

Service Date: April 12, 2013

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

IN THE MATTER OF THE APPLICATION)	REGULATORY DIVISION
of MONTANA-DAKOTA UTILITIES CO.,)	
a Division of MDU Resources Group, Inc.,)	DOCKET NO. D2012.9.100
for Authority to Establish Increased Rates for)	
Natural Gas Service)	ORDER NO. 7254a

INTERIM ORDER

PROCEDURAL HISTORY

1. On September 26, 2012, Montana-Dakota Utilities Co. (MDU), filed its Application for Approval for Authority to Establish Increased Natural Gas Delivery Service Rates and Allocated Cost of Service and Rate Design (Application) with the Montana Public Service Commission (Commission or MPSC), seeking approval of increased natural gas delivery service rates for its Montana customers. MDU's proposed rates would provide an additional \$3,457,412 of annual revenue, a 5.9 percent overall increase. For residential customers the impact on the distribution portion of the bill would be a 7.9 percent increase in rates.

2. In its Application, MDU sought an interim increase of \$1,686,422, or a 2.92 percent increase in annual revenues, and a corresponding interim general rate increase in its natural gas delivery base rates. The Application also included a Notice of Interim Rate Adjustment Request and Certificate of Service of Notice of Interim Rate Adjustment for Natural Gas Delivery Service Rates.

3. The Commission issued Procedural Order 7254 on November 21, 2012.

4. Intervenor testimony has been submitted by the sole intervenor, Montana Consumer Counsel (MCC).

DISCUSSION AND FINDINGS OF FACT

5. The Commission accepts MDU's proposed interim adjustments, except for those discussed and altered below and throughout the remainder of this Interim Order. All

Commission adjustments are made to MDU's proposed pro forma interim revenues, expenses, and rate base. The Commission makes the following adjustments to MDU's proposed interim rate relief of \$1,686,422.

Revenue Adjustments

6. MCC proposed an adjustment that reduces the test period late payment revenues by \$1,356 and increases the penalty revenue by \$3,810. These amounts use an average that runs from January 2009 through October 2012 which updates the latest known information.

7. In its response to data requests MCC-131, MCC-033, and MCC-030, MDU acknowledged a mistake in the company's post-retirement benefits of \$44,667, a mistake in its pro forma advertising expense account of \$9,513, and an increase to the depreciation expense account associated with vehicle and work equipment of \$9,415.

8. An adjustment of \$4,236 is made to decrease the differential cost of the meeting that took place in Palm Springs, California, associated with the board of directors meetings for 2011 by \$4,236. The Commission has approved this same adjustment in prior MDU rate cases.

9. An adjustment associated with the MPSC/MCC taxes has been made to reflect the latest known rates for both taxes. The MPSC tax increases while the MCC tax decreases. The net effect is a reduction to MDU's test year expense of \$11,793.

10. The company's Work Papers at page G-100 indicate an expected reduction in postage expense for the Montana gas operations for 2012 as compared to 2011. MCC stated that a handwritten note on the work paper indicates that the company opted not to make the adjustment. MCC proposed an adjustment reflecting the information from that note that will reduce the postage expense by \$7,919. This amount is adjusted to reflect the Montana portion to \$1,961.

11. MCC contested the amortization period over which gains and losses on the disposition of property is recognized for ratemaking purposes. MDU chose a five-year amortization period. MCC proposes to use a three-year amortization period. As a result of using the MCC's recommendation, an adjustment in the amount of \$15,173 is made to increase test year revenues associated with the gain/loss on the disposition of property.

12. MCC contested a 4.742 percent increase in 2012 labor expense used by MDU. MCC believes a 3.693 percent is more appropriate because it excludes the impact of the

severance payment made in 2009 and then amortized over three years. As a result of the MCC's recommendation, an adjustment to decrease test year labor expense in the amount of \$69,920 was made. There are two other adjustments associated with the change in labor expense: workers compensation expense is reduced by \$614 and labor-related taxes are reduced by \$5,277.

Rate Base Adjustments

13. MDU used a 13-month average ending June 2012 for prepaid insurance, prepaid demand/commodity charge and the material and supplies. More current information is available now using a 13-month average ending October 2012. The resulting adjustments increase prepaid insurance by \$3,738, increase prepaid demand/commodity charge by \$145,755, and increase the material and supplies by \$86,850.

14. MCC contested MDU's proposal to include the full investment and operating costs of the Billings Landfill project in base rates at this time. MCC contended the resulting unit cost is out of market and the cost of the project is too high. The project investment has been removed from the company's rate base; therefore, a reduction to rate base in the amount of \$2,700,919 has been made. With the removal of the Billings Landfill project, investment cost adjustments must also be made to remove the operating costs associated with the Billings Landfill project. Operation and Maintenance (O&M) expenses have been reduced by \$197,729, depreciation expense has been reduced by \$103,537, and taxes other than income taxes have been reduced by \$68,176.

15. MDU is presently authorized to receive a return on equity (ROE) of 12 percent, the last return authorized by the Commission.¹ However, MDU has filed this general case requesting a reduced ROE of 10.50 percent. Furthermore, in MDU's interim request the utility has asked for a reduced ROE of 10.50 percent. ARM 38.5.506(2)(b) provides that the Commission will use a utility's last authorized ROE for interim purposes, but also provides that the Commission may modify that approach if it deems it appropriate. It is appropriate to use MDU's requested ROE of 10.50 percent for interim purposes. Granting the lower ROE for the interim request should in no way set precedent for future Commission interim decisions and should be viewed as an exception to the rule and an attempt to match the interim amount to

¹ Docket No. D95.7.90, Order No. 5856b, ¶27

MDU's lower requested ROE in this case. MDU's requested capital structure and ROE are acceptable for interim purposes. Based on that capital structure, the overall rate of return for MDU for purposes of interim relief is calculated to be 8.489 percent.

16. Making the above adjustments requires that interest calculations be synchronized. The effect of this interest synchronization is an increase of \$23,195.

Net Effect of Adjustments

17. The net effect of the adjustments results in an interim rate increase of \$850,620. This increase is reasonable and is based on consistent standards appropriate for the nature of this case.

18. This interim rate will result in an increase of 1.55 percent for residential customers using 10 dkt per month of natural gas, or \$0.91 per month.

CONCLUSIONS OF LAW

19. The Commission has full power of supervision, regulation, and control of public utilities. § 69-3-201, MCA.

20. A "public utility" includes a private corporation "that owns, operates, or controls any plant or equipment. . . for the production, delivery, or furnishing" of power to other persons. *Id.* at § 69-3-101. As a private corporation that provides natural gas service within the State of Montana, MDU is a "public utility."

21. As a public utility, MDU is required to furnish reasonably adequate service at just and reasonable rates. *Id.* at § 69-3-201 ("every unjust and unreasonable charge is prohibited and declared unlawful.").

22. Every public utility must file schedules with the Commission showing "all rates, tolls, and charges which it has established and which are in force at the time for any service performed by it within the state or for any service in connection therewith. . . ." *Id.* at § 69-3-301(1).

23. Other than rate schedules that adjust certain state and local taxes and fees, a public utility may not change any rate schedule except as approved by the Commission or upon the passage of 9 months. *Id.* at § 69-3-302.

24. Before the Commission approves a rate increase, “or before any change may become effective due to the passage of 9 months,” the Commission must provide notice of the proposed change and announce a hearing on the matter. *Id.* at § 69-3-303(1).

25. In a permanent rate case proceeding, the Commission may temporarily approve a rate change (known as an “interim rate”) pending a hearing or final decision. *Id.* at § 69-3-304; Admin. R. Mont. 38.5.501–502. An interim rate change “shall be based upon consistent standards appropriate for the nature of the case pending.” § 69-3-304, MCA.

26. “Consideration of an application to increase rates on an interim basis in a general rate increase proceeding will be guided by generally established principles of utility rate regulation.” ARM 38.5.506.

27. A utility must issue specific notice of an application for interim rate increase, which “shall only be deemed filed when all prefiled direct testimony and exhibits supporting the general rate increase request have been submitted.” ARM 38.5.505. These requirements have been met in this proceeding.

28. If the rates approved in a final order represent an increase or decrease from interim rates, the Commission may order a rebate or surcharge for the appropriate amount retroactive to the date of the temporary approval. § 69-3-304, MCA. Consequently, temporary approval of rates does not constitute final endorsement by the Commission of any issues, calculations, or methodologies in this proceeding. If the Commission ultimately orders a rebate or surcharge, it “shall order interest to be paid on [the] rebate or surcharge as determined by the commission.” *Id.* These rebate provisions protect MDU and its customers until the Commission issues a final order in this proceeding.

29. The revenues approved in this Interim Order are reasonable for interim purposes in light of the intervenor testimony and prior Commission decisions.

ORDER

IT IS HEREBY ORDERED THAT:

30. MDU is authorized to collect on an interim basis an additional \$850,620 annually in natural gas delivery revenues as an equal percentage increase to all retail rates and charges with the following modification: All base rates that are increased by an equal percentage

increase must be rounded to the nearest nickel, as necessary, with the revenue difference (gain or loss in the aggregate) recovered from all charges other than base rates.

31. MDU shall adhere to and abide by all provisions included in this Interim Order. All rate schedules shall comply with all determinations set forth in this Interim Order.

32. MDU must file tariffs in compliance with this Interim Order.

33. Nothing in this Interim Order precludes the Commission from adopting in a subsequent Interim Order or Final Order that differs from that approved in this Interim Order.

34. If the Final Order in this Docket approves a revenue requirement which is lower than the revenue requirement approved in the Interim Order, the difference will be rebated to customers with interest at 10.50 percent.

35. These rates are effective for service rendered on or after April 15, 2013.

DONE AND DATED this 11th day of April 2013 by a vote of 4 to 1 to approve the interim order as written, Commissioner Kavulla concurring in part and dissenting in part.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

W. A. GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner
(Concurring in part and dissenting in part)

ROGER KOOPMAN, Commissioner

ATTEST:

Aleisha Solem
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.