

Service Date: July 3, 1990

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 the MONTANA POWER COMPANY for	)	
Authority to Implement a Qualify-	)	UTILITY DIVISION
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.	)	
_____	)	

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ORDER ON RECONSIDERATION

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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.

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

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HOWARD L. ELLIS, Vice Chairman

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WALLACE W. "WALLY" MERCER, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

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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.