Service Date: March 27, 1996

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

* * * * * * *

IN THE MATTER of the Application of GREAT FALLS GAS COMPANY for Authority to Decrease Rates Pursuant to its Gas Tracking Mechanism.	)))))	UTILITY DIVISION DOCKET NO. 95.6.29 FINAL ORDER NO. 5854b

FINDINGS OF FACT

1. On June 26, 1995, GFG (Applicant, GFG, Company), filed an application to decrease rates for natural gas service by $1,545,654 pursuant to the Gas Cost Tracking Mechanism (Gas Tracker) approved by the Commission in Docket No. 90.3.20, Order No. 5539c.

2. GFG proposed to spread the decrease in gas costs among its customers in the following manner:

Residential	($904,035)
Small General Service	($115,694)
Medium General Service	($206,263)
Large General Service	($182,431)
Extended General Service	($137,231)
Total	($1,545,654)

3. The tracker is designed to reflect changes in gas costs over a twelve month period. GFG is proposing a tracking period in this Docket which runs from July 1, 1995 through June 30, 1996.

4. This tracker uses the sales volumes approved in Docket No. 94.11.52 with the exclusion of Malmstrom AFB. Malmstrom requested distribution service of direct purchase supplies and GFG agreed to provide service on those terms. The distribution contract negotiated by GFG keeps the Company whole on the margin received on the sales tariff.

5. The transport demand and storage reservation charges shown on Exhibit LH-3 are exclusive of the charges associated with the service of Montana Refining and Malmstrom. Those charges are netted against GFG's gross distribution revenues and excluded from the core customer's gas costs.

6. Also shown on Exhibit LH-3 are cost decreases expected from renegotiations of the assigned Montana producer contracts next fall. The most significant item behind this sizeable decrease in gas costs was GFG's successful efforts to bring Shell Canada to the table one year early to negotiate more market sensitive pricing.

7. This tracker contains testimony from Lynn Hardin (Assistant Vice President for Gas Supply, Rates, and Special Projects for Energy West) on the subject of firm capacity. Mr. Hardin notes that both MPC and GFG wish to avoid any outages due to insufficient firm capacity, both up-stream and on-system. In Exhibit LH-6 Mr. Hardin presents two cases, one for the coldest day on GFG records (February 12, 1995) and one for February 2, 1989, MPC's last system stress day. Each case uses an MMBtu value per degree day calculated from heat sensitive use. Each case then uses that value to determine incremental use from the 74 degree days experienced on February 12, 1995. GFG would be much more comfortable using a physically experienced colder day, but there is none recent enough to reflect current load growth. Each case shows three peak use situations; 1) refinery curtailed and Malmstrom using coal, 2) refinery curtailed and Malmstrom without coal and 3) ultimate peak use with both fully supplied with gas. If GFG is careful to curtail the refinery and keeps good communication with Malmstrom, it can stay within its current firm capacity reserve of 43,488/d on MPC's pipeline.

8. On July 5, 1995, the Commission issued Interim Order No. 5854 in this Docket. That order authorized GFG to decrease rates for natural gas service by $1,545,654. In addition the Commission in Docket No. 94.11.52,

Final Order No. 5813a, ordered a reduction in base rates of $250,000. Thus, compliance tariffs reflected a total decrease in rates of $1,795,654 ($1,545,654 + $250,000).

9. On July 7, 1995, the Commission issued a Notice of Application and Intervention Deadline. The Notice had an intervention deadline of August 7, 1995.

10. On July 12, 1995, the Montana Consumer Counsel (MCC) filed a Petition for Intervention.

11. On July 27, 1995, the Montana Power Company (MPC) filed a Petition for Intervention.

12. On August 11, 1995, the Commission issued a Notice of Staff Action which granted intervention to MCC and MPC. Also on that date the Commission issued a Proposed Procedural Order.

13. On August 29, 1995, the Commission issued Procedural Order No. 5854a. The Procedural Order adopted the Proposed Procedural Order.

14. On December 26, 1995, MPC filed response testimony. MPC's witness was John Smith, who is Director of Gas Supply in the Gas Utility. MPC was concerned that GFG was understating its peak day market and was short of both gas supplies and contract firm transmission capacity to meet its peak requirements. If GFG underestimates its peak day requirements it underestimates both the amount of gas supplies and transmission capacity necessary to meet its load. By underestimating its peak gas supplies GFG erodes the security of supply MPC has planned for its own core customer supplies. According to Mr. Smith if GFG doesn't acknowledge accurate peak requirements and matching supplies, MPC can't accurately determine the adequacy of its transmission system to deliver such supplies.

15. Mr. Smith noted that GFG currently has a firm transmission (FT) Maximum Daily Delivery Quantity (MDDQ) 43,488 MMBTU's in its FT contract with MPC. The genesis of the 43,488 MMBTU was in Docket No. 90.1.1. In

that docket, MPC and GFG agreed to GFG's 1989 peak day requirement based on deliveries made during the February 2, 1989 peak day occurrence, adjusted for curtailments GFG said it had made on that day. MPC stated that GFG's MDDQ had not been updated since Docket No. 90.1.1. According to Mr. Smith this number should be adjusted annually to account for customer growth on the GFG system. MPC proposed that the MDDQ be increased to 45,744 MMBTU. This number was arrived at by adding customer growth since February 1989 to the February 1989 peak number. MPC calculated that through 1994, GFG has added 2,256 customers since February 1989. If one MMBTU of peak requirement is added for each additional customer, the updated peak requirement would be 45,744 MMBTU, the February 1989 peak plus growth of 2,256 MMBTU per day. MPC assumed that one MCF is roughly equivalent to one MMBTU. MPC stated that GFG should be required to contract for 45,750 MMBTU of FT capacity on MPC's system.

16. Mr. Smith went on in his testimony at page 5 to recommend that GFG include a 13 percent "Market Reserve" into its peak day model. That would increase GFG's total calculated peak supply requirement to 51,691 MMBTU. MPC stated that Market Reserve represents supply that is excess to the calculated peak requirement. This supply essentially "stands by" to make-up for reductions or failures in other gas supply sources during severe weather. MPC uses a 13 percent Market Reserve in its own planning.

17. Mr. Smith also discussed various GFG gas supply sources in his testimony. He stated that only 34,325 MMBTU of the 48,200 MMBTU listed on Mr. Hardin's Exhibit LH-6 were reliable firm supplies.

18. At the conclusion of his testimony, Mr. Smith recommended the Commission require GFG to: 1) Add to its peak gas supply sources in an amount of approximately 17,500 MMBTU per day and require that GFG have its production supplies delivering fully during the winter months; 2) Increase its transport contract on MPC to 45,750 MMBTU; 3) Update its peak/market

supply balance annually; and 4) Set in place a mechanism to adjust GFG's FT capacity up or down annually to correspond with changes in its customer count. However, if an actual occurrence of peak day weather indicates a peak market which GFG and MPC agree is more accurate, then the actual peak day market should set the FT MDDQ.

19. MCC did not file testimony in this Docket.

20. On February 20, 1996, MPC filed a Notice of Withdrawal from this Docket. MPC stated that during the recent cold spell in January, GFG had more than adequate supply on line. GFG also did not exceed its contractual limit of firm transmission capacity. GFG did not rely on MPC's supply or exceed its contractual commitments to the detriment of MPC's core customers. As a result, MPC stated that there would be nothing more to be gained from further participation in this Docket.

21. On February 28, 1996, the Commission issued a Notice of Staff Action Suspending Procedural Schedule. That Notice indicated that MPC had withdrawn from this Docket, and that the MCC had indicated that it did not require a hearing. The Notice indicated that the PSC intended to proceed to final order.

CONCLUSIONS OF LAW

1. Great Falls Gas offers regulated natural gas service in the state of Montana and is a public utility under MCA § 69-3-102.

2. The Montana Public Service Commission properly exercises jurisdiction over Great Falls Gas Company's Montana operations pursuant to Title 69, Chapter 3, MCA.

ORDER

1. This Order makes final the rates approved in Interim Order No. 5854.

2. Great Falls Gas must file tariffs in compliance with the Findings of Fact in this Final Order.

3. This Order is effective on execution.

DONE IN OPEN SESSION at Helena, Montana, this 18th day of March, 1996, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

Nancy McCaffree

NANCY McCAFFREE, Chair

Dave Fisher

DAVE FISHER, Vice Chair

Bob Anderson

BOB ANDERSON, Commissioner

Danny Oberg

DANNY OBERG, Commissioner

Bob Rowe

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson

Kathlene M. Anderson
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.