Service Date: September 18, 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 Establish Increased Rates and Charges for Natural Gas Service in the State of Montana.	UTILITY DIVISION DOCKET NO. 90.6.39 INTERIM ORDER NO. 5484d

* * * * *

INTERIM ORDER

* * * * *

On June 27, 1990, the Montana Power Company (MPC, Company, or Applicant) filed an application with the Montana Public Service Commission (Commission) for authority to increase rates for natural gas services. The application showed a total natural gas utility revenue deficiency of $9,581,408. A motion for an interim increase in rates was filed concurrent with the general case. The application showed that the deficiency calculated in accordance with the Commission's interim rate increase rules (ARM Section 38.5.501, et seq.) is $5,593,982 for the Montana segment of MPC's natural gas utility.

Pursuant to the Commission's rules on interim rate increases, ARM 38.5.501, et seq., Applicant has given proper notice of its interim rate increase requests. Such notice was given to the Montana Consumer Counsel, parties to Applicant's most recent general rate increase application, and to media for general dissemination state-wide. The notice advised interested parties to notify the Commission speedily of any comments relative to the request.

MPC's natural gas interim revenue increase request of $5,593,982 would result in a uniform percentage increase of 5.3 percent.

MPC says that the proposed interim increases were calculated in accordance with the Commission's rules, and therefore, include several adjustments to the Company's revenue requirements, including an overall Rate of Return of 10.62 percent and a Cost of Equity of 12.50 percent for the natural gas utility. These percentage levels conform with those approved in MPC's most recent natural gas rate filing in Docket No. 88.6.15. The interim request includes other adjustments which also conform with the Commission's rules which are detailed in the filing's accompanying workpapers.

Commission Analysis

The Commission finds that all adjustments in this Interim Order must be made from the data shown on pages 1-14 of 48 in Appendix 1 of MPC's Gas Utility Interim Revenue Requirement Workpapers.

As stated above, MPC made adjustments in its interim filing to conform with adjustments, methodologies, and calculations approved in Docket No. 88.6.15. Of those proposed adjustments, the Commission accepts for Interim purposes, unless otherwise stated herein, MPC's proposed adjustments except for those discussed and altered below and throughout the remainder of this Interim Order. Per the discussion in the immediately preceding Finding of Fact, all Commission adjustments discussed below, therefore, are made to MPC's pro forma Montana jurisdictional revenues, expenses, and rate base as shown in Column C on page 5 of 48 in Appendix 1 of MPC's Natural Gas Utility Interim Revenue Requirement Workpapers.

Capital Structure and Cost of Capital

The currently authorized overall rate of return for MPC's natural gas utility is, per Docket No. 88.6.15, as follows:

Description	Ratio	Cost	Weighted Cost
Long Term Debt	50.00%	9.36%	4.68%
Preferred Stock	6.00%	7.29%	0.44
Common Equity	44.00%	12.50%	5.50
Total	100.00%		10.62%
	=======		======

The issues of capital structure and cost of capital will likely be contested matters in this docket. However, the Commission finds that the above structure and costs represent reasonable levels for interim purposes and approves 10.62% as the overall rate of return to be utilized in this Interim Order.

Labor Expense Adjustment

MPC included in its interim filing an annualization of 1990 labor cost increases. Among those increases were some effective dates after August 29, 1990. In this interim proceeding, the Commission rejects all annualized labor costs to be effective after August 29, 1990, on the basis of including only known and measurable costs. Therefore, the Commission finds that a reduction in labor expense is proper and approves a revenue requirements adjustment in the amount of $-367,600 in this interim proceeding to reflect known and measurable labor costs.

Prior Period Indirect Costs Adjustment

In order to conform with the Commission findings in Docket No. 88.6.15, the Company proposes to reflect a prior period adjustment for indirect costs being capitalized rather than expensed. After its analysis of this proposed adjustment, the Commission determined that the transition of these cost items from being reflected in MPC's Income Statement to its Balance Sheet would require the elimination of the 1988 Rate Base piece in order to avoid double collection by MPC from its ratepayers. Through the process of ratemaking, the Commission has set over the years an approved level of indirect costs expense which MPC was recovering through rates. The Commission finds that the 1988 capitalized indirect costs must be eliminat ed from MPC's proposed Rate Base in order to avoid further recovery of these costs. Therefore, the Commission finds that the elimination of 1988 amounts from the proposed prior period indirect costs adjustment is proper and approves a reduction in depreciation expense in the amount of $26,120 and a reduction in Rate Base in the amount of $938,300 in this interim proceeding. The effect on revenue requirements is $-205,835.

Property Tax Settlement Adjustment

In its interim filing, MPC did not reflect the effects of a property tax settlement between the Company and the Montana Department of Revenue (DOR). The Company does reflect the settlement in its general case in this docket. The Commission finds that reflecting the effects of this property tax settlement between MPC and the DOR is required to be consistent with the electric interim order in this docket. Therefore, the Commission finds that the reflection of the tax settlement between MPC and the DOR is proper in this interim proceeding and approves an increase in Administrative and General expense in the amount of $1,271,440 and an increase in Rate Base in the amount of $1,956,270. The effect on revenue requirements is $1,620,707.

CIS/FMS Stipulation Adjustment

An issue in Docket No. 88.6.15 that was left unresolved and left for future consideration was the costs associated with MPC's two new computer programs, Customer Information Systems (CIS) and Financial Management Systems (FMS). On July 25, 1990, the Commission received a stipulation between MPC and Montana Consumer Counsel (MCC) regarding the CIS/FMS issues in Docket No. 88.6.15. In the cover letter to the stipulation was a request that the Commission consider implementing the stipulation along with the proposed interim rate change in this docket. The intent of this stipulation is to close out Docket No. 88.6.15. On August 22, 1990, the Commission approved the stipulation on an interim basis. Therefore, the Commission finds that inclusion of the CIS/FMS stipulation is proper in this interim proceeding and approves an increase in depreciation expense in the amount of $21,239, an increase in amortization expense in the amount of $106,722, and an increase in Rate Base in the amount of $1,334,159. The effect on revenue requirements $373,644.

Interest Synchronization Adjustment

MPC calculated the interest synchronization using the same procedure approved by the Commission in past decisions. The Commission continues to approve the use of the interest synchronization adjustment to give recognition in current rates of the deduction of interest on construction borrowings. Therefore, based on the approved level of Rate Base and cost of weighted debt capital in this interim proceeding, the Commission finds an increase in corporate environmental tax in the amount of $396, an increase in Federal income taxes in the amount of $112,069, and an increase in Montana corporation license tax in the amount of $25,144 to reflect interest synchronization to be proper in this interim proceeding. The effect on revenue requirements is $188,373.

Pipeline Facilities Annualization

In its interim filing workpapers, MPC "annualized" the effects of the September 1989 additions of compressors and other facilities for the 16" pipeline project. On an annual basis, the rate base addition is $5,618,978. Of all the electric and natural gas plant additions and retirements included in or removed from the rate base in this filing, only the 16" pipeline facilities are annualized. Therefore, it is only these 16" pipeline related facilities that are not in compliance with the average test year concept used by the Commission for many years. The annualization of the 16" facilities is a selective application of the year end rate base concept. This is allegedly done because the compressors constitute a "major" plant item. However, three electric utility additions, which total $10,099,017 are not annualized. Until such time as the Applicant can convincingly explain why the PSC should not consistent ly apply the average rate base concept, the Commission will not annualize additions and retirements. The effect of not annualizing the compressors plant addition is a reduction in depreciation expense of $140,746, and a reduction in rate base of $3,497,894. The effect on revenue requirements is $-748,626.

Revenue Requirement

Based on the above Findings of Fact, the following table shows that an increase in MPC's annual gas revenues in the amount of $6,298,145 is necessary in order to provide the opportunity to earn an overall rate of return of 10.62 percent:

THE MONTANA POWER COMPANY - NATURAL GAS UTILITY INCOME STATEMENT AND TEST

No.	Item		TOTAL			In Inc At 1 Rate of R
1.	REVENUES:					
2.	Rate Schedule Revenues106,103,029		6,298,143			112,40
3.	Other Sales		241,995			
4.	Miscellaneous Revenue 2,096,831 0	2,096,831				
5.			___________			______
6.	Gross Revenues		108,441,855			6,29
7.						
8.	COST OF SERVICE:					
9.	Production Operation (Excluding Royalties)		4,000,302 0		4,000,302	
10.	Production Operation - Royalties		3,061,824			
11.	Production Maintenance1,640,791		0			1,64
12.	Products Extraction Operation		762,565			
13.	Products Extraction Maintenance		81,886			
14.	Exploration & Development 1,741,430 0	1,741,430				
15.	Other Gas Supply (Montana Market)		33,037,534			
16.	Storage Operation		311,710			
17.	Storage Maintenance		114,267			
18.	Transmission Operation1,123,859		0			1,12
19.	Transmission Maintenance		868,238			
20.	Distribution Operation3,599,863		0			3,59
21.	Distribution Maintenance		1,396,782			
22.	Customer Accounts Expense 2,476,627 0	2,476,627				
23.	Customer Service & Information Expense	472,588	0		472,588	
24.	Sales Expense		567,667			
25.	*Energy Oils-South Bearpaw		0			
26.	*A&S Take or Pay		0	0		
27.	*Luff Settlement		123,060	0		12
28.	*Severance Tax		476,304			
29.	*J Bond/Fogelson		0	0		
30.	*Conservation Expenditures		36,266			
31.	*Property Tax Settlement		1,271,440			
32.	*Amort. CIS & FMS Nonincremental		0			
33.	Administrative & General Expense		8,735,123			

djustment	-371,726		0
& M Expense	65,528,400		0
ation	8,199,099		0
ation of Computer Software Costs	61,949		0
of Computer Software Costs CIS & FMS	106,722		0
ation of Investment Tax Credit - Debit	0		0
ation of Investment Tax Credit - Credit	-310,432		0
r Def Inc Tax - Total (Sched. Attached)	1,064,043		0
ther Than Income Taxes	9,461,623		15,745
nvironmental Tax	14,208	7,005	21,213
Taxes - Federal	3,616,979	1,982,412	5,599,391
Taxes - Corporation License Tax	850,959	444,768	1,295,727
Amort Canadian Withholding Tax	234,222	0	234,222
L	23,299,372	2,449,930	25,749,302
OST OF SERVICE	88,827,772	2,449,930	91,277,702
OPERATING INCOME (Bal. For Return)	19,614,083	3,848,213	23,462,296
Gas Rate Base	220,925,557		220,925,557
Return Earned (%)	8.88%		10.62%
nue Increase		6,298,145	

Other Matters

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

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

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

CONCLUSIONS OF LAW

Applicant, Montana Power Company, provides natural gas ice within the State of Montana and as such is a "public ity" within the meaning of Section 69-3-101, MCA.

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

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

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

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

Applicant, Montana Power Company, is hereby ordered to ement on an interim basis rates designed to increase annual ral gas revenues by $6,298,145 on a uniform percentage basis.

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

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

Nothing in this Interim Order precludes the Commission adopting in its Final Order, after reviewing the entire record his Docket, a revenue requirement different from that contained his Interim Order.

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

Interim approval of any matters in this proceeding should be viewed as final endorsement by the Commission of any issues, ulations, or methodologies approved in this Interim Order.

The interim annual revenue increase granted in this rim Order is to be effective for natural gas service rendered nd after September 15, 1990.

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

DONE IN OPEN SESSION at Helena, Montana, this 14th day of ember, 1990, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

____
HOWARD L. ELLIS, Chairman

____
DANNY OBERG, Vice Chairman

____
WALLACE W. "WALLY" MERCER, Commissioner

____
JOHN B. DRISCOLL, Commissioner

____
REX MANUEL, Commissioner

T:

eck
ssion Secretary

)

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.