

Service Date: March 20, 1992

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

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IN THE MATTER OF MONTANA-DAKOTA) UTILITY DIVISION
UTILITIES COMPANY, Application for) DOCKET NO. 91.5.18
Authority to Implement the Gas Cost) ORDER NO. 5570a
Tracking Adjustment Procedure.)
_____)

ORDER IDENTIFYING ADDITIONAL ISSUES

Background

1. The Commission has identified additional issues not yet addressed and issues that are only partially addressed in Docket No. 91.5.18. The Commission finds that these issues should be addressed by Montana-Dakota Utilities Company (MDU), as well as by other interested parties by filing written testimony.

Additional Issues

Gas Cost Tracking Mechanism

2. The gas cost tracking mechanism for MDU was approved by the Commission in Order No. 4476a issued 5/30/79. At the time the tracker was approved, MDU was a vertically integrated natural gas (gas) utility. In January, 1985 a corporate reorganization resulted in MDU becoming a local distribution company (LDC) with an affiliated interstate pipeline company, Williston Basin Interstate Pipeline (WBIP), becoming its supplier of natural gas.

3. In Order No. 5490, issued 9/24/90, the Commission examined the business relationship that existed/exists between WBIP and MDU. In the order the Commission discussed the economic impact that this affiliated relationship had/has on the rates paid by Montana ratepayers for MDU gas. The Commission in the order determined that historically this business arrangement "has been not in the best interests of MDU's Montana gas customers"

(FOF No. 82, Order No. 5490). Even though the facts indicated that historically this relationship was not in the public interest, the Commission made no adjustment to MDU's gas rates. The Commission reasoned open access of WBIP was being phased in over a five year period and, therefore, it would be premature to make an adjustment to MDU's gas rates. This was so because MDU, through open access, could pursue lower cost gas than that provided by its affiliate WBIP.

4. Based on facts and circumstances that existed in 1979, the Commission authorized the implementation of a gas cost tracking mechanism for MDU. The Commission requests testimony on the issue of whether or not the conditions that existed in 1979, which warranted implementation of the gas tracking mechanism, still exist. If such conditions no longer exist, testimony should support a rationale for continuation of the gas tracker mechanism as it presently exists.

5. The Commission, in its Order No. 5490, discussed the economic impacts of the affiliate relationship on rates paid by MDU's customers and the option of MDU to convert to lower cost gas suppliers through the phase-in of open access on WBIP. The economic concerns expressed by the Commission relative to these issues are still valid in this docket given MDU's decision not to implement the 3rd and 4th increment of conversion. The Commission requests testimony regarding conditions (e.g., business principles, incentives, safeguards) embodied in the existing tracker mechanism that would provide an incentive or disincentive for MDU to discharge its public utility obligation of providing reasonably adequate service at lowest reasonable costs. If the existing tracker mechanism fails to embody conditions that would promote prudent gas acquisition practices, testimony should address potential modifications to the tracker that would ensure MDU has proper regulatory incentives to discharge its public utility obligation. If a tracker mechanism cannot be crafted that would serve to assure such incentives, testimony should provide reasonable alternatives that could facilitate MDU's discharge of the public utility obligation.

3rd Increment of Open Access

6. MDU rejected all responses to its request for proposals (RFP) on obtaining a 3rd increment of non-WBIP gas supplies. In response to Commission staff data requests MDU indicated that, even though the cost of gas proposed by respondents was less than WBIP's, they rejected all offers. MDU stated the respondents failure to substantiate reasonable reliability of the gas supplies offered at the various receipt points and reliability, along with price considerations, was MDU's main reason for rejecting the offers. Documents provided in response to data requests appear to contradict MDU's rationale for declining to accept any of the proposals.

7. A letter response from Western Gas Processors appears to adequately address any concerns that MDU should have regarding reliability of the gas supply to be provided under the 3rd increment of conversion. A copy of the letter is attached as Appendix 1. MDU's specific reliability concerns regarding responses of potential suppliers of the 3rd increment of conversion should be more fully developed by MDU.

8. For each response to the 3rd increment RFP, provide a copy of the response, all documents generated or received by MDU regarding the RFP response, and a copy of the original analysis and reports prepared by MDU regarding the viability of the supplier's RFP response.

9. MDU's decision to reject all prospective supplies offered by RFP respondents because of price and/or reliability should be supported by credible testimony. MDU's testimony supporting its decision to reject offers because of reliability should not be limited to the details contained in the RFP responses. The testimony should reference all considerations, along with appropriate documentation in MDU's possession, that were used to reach the conclusion that price and reliability were not sufficient to support a supply conversion.

Development of Traditional or Non-Traditional Storage

10. MDU presently has no storage capabilities on its system. If storage facilities were available to MDU the company could purchase lower cost gas during the non-heating season for delivery in the heating season. In response to staff data requests MDU indicated that it had examined use or acquisition of traditional storage facilities within reasonable proximity to its service territory but found none presently available at reasonable cost.

11. Storage capability represents a significant potential option for MDU to obtain increased delivery reliability and lower cost gas supplies. Testimony should address MDU's prospective intentions regarding efforts to obtain traditional storage capability.

12. Traditional storage facilities are depleted natural gas fields, but other, non-traditional, storage facilities are being explored in the gas industry. Of the non-traditional storage alternatives, the most promising appear to be caverns formed, or mined, in salt or rock, but other options are being examined. Testimony should address MDU's examination of any and all gas storage alternatives. This testimony should include particulars on how these alternatives could lower gas supply costs and improve system delivery capabilities. This testimony should also provide information relative to MDU's examination of the salt cavern located in Williston, North Dakota as a potential storage facility.

13. While not an alternative discussed in literature reviewed by the Commission, it would seem reasonable that a producing gas field in MDU's service territory could represent a plausible alternative storage site. While recognizing that this storage alternative may be speculative, Testimony should address the plausibility of such a storage alternative and the potential for structuring an arrangement that would allow MDU to co-use a producing gas field as a storage facility.

Company Owned Gas Supplies

14. During interviews with MDU personnel PSC staff asked if MDU had explored the option of owning some of its own gas supplies. The representatives of the Company indicated that this option had not been seriously explored. Given the high price of purchased gas from WBIP and the reliability concerns expressed about other suppliers, a logical extension of gas supply options appears to be company-owned gas. The Parties should address why company-owned gas, in proximity to the pipeline is, or is not, a viable option for MDU to lower its cost of gas.

Gas Acquisition Strategy

15. In the recent past there has been a significant disparity in the cost of gas available in the competitive market and the price paid by MDU for its supply of gas from WBIP. MDU's failure to make supply conversions in an effort to correct this disparity concerns the Commission and prompts the need for Commission review of MDU's prospective gas acquisition strategy. Testimony should address MDU's prospective gas acquisition strategy.

16. In the Commission's view, the comparatively high retail price of MDU gas would dictate that the acquisition strategy include efforts to correct the gas cost differential between the competitive market and WBIP. Testimony should detail how MDU's gas acquisition strategy will attempt to correct the cost of gas differential that exists and thus bring market-based rates to MDU's customers.

Alternative Pipeline Connections

17. It is the Commission's understanding that alternative pipeline connections will be available in MDU's service territory in the near future. Testimony should explain the potential benefits, if any, that may exist for MDU if these new pipelines become available to MDU.

Gas Supply Acquisition Department

18. During past Quarterly Meetings and other informal

discussions, MDU indicated to the Commission that it intended to increase its staffing levels in order to most effectively take advantage of open access on WBIP's system. It was also indicated to the Commission that MDU may rely on consultants to help evaluate and acquire lower cost gas supplies and to help train the Company's full time employees in gas acquisition strategies. The Commission would like MDU to explain all efforts undertaken in these areas and how such efforts have resulted in gas cost minimization.

Proposed Gas Contract Evaluation

19. Information presently available indicates that MDU has not adopted any uniform standards of review for contract proposals received in response to gas supply RFP's. Given MDU's reliance on outside contracted gas supplies, including WBIP, and its status as a regulated utility, adoption of a formal empirical contract evaluation procedure to support its gas supply decisions would seem appropriate.

20. The Commission requests a copy of any uniform review standards for proposed gas supply contracts. Along with the standards, testimony should detail how the standards are applied in the review process to determine the quality of the proposed contract.

21. If MDU has not adopted a uniform review procedure, testimony should detail standards that should be implemented for gas supply contract review. For each of the standards proposed in the review process, testimony should explain how the standard can be used to quantify the quality of a proposed gas supply contract.

22. MDU shall file testimony on each of the additional issues identified herein within 30 days of the service date of this Order. All intervenors in this Docket are requested to comment on MDU's additional issues testimony and to provide testimony on additional issues as they deem necessary.

DONE IN OPEN SESSION as Helena, MT the 17th day of March,
1992 by a 4-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DANNY OBERG, Vice Chairman

BOB ANDERSON, Commissioner

JOHN B. DRISCOLL, 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.