
Total Decrease	\$ (1,277,323)	\$ (1,025,248)	\$ (522,496)	\$ (541,417)	\$ (3,366,484)
Sales Volumes Estimated	11,718,555	9,405,946	4,179,977	4,331,352	
Unit Decrease per Mcf	\$ (.109)	\$ (.109)	\$ (.125)	\$ (.125)	
% Decrease	3.04%	3.05%	3.14%	3.63%	

3. With respect to the above schedule, the Commission notes the following:

- A. MPC's "Severance Tax and Working Interest" prospective adjustments to compensate for a changing market are proper for interim purposes.
- B. Inclusion of 90% of the IMR revenue differential is consistent with the previous interim orders. The IMR revenue differential amount of \$1,079,810 includes a

remaining balance from last year of (\$500,292), rounding adjustment of \$14,668, a balance for the 12 months ended 8/31/90 of \$2,685,015 and a net Natural Gas Incentive (NGI) revenue offset of (\$1,119,581). When grossed up to the 100% level, the 8/31/90 balance is \$2,983,350. This amount results from below otherwise applicable tariff sales to Rhone-Poulenc (380,281 Mcf @ 14.9), Stone Container (1,409,907 Mcf @ 14.9), Pfizer (188,005 Mcf @ 14.9), MSU (288,011 Mcf @ 14.9) and Columbia Falls Aluminum (74,295 Mcf @ 14.9). The deviation ranges from about \$.04/Mcf to about \$1.52/Mcf. This deviation is indicative, but not determinative of MPC's intent to maximize revenues from these sales, thereby insuring that other ratepayers won't be required to unduly subsidize these customers.

- C. The revenue requirement effect of the Natural Gas Incentive (NGI) rate is a reduction of \$1,119,581, which consists of actual NGI revenues of \$1,673,386, less actual NGI expenses of \$553,805, There is an NGI gas cost adjustment of (\$10,723). The difference between \$1,673,386 and \$553,805 is credited against 90% of the IMR balance, which appears to comport with MPC Order 5410a/b in Docket 87.8.38. The (\$10,723) is the difference between estimated NGI gas costs of \$299,907 and actual NGI gas costs of \$310,630.
- D. The Company proposes to discontinue amortizing the effects of the A&S/Energy Oils/Bond Fogelson payments. Amortization of these amounts began with meter readings on and after January 1, 1986. For interim purposes, the cessation of amortization, which will occur for service on and after January 1, 1991, is reasonable.
4. MPC seeks current gas cost recovery according to the following mix:

The Montana Power Company
Natural Gas Supply/Market Costs
September 1, 1989 - August 31, 1990 Tracking Period

MARKET	MCF @ 14.9	Gas Cost (U.S. \$)	Average \$/MCF
Residential	10,177,565		
Commercial	7,280,577		
Firm Industrial	888,487		
Interruptible Industrial	4,179,977		
Montana Utilities	4,331,352		
Montana Market	26,857,958		
Canadian Utilities	55,807		
NGI Sales	454,086		
Transmission Use	957,875		
Distribution Use	475,386		

28,801,112

SUPPLY/COST

Carway	1,350,000	\$ 2,834,865	\$2.099
Reagan			
Purchase	152,166	\$ 266,029	\$1.485
Aden			
Purchase	4,232,873	\$ 5,343,382	\$1.262
Royalty	5,449,898	\$ 1,951,983	\$0.358
Fee	256,277		
Co-Use	(745,430)		
Net Aden	9,193,619	\$ 7,295,365	\$0.794

MONTANA

Purchase	11,599,649	\$22,006,253	\$1.897
Royalty	7,065,637	\$ 1,345,211	\$0.190
Co-Use	(559,959)		
Net Montana	18,105,327	\$23,351,464	\$1.290

Subtotal Gas Supply	28,801,112	\$33,707,723	\$1.170
Less			
Canadian Utilities	(55,807)	(\$91,736)	\$1.644
NGI Sales	(454,086)	(\$186,875)	\$0.412
NET GAS COSTS TO MT MKT.	28,291,219	\$33,429,112	\$1.245

5. The Commission notes that the Canadian gas mix is becoming ever more dependent on purchase gas, as opposed to royalty gas. The cost of the purchase gas approximates the cost of the .77 Bcf of "spot" gas that was included in MPC overall mix during the tracking period which ended 8/31/86. The PSC found that purchase to be in the public interest. Also, in Interim Order No. 5301, the PSC found: "The Commission is also aware, however, that the price of Aden purchased gas has declined to about \$1.13/Mcf @ 14.9. Additional purchases of this relatively cheap source would allow the preservation of royalty gas, both Montana and Canadian, for future ratepayers. The Commission expects, however, that a complete explanation will be forthcoming before any final order in Docket No. 87.10.58 is issued." Order No. 5301, Paragraph 7C.

6. One of the PSC's concerns with regard to the finding quoted is that, should some type of transportation arrangement be allowed in Docket No. 90.1.1, the benefits of the royalty gas referred to may not be available. Given this premise, ratepayers

would have incurred higher gas rates than would have been necessary. Accordingly, before any transportation arrangement is considered, the issue of accrued ratepayer benefits must be addressed.

7. A gas cost disagreement was settled during the tracking period, and MPC has included the effects of the settlement as gas costs in its filing. It was a gas contract dispute with the Northern Montana Gas Company, which was settled for \$710,438. The cost of service proposal by MPC is to collect the entire balance from ratepayers over a one-year period.

8. The settlement is similar to other gas cost settlements previously approved by the Commission. The monetary effects of some of these are reflected in this filing. On the other hand, the Commission has recently addressed an issue very similar, if not identical, to this one in MPC Order 5360d, findings of fact 477 and 478. There, the Commission declined to reflect the effects of refunds from BPA and a medical insurance provider. Although the refunds totaled about \$4,000,000, MPC argued that they were insignificant. It also asserted that a policy needs to be established so that similar rate treatment is afforded refunds and payments in the future. The Commission is committed to development of such policy in MPC's general rate filing.

9. The Commission will allow the effect of the settlement described above to be included in rates on an interim basis. However, if the Commission rules in MPC's general rate case that extraordinary refunds and payments are not properly includable in the cost of service, MPC may be in the position of refunding the rate impacts of the above mentioned settlements.

10. The amortization period for such settlements was established at 5 years in MPC Gas Tracker Docket 85.12.52, Order 5174. Accordingly, the company has filed for, and the Commission has approved, five-year amortization periods for several gas settlements since Order 5174 was issued. An exception to this policy was inadvertently made in last year's tracker, Docket 89.12.53 and Order 5454, when MPC filed schedules which reflected a one-year amortization of two settlements, but did not specifically request a variance from the previously enunciated Commission policy of five years. The same technique was used in

this tracker. The Commission, therefore, finds that five years is the proper amortization period for the settlement referred to above.

11. The five-year amortization period, rather than one year, causes the rate and revenue impacts of the filing to be recast as follows:

The Montana Power Company Natural Gas Utility				
Revenue Impact by Rate Class at the Proposed Tracking Market				
Residential	Service	Industrial	General Interrup. Utility	Total
Gas Cost Decrease				
\$ (808,580)	\$ (649,010)	\$ (330,218)	\$ (342,177)	\$ (2,129,985)
Adj. Unreflected Gas				
Cost Balance (8/31/90)				
(140,623)	(112,871)	(58,520)	(60,639)	(372,653)
Rev. Req. Adj. Assoc. w/				
1. Continuing Amort. of				
Sev. Tx & Wrk. Int.				
(23,437)	(18,812)	(8,360)	(8,663)	(59,272)
2. No. Mt. Gas Co. Stl'mnt.				
(23,437)	(18,812)	(8,360)	(8,663)	(59,272)
Rev. Req. Adj. Elimination				
End of Amort. Period for:				
A&S and Energy Oils;				
Bond - Fogelson				
46,874	37,624	20,900	21,657	127,055
Elimination of Basic Unit				
Amort. - End of Amort.				
Period for:				
1. A&S and Energy Oils				
(714,832)	(573,763)	(292,598)	(303,195)	(1,884,388)
2. Bond - Fogelson				
82,030	65,842	33,440	34,651	215,963
Severance Tx & Wrk. Int.				
Basic Unit Amort Change				
(11,719)	(9,406)	(4,180)	(4,331)	(29,636)
Basic Amortization - No. Mt.				
Gas Co. Settlement				
46,874	37,624	20,900	21,657	127,055
Net Revenue Change				
\$(1,546,850)	\$(1,241,584)	\$ (626,996)	\$ (649,703)	\$(4,065,133)
Less:				

Unreflected Gas Cost					
Balance (8/31/89)					
\$ (210,934)	\$ (169,307)	\$ (87,780)	\$ (90,960)	\$ (558,981)	
Add:					
90% IMR Revenue Differential					
Balance (8/31/90)					
410,149	329,208	167,199	173,254	1,079,810	
Less:					
90% IMR Revenue Differential					
Balance (8/31/89) Currently					
in Rates					
\$ 585,928	\$ 470,297	\$ 242,439	\$ 251,218	\$ 1,549,882	
Total Decrease					
\$(1,511,695)	\$(1,213,366)	\$(614,456)	\$(636,707)	\$(3,976,224)	
Sales Volumes Estimated					
11,718,555	9,405,946	4,179,977	4,331,352		
Unit Decrease per Mcf					
\$(.129)	\$(.129)	\$(.147)	\$(.147)		
% Change	(3.60%)	(3.61%)	(3.69%)	(4.26%)	

12. For interim purposes, the Commission finds the unit decreases per Mcf as shown in Finding No. 11 to be proper.

CONCLUSIONS OF LAW

1. Montana Power Company is a corporation providing gas services within the State of Montana, and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Commission properly exercises jurisdiction over Montana Power Company's natural gas utility operations under Title 69, Chapter 3, MCA.

3. The Commission may approve increases or decreases in rates on an interim basis, pending a hearing on the merits (69-3-304).

ORDER

1. The Commission orders Montana Power Company to file rate schedules reflective of the Findings of Fact above to be effective for services rendered on and after January 1, 1991.

2. A notice of opportunity for public hearing will be issued in the future to allow parties the option of pursuing items of interest to them.

3. Any refunds shall include interest calculated at Montana Power Company's return on equity.

DONE AND DATED at Helena, Montana this 21st day of December,
1990, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Chairman

DANNY OBERG, Vice Chairman

JOHN B. DRISCOLL, Commissioner

REX MANUEL, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

ATTEST:

Ann Peck
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.