

Service Date: May 22, 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 for)	
Authority to Implement a Qualifying)	UTILITY DIVISION
Facilities Cost Tracking Mechanism)	
and for Approval to Increase Rates)	DOCKET NO. 90.3.17
and Charges for Electric Service in the)	
State of Montana to Reflect QF Tracking Cost)	ORDER NO. 5465a
and Increased Depreciation Expense.)	
_____)	

INTERIM ORDER

* * * * *

On March 1, 1990, the Montana Power Company (MPC or Company) filed a request with the Montana Public Service Commission (Commission) for authority to implement a Qualifying Facilities (QF) Cost Tracking Mechanism and for approval to increase electric rates in Montana to reflect QF tracking costs and increased depreciation expense. Included in the filing is a request for interim approval of the proposed rate schedules. (Application, p. 1)

The overall net effect of MPC's request is an increase in annual electric revenues of \$8,510,156, resulting from the QF and depreciation costs not currently reflected in MPC's rates (Application, p. 1)

The QF costs are those projected by MPC for the tracking period April 1, 1990, through December, 1990. The QF tracking costs for 1990 also include the costs of purchasing power from the DNRC-Broadwater Dam hydroelectric project since its commercial operation began in June of 1989 and from the Montana One waste coal QF project, which is scheduled to

begin initial operation in March of 1990. The net annual increase needed due to these QF tracking costs is \$6,555,994. (Application, p. 2)

The depreciation cost increases to the electric utility are caused by a depreciation rate change identified in a 1988 depreciation study update. The 1989 depreciation costs recorded on MPC's electric books and records reflect an increase of \$1,575,653 in annual depreciation cost, which results in a need for an increase of \$1,954,162 (adjusted for taxes) in MPC's annual revenue requirement. (Application, p. 2)

MPC says that this two-issue filing is the filing contemplated by the Commission in Order No. 5360c, Finding of Fact No. 19, Docket No. 88.6.15, where the Commission found that it would entertain a filing of only a few items of cost changes. Accordingly, MPC requests that the Commission's minimum filing requirements be waived. (Application, p. 2)

As stated above, MPC requests the Commission to approve the implementation of a QF cost tracking mechanism for the electric utility. MPC says that the Commission, in Order No. 5091c, Finding of Fact No. 249, approved MPC's tracking of net QF costs to allow their recovery as incurred. Therefore, MPC submits its QF tracking mechanism, which will allow ongoing tracking and recovery of MPC's net QF costs. (Application, p. 2)

MPC's QF tracking proposal corrects for the mismatch of current rate/revenues and QF expenses with an annual adjustment to rates based on a forecast of QF expenses for each upcoming calendar year. During the rate effective period, the Company will track the plus or minus differences in net QF costs (net of any revenue credits) proposed to be recovered in rates during the rate effective period, versus what was actually recovered in rates during the rate effective period. Any under/over collection is proposed to be included as an adjustment to the QF costs in the following tracking filing. (Application pp. 2-3)

MPC requests that if the Commission does not approve the QF tracking mechanism, the Commission will provide MPC with timely rate relief on a one-time basis to allow recovery of

the very substantial increases in QF costs during 1990 (Application, p. 3).

MPC requests that interim approval of its requests become effective April 1, 1990 (Application, p. 3).

The estimated number of customers whose cost of service will be affected is 246,680, and the annual amount of increase to those customers is \$8,510,156 (Application, p. 4).

MPC requests that the electric rate increase be implemented in two parts. The QF tracker increase is proposed to be recovered through a uniform cents/Kwh adjustment of \$0.001291 per Kwh. The increase resulting from changed depreciation rates is requested to be recovered through a uniform percentage increase of 0.738220 percent. (Application, p. 4)

On March 8, 1990, the Montana Consumer Counsel petitioned the Commission for general intervention in this proceeding in order to represent the interests of the consuming public.

On March 12, 1990, the Commission approved Interim Order No. 5465 in this docket, which allows MPC to record in its unreflected QF cost account costs and offsets being incurred.

On April 11, 1990, the Commission issued a Notice of Application and Intervention Deadline in this proceeding.

Following a Proposed Procedural Order, on April 26, 1990, the Commission issued a Procedural Order in this proceeding which contemplates a hearing date of September 19, 1990.

Commission Analysis

Concerning MPC's proposal to increase electric rates to reflect QF costs, the Commission finds that a conservative approach in this Interim Order is proper, especially considering the limited-issue nature of this filing and the strong element of uncertainty associated with the

Montana One QF plant.

Therefore, the Commission grants in this Interim Order an interim revenue increase to MPC to reflect in rates actual, annualized QF costs (net of all offsets and adjusted as explained below) over and above those QF costs already reflected in rates. The resulting interim revenue increase, subject to refund, associated with MPC's QF costs is \$4,974,445.

In approving these QF costs in rates on an interim basis, the Commission observes that these costs are largely an uncontrollable aspect of electric operations due to a federal mandate to purchase QF power. Accordingly, reflecting a reasonable level of QF costs in rates on an interim basis is proper in this proceeding.

In approving QF costs in rates on an interim basis, the Commission disallows all retroactive portions of QF costs, including those costs associated with the Toston Dam Project in Broadwater County. The Commission also disallows in this Interim Order all prospective QF costs that MPC is not already actually paying out as of the effective date of this Interim Order for QF power whose plants are not actually on-line.

The matter of the waste coal QF project in the Colstrip area, Montana One, requires some discussion. The Commission recognizes that Montana One became commercially operable as of about the first part of May of 1990 and that MPC will, therefore, be actually making payments for the purchase of that power from the on-line date forward. Accordingly, the Commission finds that, given the uncontrollable nature of this expense, reflection of at least a portion of the costs of the purchase of this QF power in MPC's rates is proper in this Interim Order. However, since Montana One has only recently come on-line, there is at least some uncertainty as to the reliability of this power as a resource that MPC will continue to receive and make payments upon delivery over an extended period of time. Therefore, the Commission finds that this uncertainty must be reflected in the determination of the proper level of Montana One QF costs allowed in this Interim Order.

The lack of an adequate yardstick to measure certainty causes the Commission to choose a level of Montana One expense that represents reasonableness in balancing actually paid costs, the likelihood of incurring future costs, and the risk of termination of payments due to the nondelivery of power from Montana One to MPC. The Commission, therefore, finds that allowing 50 percent of the annualized costs of purchasing power from Montana One, shown in MPC's response to MPSC Data Request No. 1, is proper in this Interim Order. Using the tables shown in MPC's response to MPSC Data Request No. 1, the Commission finds that the approved increase in MPC's revenue requirement reflecting annualized QF costs, including 50 percent of costs associated with the Montana One project, is \$4,974,445.

The Commission makes no determination in this Interim Order concerning the proposed QF cost tracking mechanism. This matter will be addressed in the Final Order in this proceeding.

Regardless of the Commission's decision concerning the merits of the implementation of MPC's proposed QF cost tracking mechanism in the final order in this proceeding, the Commission will consider for reflection in rates the balance of the unreflected QF costs for which MPC has been accounting since March 21, 1990 (including credits), per Interim Order No. 5465.

That unreflected balance would likely include the Montana One QF costs (including credits) not reflected in this Interim Order, depending, of course, on the plant's actual performance.

The Commission recognizes that interim approval of the QF costs as a single issue is unusual, especially recognizing even half of the annual costs of a plant that has been on-line only a short time. Therefore, the Commission emphasizes that the intent and purpose of granting these revenues is not to set a precedent for future reliance by MPC or any other utility operating in Montana. In considering the particular circumstances surrounding this issue, the Commission finds that, in this particular instance, approving MPC's request for interim relief to reflect a reasonable level of QF costs on an annual basis is proper. Reliance by a utility on this

decision as the basis for future interim relief on any revenue requirements issue will carry little or no weight with the Commission in considering interim treatment for that issue. The refund with interest provisions for interim revenue increases provide adequate protection for ratepayers.

Concerning the depreciation portion of this filing, the Commission specifically denies MPC's proposal in this Interim Order. The Commission finds that this Interim Order will not reflect the effects of MPC's proposed new depreciation study. One reason for denying interim treatment for the depreciation study and its proposed results is that this matter will be a contested issue in this proceeding. Another reason is that the depreciation study has not yet been approved by the Commission in a final order. Still another reason lies in the contrast between depreciation and QF costs. That is, depreciation costs are largely a controllable item for MPC, whereas QF costs are largely uncontrollable. The Commission has recognized that very important difference in this Interim Order by allowing a reasonable level of QF costs to be reflected in rates while disallowing depreciation costs over which MPC has at least some control.

The Commission finds that the interest rate that should be applied in calculating any refunds that might result from this Interim Order will be calculated at MPC's last approved return on equity level of 12.50 percent.

The Commission finds that the approved revenue requirement increase on an annual basis in this Interim Order is \$4,974,445 and directs MPC to file compliance tariffs reflecting this change in revenue.

The Commission finds that MPC must apply this annual revenue increase to all customer classes on an equal percentage basis.

For purposes of this Interim Order, the Commission determines that MPC's filing is complete, and MPC's request that the Commission waive the minimum filing requirements is granted.

All other MPC requests for interim approval in this filing are specifically denied.

CONCLUSIONS OF LAW

Applicant, Montana Power Company, provides electric service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana rates and operations pursuant to Title 69, Chapter 3, MCA.

Section 69-3-304, MCA, provides, in part, that the Commission may, in its discretion, make temporary approvals of requests pending a hearing or final decision.

The rate levels and spread approved herein are a reasonable means of providing interim relief to MPC. The rebate provisions of Section 69-3-304, MCA, protect ratepayers until there is a Final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

Applicant, Montana Power Company, is hereby ordered to implement on an interim basis rates designed to increase annual electric revenues by \$4,974,445 on a uniform percentage basis.

Applicant is hereby ordered to adhere to and to abide by all Findings of Fact in this Interim Order, and rate schedules shall comport with all Commission determinations set forth in this Interim Order.

Applicant must file tariffs in compliance with the Findings of Fact 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 in this Interim Order.

Any refunds associated with the annual revenue increase granted in this Interim Order will be computed at MPC's last approved level of return on equity, 12.50 percent.

Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

The interim annual revenue increase granted in this Interim Order is to be effective for electric service rendered on and after May 21, 1990.

The Commission accepts, for interim purposes, MPC's request that this is a complete filing and is in full compliance with the filing requirements of the Commission, and the Commission reserves final ruling on this request until a Final Order is issued.

DONE IN OPEN SESSION at Helena, Montana, this 21st day of May, 1990, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

WALLACE W. "Wally" Mercer, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, 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.

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
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IN THE MATTER of the Application)
of the MONTANA POWER COMPANY for)
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ing Facilities Cost Tracking Mech-)
anism and for Approval to Increase) DOCKET NO. 90.3.17
Rates and Charges for Electric)
Service in the State of Montana) ORDER NO. 5465b
to Reflect QF Tracking Costs and)
Increased Depreciation Expense.)

_____)
Service Date: July 3, 1990

* * * * *
ORDER ON RECONSIDERATION
* * * * *

On March 1, 1990, the Montana Power Company (MPC or Company) filed a request with the Montana Public Service Commission (Commission) for authority to implement a Qualifying Facilities (QF) Cost Tracking Mechanism and for approval to increase electric rates in Montana to reflect QF tracking costs and increased depreciation expense. Included in the filing is a request for interim approval of the proposed rate schedules. (Application, p. 1)

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MPC's QF tracking proposal corrects for the mismatch of current rate/revenues and QF expenses with an annual adjustment to rates based on a forecast of QF expenses for each upcoming calendar year. During the rate effective period, the Compa-

ny will track the plus or minus differences in net QF costs (net of any revenue credits) proposed to be recovered in rates during the rate effective period, versus what was actually recovered in rates during the rate effective period. Any under/over collection is proposed to be included as an adjustment to the QF costs in the following tracking filing. (Application pp. 2-3)

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On March 8, 1990, the Montana Consumer Counsel petitioned the Commission for general intervention in this proceeding in order to represent the interests of the consuming public.

On March 12, 1990, the Commission approved Interim Order No. 5465 in this docket, which allows MPC to record in its unreflected QF cost account costs and offsets being incurred.

On April 11, 1990, the Commission issued a Notice of Application and Intervention Deadline in this proceeding.

Following a Proposed Procedural Order, on April 26, 1990, the Commission issued a Procedural Order in this proceeding which contemplates a hearing date of September 19, 1990.

On May 21, 1990, the Commission approved Interim Order No. 5465a, which denied MPC's request for a QF tracking mechanism, granted an interim annual revenue increase for net QF costs in the amount of \$4,974,445, and denied MPC's request for rate treatment to reflect the effects of a new depreciation study.

On June 4, 1990, MPC filed with the Commission a Motion For Reconsideration of Order No. 5465a (Motion), including an Affidavit of William Pascoe. In the Motion, MPC asked for reconsideration on the following grounds: the disallowance of half of the Montana One purchase and depreciation costs is arbitrary, capricious and an abuse of discretion; the result is

a confiscation of MPC's property in violation of MPC's constitutional rights; the disallowance creates a policy which is unfair to utilities; and, the Commission's concern about the "uncertainty" of Montana One costs can be addressed in a way which also assures that MPC can recover its actual costs. (Motion, p. 1)

Commission Analysis

In response to MPC's concern about recovery of Montana One costs, the Commission, in this Order on Reconsideration, will "provide clear assurances that the Commission will allow recovery of the unreflected QF costs tracked during the interim regardless of whether the QF tracking mechanism is approved" (MPC Motion, p. 19). Contrary to MPC's apparent interpretation, in Interim Order No. 5465a, the Commission was not attempting to cast doubt on the Company's ability to recover in rates all prudently incurred Montana One costs. Indeed, the purpose of Interim Order Nos. 5465 and 5465a was to provide a method for MPC to be able to recover these costs and make MPC whole regardless of the outcome of the final decision on the QF tracking mechanism.

The Commission has every intention of passing through all prudently incurred net QF costs. That philosophy will be carried out by the Commission in this Docket, absent any convincing intervenor testimony that such costs have been imprudently incurred. In the meantime, MPC is accounting for incurred QF costs and associated offsets through Interim Order No. 5465. Therefore, the Commission DENIES MPC's Motion in its entirety regarding Montana One and any other QF costs.

Concerning MPC's Motion regarding depreciation costs, the Commission finds that the reasoning found in Finding of Fact No. 24 in Interim Order No. 5465a is sound and adequate. Therefore, the Commission DENIES MPC's Motion regarding depreciation costs.

All other requests and proposals included in MPC's Motion are specifically DENIED.

CONCLUSIONS OF LAW

Applicant, Montana Power Company, provides electric service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana rates and operations pursuant to Title 69, Chapter 3, MCA.

Section 69-3-304, MCA, provides, in part, that the Commission may, in its discretion, make temporary approvals of

requests pending a hearing or final decision.

The rate levels and spread approved herein are a reasonable means of providing interim relief to MPC. The rebate provisions of Section 69-3-304, MCA, protect ratepayers until there is a Final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

Applicant's Motion for Reconsideration concerning QF costs, and in particular the Montana One costs, is hereby DENIED.

Applicant's Motion for Reconsideration concerning depreciation costs is hereby DENIED.

The Commission has herein clarified the intent in Interim Order No. 5465a concerning properly incurred QF costs.

DONE IN OPEN SESSION at Helena, Montana, this 2nd day of July, 1990, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Vice Chairman

WALLACE W. "WALLY" MERCER, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

REX MANUEL, 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.