

Service Date: April 4, 2003

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)	UTILITY DIVISION
MONTANA-DAKOTA UTILITIES, CO.)	DOCKET NO. D2002.5.59
For Authority to Establish Increased Rates)	ORDER NO. 6424e
For Natural Gas Service in the State of Montana.)	

* * * * *

FINAL ORDER

FINDINGS OF FACT

1. On May 20, 2002, Montana-Dakota Utilities, Co. (MDU), a Division of MDU Resources Group, Inc., filed before the Public Service Commission (PSC) an application for authority to increase rates for natural gas service to customers in Montana. In its application MDU requests approval of a \$3,642,269 increase in annual revenues, \$2,085,110 on an interim basis.
2. The increase will affect approximately 70,752 natural gas customers in Montana. MDU states that the current cost of providing natural gas service to its Montana customers is not adequately reflected in MDU's currently authorized rates. Only non-gas costs or distribution costs are presented in MDU's filing. These non-gas or distribution costs include operation and maintenance expenses, depreciation, taxes, and a component for the opportunity to earn a return on the investments in facilities to provide natural gas services. The distribution costs are approximately 31 percent of a typical residential bill. MDU last filed for a change in distribution rates in 1995 (Docket No. D95.7.90).¹

¹ Order Nos. 5856b and 5856g.

3. The following table summarizes the interim increase requested by MDU, by customer class:

Montana-Dakota Utilities Co.		
Gas Utility Montana		
Docket D2002.5.59		
Interim Increase		
Class	Amount	% Increase
Residential	\$1,742,491	5.1%
Firm General	342,619	1.7%
Small Interruptible	0	0.0%
Large Interruptible	0	0.0%
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Total Montana	\$2,085,110	3.7%

4. The PSC approved interim relief in the amount requested by MDU on September 5, 2002. *Order No. 6424b.*
5. MDU has the following major rate classes: Residential (Rate 60); Firm General Service (Rates 70 and 72); Small Interruptible Sales (Rate 71) and Small Interruptible Transportation (Rate 81); and Large Interruptible Sales (Rate 85) and Large Interruptible Transportation (Rate 82). Because of lack of customer interest, MDU proposes to eliminate: Rate 62, seasonal rates for residential customers; Rate 84, Firm Gas Transportation Service; and Rate 90, Alternative Energy Based Interruptible Gas Service.
6. MDU proposes to replace the current rate elements that define how customers are billed for service with a new three part rate design. For example, for residential customers, instead of a basic service charge and a commodity charge with a gas tracking adjustment, MDU proposes the customer bill be divided into: (1) a Basic Service Charge; (2) a Distribution Delivery Charge; and (3) the Cost of Gas. Under the current tariff, residential customers (Rate 60) are charged a basic service charge of either \$5.00 per month or \$10.50 per month, depending on whether their meter is rated under or over 500 cubic feet per hour. MDU proposes that all Rate 60 customers be assessed an average monthly charge of \$11.25, eliminating the distinction between meter types due to the small number of meters rated over 500 cubic feet per hour. The balance of non-gas commodity costs, after collection of the Basic Service Charge, would be collected via the Distribution Delivery Charge, a charge assessed on a volumetric basis. For residential

customers this charge was proposed as \$1.134 per dekatherm. MDU argues that its proposed rate design would better match revenues with costs, reduce “intra-class subsidies,” and reduce the variability of revenue collection to MDU due to variance in usage, such as caused by persistent weather patterns.

7. MDU developed its marginal costs by major customer class and grouped these costs into three functional categories: (1) gas supply costs for the demand and commodity components of natural gas purchases and interstate pipeline transportation charges; (2) distribution-related costs; and (3) plant components needed to connect a customer to the utility gas distribution system and associated operation costs, customer service and information expenses, customer accounting service and sales expenses. After an adjustment to match its proposed revenue requirements, the marginal cost study provided the guide whereby MDU allocated its proposed revenue increases by rate class.
8. Some of the changes in the tariff terms and conditions proposed by MDU include an increase in the fee charged for checks returned for non-payment (from \$10.00 to \$20.00); an increase in the minimum reconnect fees for seasonal customers or disconnected customers from \$12.00 to \$30.00; a credit for firm customers for any pipeline related demand costs collected from interruptible sales customers via the Gas Cost Tracking Mechanism; and new charges for certain utility customer services not strictly related to the provision of utility service. MDU proposes revising the Firm Gas Extension policy (Rate 120 and 124) to reflect the MDU’s proposal to own all prospective service line installations and therefore not require a customer contribution if cost justified by expected connected load.
9. One intervener, the Montana Consumer Counsel (MCC) submitted testimony concerning MDU’s proposed permanent revenue increase. In its testimony the MCC opposes MDU’s proposed rate increase of \$3,643,960, instead concluding that the revenue increase should not be more than \$2,393,517. MCC proposes adjustments to MDU’s proposed test year revenues and expenses and challenges MDU’s proposed rate of return and cost of service studies. MCC proposes a different rate design from what MDU proposes and also disagrees with how MDU proposes the revenue deficiency be shared by customer classes.

10. On October 30, 2002, MDU filed with the PSC a stipulated agreement between itself and MCC for an amended interim order to become effective on November 15, 2002. MDU requests that the PSC not only approve the stipulated changes on an interim basis but after the completion of a contested case proceeding approve the stipulated changes in rates and tariffs on a final basis. MDU agrees to the stipulation because it believes without the stipulation final rates would not become effective during the 2002-2003 heating season. Because of increased costs it has experienced since the filing of its application, MDU states it will need to file a request for another increase in the rates in the spring of 2003.
11. MDU states, for settlement purposes, it will accept the agreed upon revenue deficiency proposed by MCC of \$2,393,517 and requests the PSC to increase the approved Interim Order amount by \$308,407. MDU proposes using Appendix 1 for allocation of the revenue deficiency. MDU states that allocation will result in a decrease to the residential class revenue requirement from the currently authorized interim rates of \$188,417. Thus the final net increase for residential customers will be 4.45 percent, not the 8.9 percent originally proposed by MDU.
12. The final increase for all customers will be 4.26 percent, rather than 6.5 percent as originally proposed by MDU. The final increase for firm general customers will be 3.85 percent. In its May 2002 filing MDU estimates that its proposed rates for small interruptible customers would result in a net decrease of 6.5 percent. For large interruptible customers MDU estimates that there would be no net change under its proposed rate structure. Based upon the estimates provided in the stipulation agreement, under the stipulated rate design, both small and large interruptible (IT) customers will see no net increase or decrease in average costs for sales or transportation.
13. MDU offered a change in rate design as reflected in the proposed tariffs as set forth in Appendix 2. This change would result in increases in the monthly base rate portion of rate design. The base rate for the typical residential customer would increase from its current \$5.00 level to \$6.25. An increase to the monthly base rate results in a small decrease in total monthly bills for the residential class during the winter heating season. The monthly bills for a typical residential customer are as set forth in Appendix 3. No

refunds or surcharges should be authorized because of the changes in interclass revenue set forth in the Stipulation Agreement.

14. Upon review, the PSC found, for interim purposes only, the proposed rate increases and changes in rate design, as shown in the Stipulation and Appendices to be fair, just and reasonable. *Order No. 6424d*
15. On December 6, 2002, a Stipulated Final Hearing was held in Billings, Montana. All parties were present and supported the Stipulation Agreement. No public witnesses appeared at the hearing.
16. Upon review the PSC determines the Stipulation Agreement to be fair, just and reasonable, with the following exceptions:
 - a) MDU's proposal to raise the reconnect fee for non-pay disconnects from the current rate of \$12 to \$30 should not apply to LIEAP customers. LIEAP customers should continue to be charged the \$12 fee. MDU has agreed with this.
 - b) MDU's proposal to discontinue its policy of providing several services at no charge should be modified regarding services related to pilot lights. For safety reasons pilot light services should be provided by MDU to customers at no charge at least two times per year per customer. Additional pilot light service (service in excess of two times per year for a customer) can be a chargeable service by MDU for all customers except LIEAP customers.

CONCLUSION OF LAW

1. MDU offers regulated natural gas service in the state of Montana and is a public utility under § 69-3-102, MCA.
2. The PSC properly exercises jurisdiction over MDU's rates and operations pursuant to Title 69, Chapter 3, MCA.
3. The rates approved in this Final Order are just and reasonable.

ORDER

1. MDU is authorized to implement all final revenue / rate changes as outlined in the Stipulation Agreement, dated October 30, 2002, with the exceptions noted above in paragraph 16 (a) and (b), above.

2. MDU shall file tariffs with the PSC in compliance with the Stipulation Agreement and this Final Order.
3. The rates which implement the Stipulation Agreement as approved in this Final Order will be effective for all services rendered on and after April 13, 2003.

Done and dated this 25th day of March, 2003, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ROWE, Chairman

THOMAS J. SCHNEIDER, Vice-Chairman

MATT BRAINARD, Commissioner

GREG JERGESON, Commissioner

JAY STOVALL, Commissioner

ATTEST:

Rhonda Simmons
Commission Secretary

(SEAL)

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

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

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PUBLIC SERVICE
COMMISSION

* * * * *

IN THE MATTER OF MONTANA-DAKOTA) UTILITY DIVISION D2002.5.59
UTILITIES CO., Application for Authority to)
Increase Rates and Amend Operating Rules) STIPULATION
Applicable to Natural Gas Services in its)
Montana Service Areas)
-----)

COMES NOW, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (Montana-Dakota) and the Montana Consumer Counsel (MCC) and agree and stipulate as follows:

1. On May 17, 2002, Montana-Dakota filed with the Commission an Application for authority to implement a general rate increase in the rates it is authorized to charge for natural gas service in Montana. The requested rate increase, if granted in its entirety, would raise an additional \$3,642,269 in annual revenues. The Application was denominated PSC Docket D2002.5.59.

2. The MCC intervened in the docket, opposing a rate increase of the magnitude requested by Montana-Dakota, the manner in which Montana-Dakota proposed to allocate its revenue deficiency between customer classes, and the manner in which Montana-Dakota proposed to design the final authorized rates established in this docket.

3. The pre-filed testimony of the MCC expert witnesses was filed in this docket on August 19, 2002. In that pre-filed testimony, the MCC contends that Montana-Dakota has a revenue deficiency in the rates it is currently authorized to charge its Montana customers for natural gas service of only \$2,393,517. Additionally, the MCC has proposed an alternative allocation of the revenue deficiency between customer classes and alternative rate design to that proposed by Montana-Dakota in its Application in this

docket.

4. The MCC developed revenue requirement in this case utilized a weighted cost of capital of 9.79%, including a cost of equity of 10.75%. Montana-Dakota contests the validity and the adequacy of the MCC developed cost of capital in this docket. In addition, the MCC has proposed other adjustments to the Montana-Dakota revenue requirement in this case which Montana-Dakota contends are improper, and in one case unlawful.

5. At the time it filed its application in this docket, Montana-Dakota requested interim rate relief in the amount of \$2,085,110, on an annual basis. On September 9, 2002, after the MCC's expert witnesses determined that Montana-Dakota had a revenue deficiency in its Montana gas rates greater than the Montana-Dakota request for interim rate relief, the Commission granted the requested interim rate increase.

6. Montana-Dakota has determined that because of increased costs it has experienced since the filing of its application in this docket, it will, in all likelihood, need to file in the spring of 2003 a request for another modest increase in the rates it is authorized to charge its Montana customers for natural gas service. It believes that the final rates established in this docket will not likely be in effect during the 2003-2004 winter heating season. Accordingly, Montana-Dakota believes that its financial ability to provide safe and adequate natural gas service to its Montana customers would be best served by its entry into the settlement agreement set forth in this Stipulation.

7. For settlement purposes, a fair and equitable resolution of the issues between Montana-Dakota and the MCC, one which would result in the establishment of just and reasonable rates, would be as follows:

A. Montana-Dakota should be authorized, on an interim basis, to increase the rates it is currently authorized to charge for natural gas service in

Montana under Interim Order 6424b by an additional \$308,407, effective for bills rendered on and after November 15, 2002.

B. Montana-Dakota should be authorized, on a final basis, to charge the rates established as interim rates pursuant to Paragraph 7A, that is a final general rate increase in the amount of the revenue deficiency conceded by the MCC in this docket, \$2,393,517.

C. Both the interim rates established pursuant to Paragraph 7A, and the final rates established pursuant to Paragraph 7B, should use the allocation of the revenue deficiency proposed in Appendix 1. That allocation, if adopted by the Commission, will result in a decrease to the residential class revenue requirement from the currently authorized interim rates, as set forth in Appendix 1.

D. Both the interim rates established pursuant to Paragraph 7A, and the final rates established pursuant to Paragraph 7B, should use the rate design reflected in the proposed tariffs set forth in Appendix 2. That rate design, if adopted by the Commission, will result in increases in the monthly base rate portion of the rate design, as set forth in the proposed tariffs in Appendix 2. For example, the base rate for the typical residential customer would increase from its current \$5.00 level to \$6.25. An increase to the monthly base rate results in a small decrease in total monthly bills for the residential class during the winter heating season. The monthly bills for a typical residential customer are as set forth in Appendix 3.

E. No refunds or surcharges should be authorized because of the changes in interclass revenue requirement set forth in this Stipulation.

8. For Montana-Dakota, an essential component of this Stipulation is the

additional interim rate relief specified in Paragraph 7A, effective for bills rendered on and after November 15, 2002. If the Commission decides not to authorize the additional interim rate relief specified in Paragraph 7A for bills rendered on and after November 15, 2002, then neither Montana-Dakota nor the MCC is bound by this Stipulation, or any provision in it.

9. The Commission should be moved, in its discretion, to authorize the additional interim rate relief specified in Paragraph 7A, as such authorization would not obligate or bind the Commission to adopt this Stipulation in its final order, entered after completion of the contested case proceedings in this docket.

10. The Commission, after the completion of contested case proceedings in this docket, should be moved in its discretion to issue a final order approving, adopting, and implementing the terms of this Stipulation, authorizing as final rates the tariffs set forth in Appendix 2.

11. The parties to this Stipulation present it to the Commission as a reasonable settlement of the issues raised in this docket. Neither party's position in this docket is accepted by the other party by virtue of their entry into this Stipulation, nor does it indicate their acceptance, agreement, or concession to any rate making principle, cost of service determination, or legal principle embodied, or arguably embodied, in this Stipulation.

12. The various provisions of this Stipulation are inseparable from the whole of the agreement between the parties to the Stipulation. The reasonableness of the proposed settlement set forth in this Stipulation is critically dependent upon its adoption, in its entirety, by the Commission. If the Commission decides not to adopt, in its entirety, the proposed settlement set forth in this Stipulation, then the entire Stipulation is null and void, no party to the Stipulation is bound by any provision of it, and it shall have no force

or effect whatsoever.

Respectfully submitted October 30, 2002.

MONTANA CONSUMER COUNSEL

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ATTORNEYS FOR MONTANA DAKOTA

CERTIFICATE OF SERVICE BY MAIL

I HEREBY CERTIFY that a copy of the foregoing STIPULATION was served upon the following by mailing a true and correct copy thereof on October 30, 2002, addressed as follows:

MONTANA COALITION AGAINST UNFAIR UTILITY COMPETITION
ATTENTION: JAMES F. LECHNER
PO BOX 671
BILLINGS MT 59103

John Alke
John Alke