Service Date: November 28, 1995

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 | ) | UTILITY DIVISION |
| Of Great Falls Gas Company For | ) | DOCKET NO. 93.7.27 |
| Approval Of Initial Rates For Gas Service | ) | ORDER NO. 5736a |
| For The Town Of Cascade. | ) | |

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FINAL ORDER

BACKGROUND

1. On July 14, 1993, Great Falls Gas Company (Applicant or GFG) filed an Application with the Montana Public Service Commission (Commission or PSC) for approval of initial rates for propane gas service to the Town of Cascade (Cascade) from an underground vaporized propane system constructed at a cost of $163,000. Cascade granted GFG a fifty year franchise to provide this service.

2. GFG filed proposed tariffs and schedules with commercial and residential rates, as well as a proposed contract for customers capable of substituting alternative fuels for propane or acquiring bulk propane at a discount. (Propane Commercial Service [PCS], Propane Residential Service [PRS] and Propane Negotiated Contract Service [PNCS].) GFG requested approval of the rates and tariffs on either an interim or final basis. GFG filed corrected and revised tariff sheets on July 22, 1993.

3. On September 3, 1993, the Commission issued Interim Order No. 5736 approving the tariffs on an interim basis. As part of that Interim Order, the Commission ordered GFG to file cost information after operating the system for a period of one year.

4. On February 13, 1995, GFG filed the cost information with the Commission as ordered in Interim Order No. 5736. Based on its review of this information, the Commission issues this Final Order in this Docket.

## FINDINGS OF FACT AND DISCUSSION

5. GFG's proposed tariffs for Propane Commercial Service (PCS) and Propane Residential Service (PRS) for Cascade, Montana include minimum customer service charges of $5.00 and $4.00 per month, respectively. The PCS base rate is $1.702 per CCF (hundred cubic feet) plus a NIP (No Interest Loan Program) charge of $.005 per CCF to reflect the cost of the Zero Interest Loan Program. The PRS base rate is $1.752 per CCF plus $.005 NIP charge per CCF.

6. Under the Propane Negotiated Contract, customers will be charged the applicable service charge. GFG may negotiate an alternative rate per CCF to preserve load on its system. However, the minimal charge per CCF will be equivalent to the marginal cost of gas.

7. Under all three tariffs, if a customer terminates service, GFG reserves the right to charge monthly fixed charges after the point of termination if that customer's application to renew service is at the same service location.

8. Applicant's witnesses prefiling testimony are Sheila Rice, Vice President and Division Manager, Great Falls Division, and Lynn F. Hardin, Assistant Vice President for Gas Supply, Rates and Special Projects for Energy West, Great Falls.

9. In support of initial rates for the new propane system in Cascade, Ms. Rice testified on the rationale for the project and the need for a flexible rate to respond to competition. Ms. Rice testified that propane may have many of the same benefits as natural gas, as indicated by the experience of GFG and/or its subsidiary, Rocky Mountain Fuels, in the acquisitions in 1991 and 1992 of bulk propane operations in Wyoming. In January 1993, GFG also purchased an underground propane system in Payson, Arizona, which is regulated by the Arizona Corporation Commission.

10. In evaluating expansion of service in the Great Falls area, GFG concluded that it would be unduly expensive to construct facilities and offer natural gas service to Cascade, Montana, according to Ms. Rice's testimony. Following GFG's Payson experience, GFG did cost and market studies and determined that it could offer reasonably priced propane gas service with a reasonable capital investment from GFG of $163,000. The project required five miles of underground mains, 240 service lines, meters and regulators (assuming 80% market penetration).

11. Ms. Rice informs the Commission that GFG will also operate a bulk propane operation and sell the propane to the utility with a $.08 per gallon storage fee. Because bulk

propane suppliers can compete to provide propane gas, GFG requests a flexible rate -- a band 25 percent up or down from the filed tariffs.

12. Mr. Hardin sponsored Exhibits LH-1through 3. LH-1 presents income statements for the first two projected years of the Cascade project; LH-2 presents the derivation of the proposed storage fee; and LH-3 presents the calculation of the sales rate. Mr. Hardin testified that the basis of the propane cost is the $.70 per gallon sales rate. The wholesale rate of $.45 that the bulk operation will charge the distribution operation includes $.31 product cost, $.06 for delivery and $.08 for storage. Projected salaries and benefits are allocated equally between bulk and distribution. GFG has applied the five factor method in allocating corporate overhead, using a capital structure of 45/55 percent to determine interest on debt. Mr. Hardin also testified on the need for rate flexibility to remain competitive.

13. The Commission finds that GFG's proposed rates for the propane system have a reasonable basis. GFG made a financial showing on February 13, 1995, demonstrating that the rates currently in effect are just and reasonable.

14. The Commission determines that this filing should be approved on a final basis. The Commission approves the Application for the flexible band of 25 percent up or down from the rates proposed as filed. When GFG requires rates within the band, it shall file documentation of the rates charged as supplements to the tariffs. GFG shall notify its

customers that its rates are regulated by the Commission and that there is the range, 25 percent up or down, that GFG may charge within the rate schedule.

## CONCLUSIONS OF LAW

1. The Montana Public Service Commission is responsible for the supervision, regulation, and control of public utilities pursuant to the provisions of Title 69. Section 69-3-102, MCA.

2. Great Falls Gas Company is a public utility subject to the Commission's jurisdiction. Section 69-3-101, MCA.

3. The propane service offered to the Town of Cascade is subject to the regulatory authority of the Commission.

4. Great Falls Gas Company is required to file with the Commission tariffs showing all rates, tolls and charges and all rules affecting rates to be charged. Section 69-3-301, MCA.

## ORDER

1. Great Falls Gas Company must file tariffs pursuant to the directives in this Order and shall supplement the tariff filings when a charge varies from the filed rates within the range of flexibility provided. Great Falls Gas Company is granted authority, on a final basis, to charge for propane gas service in Cascade, Montana.

2. The relief granted in this Order is to be effective immediately.

DONE IN OPEN SESSION at Helena, Montana this 21st day of November, 1995 by a 5-0 vote.

BY THE ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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NANCY McCAFFREE, Chair

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DAVE FISHER, Vice Chair

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BOB ANDERSON, Commissioner

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DANNY OBERG, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the PSC reconsider this decision. A motion to reconsider must be file within ten (10) days. See 38.2.4806, ARM.