Service Date: April 8, 1997

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

* * * * * * *

IN THE MATTER of the Application	)	UTILITY DIVISION
of GREAT FALLS GAS COMPANY	)	DOCKET NO. D96.7.123
for Authority to Increase Rates and	)	FINAL ORDER NO. 5933b
Charges for Natural Gas Service.	)	

Final Order

APPEARANCES

FOR THE APPLICANT:

John C. Allen, Esq., Great Falls Gas Company, No. 1 First Avenue South, Great Falls, Montana 59403-2229

FOR THE MONTANA CONSUMER COUNSEL:

Mary Wright, Esq., Staff Attorney, Montana Consumer Counsel, 34 West Sixth Avenue, P.O. Box 201703, Helena, Montana 59620-1703

FOR THE COMMISSION:

Martin Jacobson, Staff Attorney
Eric N. Eck, Chief Revenue Requirement Bureau
Scott L. Fabel, Rate Analyst, Revenue Requirements Bureau
1701 Prospect Avenue, P.O. Box 202601, Helena, Montana 59620-2601

BEFORE:

Nancy McCaffree, Vice Chair
Bob Anderson, Commissioner, presiding over the hearing
Bob Rowe, Commissioner

Background

1. On June 19, 1996, Great Falls Gas Company (GFG or Company) filed its annual gas cost tracker with the Montana Public Service Commission (Commission) seeking authority to increase rates for natural gas service by $385,906. The filing was assigned Docket No. D96.6.108. GFG indicated that if the traditional gas tracker accounting was used the increase in the gas tracker would be $1,249,479. In its filing GFG included an adjustment crediting the gas tracker balance with a corresponding debit to Storage Gas Inventory. The adjustment of $863,573 was the result of re-valuing storage gas at the Gas Cost Tracker Rate instead of using the current commodity cost only method. The current method values monthly storage activity at the monthly average commodity cost only which can vary significantly from month to month, and it leaves all the non-commodity gas costs to flow into the tracker account, making the gas tracker balance volatile. GFG stated that Energy West Inc.'s Wyoming utility, Cody Gas Company, has Wyoming PSC approval to value its storage inventory at its gas tracker rate (GFG is a division of Energy West).

2. GFG indicated that it would be requesting a "look-forward" treatment of storage inventory. In the current tracker period storage inventory was kept at lower than normal levels. The planned on-system firm capacity supplies listed in the last tracker were acquired by Montana Power Company (MPC). This left GFG no redundancy in upstream firm capacity along with uncertainty about peak day requirements. GFG contracted for additional on-system firm supplies as they became available. The rate impact is approximately $.02 per Mcf as a result of the higher rate base.

3. Two major items resulted in GFG under-recovering gas costs in the last tracking period. GFG significantly underestimated the price required to settle renegotiations of its assigned contracts and the prices required to procure other gas on MPC's system. GFG believes it achieved through settlement prices equal to the lowest prices that would have resulted from arbitration. The second item contributing to GFG's under-recovery was the extensive testing that GFG and MPC did of the Blaine County #3 firm receipt point. During the testing GFG purchased expensive peaking gas at high daily spot prices. Because of this experience, GFG has

determined that it would be much more cost-effective to store peaking gas upstream from Blaine County #3 rather than to purchase daily spot priced gas. The additional storage is incorporated in the current gas tracker.

4. GFG believes that the Company needs to have 51,000 MMBtu/day of upstream firm capacity if it is to maintain a 13 percent market reserve with all curtailables included. Last summer, GFG requested that MPC begin accepting up to 30,000 MMBtu/day for Energy West's account on a firm basis from Blaine County #3. This matter remains unresolved and GFG and the other concerned parties are working towards agreements. GFG feels that the Blaine County #3 line should be used to its full capacity and that it should be developed as a firm peaking service.

5. In the past GFG has planned its peak day requirements based on the February 2, 1989, peak day. January 29, 1996, came within 4 degree days of matching the February 2, 1989, peak day. From an analysis of this recent experience, GFG is comfortable that its peak day requirements have not increased and that its current firm capacity reservation on MPC's system is more than sufficient.

6. On July 8, 1996, GFG filed a general rate application which requested an increase in annual revenues for natural gas service of $962,773. The filing was assigned Docket No. D96.7.123. In the application GFG requested a return on equity of 13.0 percent. The filing included a request to increase the No Interest Loan surcharge from $.0423 per Mcf to $.0838 per Mcf. The Company also requested that the maximum amount of these loans be increased from $1,500 (set in 1981) to $2,000 to reflect the increases in the cost of materials and labor for installation of conservation equipment and measures since 1981. GFG did not propose any change to the Furnace Efficiency surcharge of $.0078 per Mcf. The application also requested revisions to the Company's transportation tariffs.

7. On July 11, 1996, the Commission issued a Notice of Application and Intervention Deadline. The intervention deadline was August 1, 1996.

8. On July 23, 1996, the Montana Consumer Counsel (MCC) filed a Petition for General Intervention in order to represent the interests of the consuming public.

9. On July 25, 1996, the Commission approved Procedural Order No. 5933. That order established a hearing date of January 7, 1996.

10. On August 1, 1996, the Montana Department of Public Health and Human Services (HHS) requested intervention in this Docket to represent the interests of low income consumers.

11. On August 7, 1996, the Commission issued a Notice of Commission Action which established August 23, 1996, as the final day for written discovery from intervenors to GFG on its applications and prefiled testimony. The Commission on August 7, 1996, issued a Notice of Commission Action which consolidated Docket D96.6.108 into Docket No. D96.7.123. On August 7, 1996, the Commission issued a Notice of Staff Action which granted intervention to MCC and HHS.

12. On September 18, 1996, HHS filed its testimony in this Docket.

13. On September 20, 1996, MCC filed its testimony in this case recommending that GFG be permitted a revenue increase of $37,392. The return on equity included in the MCC testimony was 10.5 percent.

14. On October 21, 1996, GFG filed its rebuttal testimony in this Docket.

15. On October 24, 1996, GFG and MCC filed a stipulation in Docket No. D96.7.123 with the Commission. The parties agreed that excluding the impact of cost of capital adjustments, GFG requires a revenue increase in the amount of $179,118 in order to achieve a return on rate base of 9.56 percent, which is equivalent to the MCC recommended return. The 9.56 percent overall rate of return has a return on equity of 10.5 percent. If the stipulated revenue requirement were based on an overall rate of return of 10.50 percent (using a return on equity of 11.5 percent from the last case) the amount of the required increase would be $274,435. The stipulation is based on sales volumes of 4,129,919 Mcf. The rate base used in the stipulation was $11,627,050.

16. In the stipulation the parties found that the No Interest Loan Program (NIP) will be re-evaluated by MCC and GFG to ascertain what the proper goals of the program should be as well as whether or not the program, as it exists, is the appropriate mechanism to meet those goals; and that during the evaluation the NIP surcharge should be increased to $.0718 per Mcf.

This surcharge is computed based on sales volumes of 4,646,698 Mcf. During the evaluation period the number of loans will be limited to 525, at no more than $1,500 per loan. GFG and MCC will collaborate in evaluating the program. At the end of the evaluation the parties will prepare and submit a report on the program to the Commission.

17. MCC and GFG agreed that the costs associated with expert witnesses and consultants associated with this Docket, MPC Docket No. D96.2.22, and the soon-to-be filed GFG rate design/restructuring case should be accumulated in an account which is collected through a surcharge on all volumes sold or transported, using a three-year amortization period until all such costs are fully recovered.

18. GFG and MCC agreed that GFG's proposed transportation tariffs should be adopted by the Commission, but that they should be modified to include the provision than any over or under recoveries of gas costs that would have been applicable to the customer as a full service customer of the utility should be recovered by that same customer if the customer elects to be served under the transportation tariff.

19. On November 4, 1996, by a vote of 5-0, the Commission approved Interim Order No. 5933a which authorized GFG to increase base rates by $274,435. That increase included an ROE of 11.5 percent. That order also authorized a gas tracker interim increase of $385,906. That interim gas tracking increase was applied to all customer classes as a surcharge of $.0949 per Mcf with the exception of transportation customers.

20. On December 11,1996, the Commission issued a Notice of Public Hearing. That Notice indicated that a public hearing would be held at the Great Falls Senior Citizens Center, 1004 Central Ave in Great Falls, January 7, 1997, commencing at 10:00 a.m.

21. On December 17, 1996, MCC filed its prehearing memorandum.

22. On January 6, 1997, GFG filed its prehearing memorandum.

23. On January 7, 1997, a quorum of the Commission held a public hearing in Great Falls at the Senior Citizens Center. During the hearing witnesses for GFG, a witness for MCC, and a witness for HHS testified on the contested issues which remained after the stipulation was filed.

24. The contested issues were the capital structure of GFG (primarily treatment of short term debt), return on equity (ROE), and funding a low income discount.

25. The only contested issue regarding the debt component of GFG's capital structure is the proper rate treatment of GFG's use of short term debt. GFG bases its capital structure on the weighted average cost of each of the sources of long-term capital (i.e., debt, preferred stock and common equity) and did not include any short-term debt. The embedded long-term debt cost of 8.69 percent was based on debt which GFG currently has outstanding. GFG states short-term debt is not a form of permanent financing and it is an inappropriate measure of the capital cost associated with financing GFG's fixed assets. GFG's witness Dr. Gaske proposed the following capital structure:

	Capitalization Amount	Percent	Cost	Rate of Return
Long-term Debt	$ 10,370,000	47.476%	8.69%	4.126%
Common Equity	11,472,655	52.524%	13.00%	6.828%
Total	$ 21,842,655	100.000%		10.954%

MCC's witness Mr. Hill stated that GFG uses and thus should include short-term debt in its capital structure. Because GFG is incurring and recording capital expenses associated with short-term debt, it is reasonable to recognize it in the capital structure in order to develop cost-based rates. Mr. Hill recommended that short-term debt be included in GFG's capital structure at 5 percent of total capital. This level of short-term debt represents an average level for the gas distribution utility industry. MCC proposed the following capital structure:

	Capitalization Amount	Percent	Cost	Rate of Return
Short-term Debt	$ 1,150,926	5.00%	8.00%	.40%
Long-term Debt	10,394,938	45.16%	8.69%	3.93%
Common Equity	11,472,655	49.84%	10.50%	5.23%
Total	$ 23,018,519	100.00%		9.56%

26. GFG requested a 13 percent ROE based on the analysis and testimony of Dr. Gaske. MCC proposed a ROE of 10.5 percent based on the analysis and testimony of

Mr. Hill. Both witnesses relied on a Discounted Cash Flow (DCF) analysis in reaching their respective conclusions. The major difference in the witnesses' proposals relate to the derivation of the growth rates used in the DCF formula, small company premium, and the treatment of flotation costs. The following shows the development of the ROE as proposed by the parties:

	GFG		**MCC**	
Dividend yield	5.40%	5.40%	5.64%	
Quarterly dividend yield adjustment	.15%	.18%	-0-	
Expected growth	4.50%	5.50%	4.65%	
Small company premium	1.00%	2.00%	-0-	
Investor required return	11.05%	13.08%	10.29%	
Flotation costs	.99%	1.18%	-0-	
Return Requirement	12.04%	14.26%	10.29%	
Recommended Range	12.00%	14.30%	10.25%	10.50%
Recommended ROE		13.00%		10.50%

27. Dr. Gaske used Institutional Brokers Estimate System Forecasts (IBES), historical growth, and retention rates to calculate the range for the growth rate of the eight large gas distribution companies he used as a benchmark for GFG. Mr. Hill calculated the future growth rates by: 1) considering the dividend a growing perpetuity, that is, a payment to the stockholder which grows at a constant rate indefinitely, and 2) calculating the present value of that perpetuity. Each witness criticized the other's development of growth rates.

28. GFG believes that a flotation cost adjustment is necessary to compensate common equity investors for past flotation costs by recognizing that their real investment in the company exceeds the equity portion of the rate base by the amount of past flotation costs. MCC opposes inclusion of a flotation cost adjustment in the ROE for several reasons. The most compelling is MCC's assertion that GFG has incurred no costs because it has not issued stock in the past several years and has no plans to issue new shares in the near future. To MCC, since GFG has not issued stock in the recent past, nor does it contemplate an issue, GFG has no prospect of incurring the cost.

29. GFG states it has greater business risks than any of the other companies in the comparison group, in part because GFG serves a small market relative to the size of the utilities

in the comparison group. For example, GFG's annual operating revenues were only $17 million in 1995. With a revenue base this small, GFG is subject to significantly greater risk that a major employer or industry might experience a downturn, that would significantly affect overall employment and income in the area served. GFG is unusually susceptible to such risk since Malmstrom Air Force Base represents approximately one-third of the Great Falls economy. In regards to the possibility of the closure of Malmstrom Air Force Base, MCC witness Mr. Hill stated, "While it is true that the closure of that base would be a significant blow to the Great Falls economy and cause the Company to seek rate relief from the Commission, the Company witness has provided no assessment of the probability of such an occurrence." For business risk GFG stated that major customers of GFG are located close to transmission facilities owned by Montana Power Company (MPC) and a relatively short new pipeline could attach significant portions of GFG's existing load. For these reasons, GFG has a greater business risk than any of the companies in the comparison group. MCC believes that the business risk for bypass in the gas distribution industry is with the industrial class, and except for Montana Refinery, which is situated near one of its city gates, GFG does not appear to face any serious bypass threat.

30. In its brief GFG states that it should be rewarded in the rate of return calculation for good management. GFG stated it played a significant role in obtaining open access on the MPC system and has achieved savings of 8.5 million dollars for its customers as a result of open access. It has also held other costs down and allocated costs previously absorbed by Great Falls ratepayers to its regulated divisions in other cities and states as well as to its non-regulated entities. Ms. Rice estimates this activity to have saved Great Falls ratepayers $450,000 in the test year. This activity has allowed GFG customers to enjoy the lowest cost for their natural gas of any utility in the state. MCC believes GFG has not properly or timely raised the issue of quality management as grounds to increase the equity award, nor established in the record that the quality of its management justifies an incremental reward above the appropriate market-determined cost of equity capital. MCC stated in its answer brief that none of the GFG's witness ever mentioned that good management practices should be the basis in this Docket for an equity award bonus. MCC has had no notice of this issue, and no opportunity to conduct discovery or develop testimony on it. Because of this lack of notice, the Company's ratepayers are put in the

unfair position of not having the opportunity to inquire into the Company's claim, potentially to their financial detriment. For this reason alone the Commission should reject this request for a good management bonus.

31. The Department of Public Health and Human Services (HHS) proposed a 20 percent average effective LIEAP rate discount to be covered through a uniform percentage increase to all approved tariffs. HHS witness Thomas J. Schneider discussed the LIEAP program. Mr. Schneider stated that the LIEAP funding has been reduced in recent years. The block grant allotted for Montana was $8.03 million in fiscal year 1995 as compared to $6.59 million in fiscal year 1996. These benefits were further slashed in 1996 to $4.3 million. In the HHS proposal the recipients of the discount would be divided into 13 categories based on household income as a percentage of poverty. Those recipients with the lowest household income as a percentage of poverty, which would put them in the highest poverty level, would receive the greater discount. GFG feels that a 5 percent average effective LIEAP rate discount is more appropriate and that 3 to 4 categories are more manageable then the 13 categories as proposed by HHS.

Commission Decisions

Gas Tracker

32. After a review of the gas tracker filing the Commission approves the increase in gas costs of $385,906 as filed by GFG. This will result in a gas tracker surcharge of $.0949 per Mcf based on sales volumes of 4,067,000 Mcf. According to the cover letter which was attached to the stipulation filed October 24, 1996, GFG indicated that MCC had no objection to the proposed gas tracker surcharge. The gas tracking period approved in this Order ends on June 30, 1997. The Commission finds that the accounting change proposed by GFG, to re-value storage inventory at the Gas Cost Tracker Rate is appropriate because it will result in lower volatility than the current method of accounting for storage at commodity costs only. In approving this tracker, the Commission is accepting GFG's position on the renegotiations of its assigned contracts. GFG in future gas tracker filings will be expected to demonstrate that the prices from each of the assigned contracts is reasonable given contract requirements as well as natural gas market prices. Also, the Commission in approving this Order does not establish precedent for approval of prepaid gas amounts to be included in rate base.

NIP Loan Program

33. The Commission finds that the NIP Loan Program has cumulative unrecovered costs of $333,578. In order for GFG to recover these costs over sales and transportation volumes of 4,464,698 Mcf the Commission approves an increase in the NIP Loan surcharge from $.0423 per Mcf to $.0718 per Mcf. Those volumes include:

Great Falls Gas	4,129,919
Great Falls Gas-Transportation	456,683
Cascade Gas (7/95-6/96)	8,792
West Yellowstone Gas (7/95-6/96)	51,304
TOTAL	4,646,698

This increase is necessary to allow the recovery of the costs associated with the program. The increase represents a 70 percent increase over the existing surcharge. Given the large magnitude of this increase, the Commission agrees with the parties that it is proper to re-evaluate the NIP Loan Program. The new surcharge of $.0718 per Mcf will remain in effect until the evaluation is completed and a report is filed with the Commission. After reviewing the report, the Commission will re-evaluate the surcharge.

Transportation Tariffs

34. In its general rate case filing, GFG proposed distribution transportation tariffs. As requested by the parties in their stipulation, the Commission approves the proposed transportation tariffs. When filing these tariffs, GFG must include a summer/winter differential and must include the provision that any over or under recoveries of gas costs that would have been applicable to the customer as a full service customer of the utility should be recovered by that same customer if the customer elects to be served under the transportation tariff.

Capital Structure

35. It does not appear that GFG is using short-term debt as a form of permanent capital for the company. In Data Response MCC-8, GFG provided data showing that Energy West had completely paid off its short-term debt and that its short-term debt balance was zero on May 24, 1995, which was within the test period. The Commission approves the capital structure as proposed by GFG consisting of 52.524 percent common equity and 47.476 percent long-term debt. Using lower-cost debt, such as short-term debt, rather than common equity or long-term debt can reduce the actual capital cost incurred below those allowed in the rates. In the future, if GFG uses short-term debt as a form of permanent financing, its capital structure for rate making may need to include short-term debt.

Future Growth Rate

36. In review of the two parties calculations of the growth rate for the Company, it is the Commission’s view that neither party presented arguments that would strongly influence adopting one party’s opinion over the other’s. The Commission exercises its own discretion in determining a reasonable growth rate to be included in the ROE calculation.

Flotation Costs

37. Dr. Gaske's argument that GFG's shareholders should be protected from dilution of the book value of their common equity when, and if, new common stock is issued is a matter of timing, not a ratepayer responsibility. It is management's responsibility to determine the timing of the issuance of new shares. If management decides to issue new shares of common equity it is management's responsibility to issue those shares during favorable market conditions. If management fails to discharge this obligation and issues new common stock during unfavorable market conditions it does not fall to the ratepayer to insulate the equity investor from management's failure to discharge its responsibility. Dr. Gaske's arguments for the inclusion of a flotation cost adjustment are the same as the Commission has heard previously from other utilities. In those Dockets where the utility has argued that flotation costs are appropriate, the Commission has consistently denied the request. The Commission determines that it should continue this policy.

Relative Risk Analysis

38. In the Commission's opinion Dr. Gaske's conclusions regarding increased risk, in comparison to the sample group, are valid for financial risk and to a limited extent business risk. In the area of business risk the Commission agree's with GFG's witness that GFG's smaller revenue base, compared to that of the sample group, increases its risk because GFG has a smaller proportion of return available to absorb fixed costs during periods of economic downturns. The argument that the threat of bypass is greater for GFG than for the sample group is an argument that was not substantiated. All LDC's are facing the threat of bypass as a result of increased competition in the energy market place, whether it be direct competition with another gas utility, or some other energy provider.

Reward for Good Management

39. The Commission can exercise some discretion in determining a reasonable ROE. Through the exercise of that discretion the Commission considers consumer and utility interests, levels of risk, utility performance, and current trends as items that might affect the Commission's determination of a reasonable ROE. The Commission acknowledges GFG's good management practices and has reflected it in the determination of GFG's overall ROE .

ROE

40. GFG Docket No. 92.10.57, Order No. 5665b, which was approved on May 18, 1993, established a ROE of 11.5 percent. A review of interest rates for thirty year treasury bonds in May of 1993 showed a cost of 6.64 percent. In December of 1996 the interest rate for thirty year treasury bonds was 6.48 percent. Given how close the risk free interest rates are and that GFG has not changed the way in which it operates, it is the Commission's decision that GFG's ROE should remain at 11.5 percent. Based on the capital structure proposed by GFG and a ROE of 11.5 percent the overall rate of return GFG would be 10.17 percent . Due to the change of long-term debt in the capital structure, the required revenue requirement and overall rate of return increase by $20,200 and .12 percent over the amount granted in Interim Order No. 5933a. This difference is due to the short-term debt, which is not part of GFG's permanent capital structure, that was included in its long-term debt. This change in long-term debt also caused the embedded cost to increase from 8.62 percent to 8.69 percent.

Low Income Discount

41. In Montana Power Company (MPC) Docket No. D93.7.29, Order No. 5735c the Commission approved a flat 10 percent LIEAP discount. MPC also provides it employees with a discount, while GFG does not. At the time of Order No. 5735c, the Commission inquired about the possibility of incorporating customer income into the low income discount rather than a flat 10 percent. Due to the reduction in LIHEAP funding, the Commission approves a 15 percent LIEAP discount with a maximum cost of $66,724.61. The $66,724.61 is computed by taking 15 percent of the total average expense of the 901 recipients identified in the LIEAP program that are GFG customers. The Commission also approves distributing the discount based on 4 categories to effectively serve the needs of GFG's low income customers without adding undue administrative burden. The following table show the categories to be applied:

GFG Customer Household Income as a Percent of Poverty	**15 % Average Effective Discount**	**SUMMARY INFORMATION**	
0-30	21.02%	# OF RECIPIENTS	901
31-60	17.87%	AVERAGE DISCOUNT	$74.06
61-90	14.72%	TOTAL COST TO GFG	$66,724.61
91 and Over	11.56%		

Operating Rules

42. GFG has customarily maintained its operating rules in the form of a pamphlet entitled "Natural Gas Service Regulations." In the present docket GFG has proposed that its operating rules be included in its tariffs, as are the operating rules for all major Montana utilities. GFG's proposed operating rules, entitled "Service Regulation Tariffs," have generated no controversy among the parties. The Commission approves the operating rules for inclusion in GFG's tariffs."

Conclusions of Law

1. Great Falls Gas Company is a public utility furnishing natural gas service to consumers in the State of Montana. As such, it is subject to the supervision, regulation and control of this Commission. §69-3-102, MCA.

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

3. The Commission has provided adequate public notice and an opportunity to be heard, pursuant to the Montana Administrative Procedure Act. Title 2, Chapter 4, MCA.

4. The revenue requirement and rate levels approved in this Order are just, reasonable and nondiscriminatory.

Order

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. GFG is hereby authorized to increase base rates by $294,635. This increase shall be applied to all customer classes. This increase shall be applied to all customer classes on a uniform percentage basis. This increase is in lieu of and not in addition to the rates approved in Interim Order No. 5933a.

2. The stipulation filed by GFG and MCC on October 24, 1996, is approved.

3. GFG is hereby authorized to increase rates by $385,906 to reflect the gas tracking period from July 1, 1995, to June 30, 1996. This gas tracking increase shall be applied to all customer classes as a surcharge of $.0949 per Mcf with the exception of transportation customers. The current gas tracking period will end on June 30, 1997. These rates that were approved on an interim basis in Order No. 5933a are hereby made final.

4. GFG is hereby authorized to recover the costs associated with the No Interest Loan Program through a surcharge of $.0718 per Mcf which will be applied to the volumes set forth in Finding of Fact No. 33. That surcharge will remain in effect until MCC and GFG complete their joint re-evaluation of this program. After reviewing the report, the Commission will re-evaluate the surcharge.

5. GFG is hereby authorized to file transportation tariffs which comply with the requirements set forth in Finding of Fact No. 34.

6. GFG is hereby authorized to recover the costs associated with the Low Income Discount in the amount of $66,724.61. This increase shall be applied to all customer classes on a uniform percentage basis in accordance with the requirements set forth in Finding of Fact No. 41.

7. GFG is ordered to file with the Commission compliance tariffs within twenty (20) days from the service date of this Order, which incorporate the provisions of this Order. Rates in the compliance tariffs shall remain unchanged, except to reflect the issuance of this Order.

8. The implementation of these rate changes is to be effective for service rendered on and after May 1, 1997.

DONE IN OPEN SESSION at Helena, Montana, this 7th day of April, 1997, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

BOB ROWE, Commissioner
(Written Opinion Attached)

ATTEST:

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.

Docket D96.7.123
Opinion of Commissioner Rowe

I concur in the decision, including setting the return at equity at 11.5 percent. I believe 11.5 percent is an appropriate figure based on a standard analysis without granting a "reward for good management." (Paragraph 39) Great Falls Gas is a very well-managed utility and a first-rate corporate citizen. That is not an appropriate basis for increasing a return on equity above what it would otherwise be.

RESPECTFULLY SUBMITTED this 7th day of April, 1997.

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BOB ROWE