Service Date: June 23, 1998

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 POWER COMPANY for	)	
Approval of its Electric Utility Restructuring	)	DOCKET NO. D97.7.90
Transition Plan Filed Pursuant to Senate Bill 390	)	ORDER NO. 5986d

ORDER ON TIER 1 ISSUES

APPEARANCES

FOR THE APPLICANT:

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FOR THE INTERVENORS:

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James M. Madden, Special Assistant Attorney General, Department of Environmental Quality, Metcalf Building, P.O. Box 200901, Helena, Montana 59620-0901, representing Department of Environmental Quality and the Northwest Power Planning Council.

Anne Yates, Department of Natural Resources and Conservation, 1625 11th Avenue, Helena, Montana 69601.

Donald W. Quander, Holland & Hart LLP, Suite 1500, 401 North 31st Street, Billings, Montana 59103-0639, representing Large Customer Group.

John Allen, First Avenue South, Great Falls, Montana, representing Energy West Resources.

James K. Tarpey, ENRON Corp., One Tabor Center, 1200 17th Street, Suite 2750, Denver, Colorado 80202, representing ENRON Corp.

Michael J. Uda, Doney, Crowley, Bloomquist and Metropoulos, Suite 300, Power Block, P.O. Box 2286, Helena, Montana 59624-1185, representing Colstrip Energy Limited Partnership and Yellowstone Energy Limited Partnership.

Deborah Smith, Reynolds, Motl and Sherwood, 401 North Last Chance Gulch, Helena, Montana 59601, representing Natural Resources Defense Council and Renewable Northwest Project.

David Veeder, 400 North Broadway, Billings, Montana 59101, representing CENEX.

Max Davis, P.O. Box 2103, Great Falls, Montana, representing Electric Cooperatives Association and Central Montana Electric Power Cooperative, Inc.

Blair Strong, Paine, Hambin Coffin Brooker Miller, 171 West Sprague Avenue, Suite 1200, Spokane, Washington, representing AVISTA Energy Corporation.

Pamela Shore, 920 Evans, Missoula, Montana 59601, representing District XI Human Resource Council.

BEFORE:

DAVE FISHER, Chairman
NANCY McCAFFREE, Vice Chair
BOB ANDERSON, Commissioner
DANNY OBERG, Commissioner
BOB ROWE, Commissioner

COMMISSION STAFF:

Denise Peterson, Staff Attorney; Eric Eck, Chief, Revenue Requirements Bureau;
Will Rosquist, Staff Economist; and G. Joel Tierney, Utilities Engineer;
1701 Prospect Avenue, P.O. Box 202601, Helena, Montana 59620-2601.

Background

1. Pursuant to Senate Bill 390 (1997), codified at Title 69, Chapter 8, Montana Code Annotated (MCA), the Montana Public Service Commission (Commission) issued its Procedural Order in MPC Docket No. D97.7.90, Order No. 5986, on June 20, 1997.

2. As required by Order No. 5986 and Senate Bill 390, Montana Power Company (MPC) filed its Electric Restructuring Transition Plan (Plan) with the Montana Public Service Commission (Commission) on July 1, 1997.

3. On July 1, 1997, the Commission issued Protective Order, Order No. 5986a, covering market-sensitive information deemed by MPC to be confidential and proprietary. The Commission issued and published the Notice of Transition Plan Filing and Intervention Deadline on July 3, 1997. Numerous parties intervened in Docket No. D97.7.90, and are cited as Intervenors in the Service List attached and incorporated into this Order. Individual participation will be noted where applicable in this Order.

4. In the prefiling procedural conference, parties agreed that the Commission would make its determination on the adequacy and completely of the Plan on August 12, 1997. Preliminary comments on the initial Plan were due from Intervenors on July 22, 1997. The Commission received written comments from Intervenors Large Customer Group (LCG), Montana Consumer Counsel (MCC), Montana Department of Environmental Quality (DEQ), Natural Resources Defense Council (NRDC), Bonneville Power Administration (BPA) and the United States Executive Agencies (USEA).

5. The Commission issued its Preliminary Determination and Order on Transition Plan, Order No. 5986b, on August 15, 1997. To be complete and adequate, the Commission determined that the Plan must be transparent in terms of addressing the requirements of the Act. The plan should contain all the basic information needed to evaluate the filing, including quantitative and qualitative analyses and documentation of methods used.

6. The Commission determined that MPC's Plan filed July 1, 1997 was incomplete and inadequate on MPC's customer education proposals and pilot programs and stranded costs. Most significant, the Plan did not adequately analyze and document stranded costs, including (1) the estimation of future market values of electricity and the embedded costs of generation

assets and liabilities and supply related costs, (2) consideration of the net value of production capability, and (3) demonstration and quantification of mitigation.

7. The Commission further determined that MPC’s Plan was incomplete and inadequate with respect to the transfer of generation assets from rate base, including a complete analysis of the revenue requirements of all assets being transferred and documentation and quantification of any mitigation savings. The Commission also agreed with MCC, DEQ and LCG that the Plan failed to functionally separate electricity supply, retail transmission and distribution, and regulated and unregulated energy services.

8. On August 26, 1997, MPC filed its Revised Plan, captioned Supplemental Material to its Electric Restructuring Transition Plan Filing.

9. In mid-November, 1997, Intervenors filed Direct Testimony pursuant to the Procedural Order and Schedule, as amended.

10. On December 9, 1997, MPC announced its intention to offer for sale its generation assets in Montana. On December 11, 1997, the Commission issued a Notice of Meeting to Discuss Procedural Schedule and Notice of Suspension of Procedural Schedule, setting a meeting for December 19, 1997, to discuss necessary changes to the proceedings as a result of MPC's announcement.

11. On January 7, 1998, the Commission issued its notice setting the procedural schedule and revising the hearing date. The Commission rescheduled the hearing in two tiers, first addressing the issues preceding the sale on April 28, 1998, with a final order due on or before June 24, 1998 implementing first tier issues, in particular large customer choice on or after July 1, 1998.

12. MPC filed its Rebuttal Testimony on January 30, 1998. Intervenors filed Response Testimony on March 17, 1998.

13. In its Rebuttal Testimony, MPC stated it intended to require from those bidding on the generation assets an agreement that the successful buyer(s) would enter into a contract with MPC's distribution unit to sell power to the distribution unit at t price of 21 mills/kWh during the transition period. Response testimony raised the question of whether this requirement would reduce the bid values for the assets. On April 1, 1998, the Commission issued a Notice of

Issue of 21-Mill Buy-Back on Sale of Generation. The Commission requested parties to file comments on the buy-back proposal by April 10, 1998.

14. On April 6, 1998, the Commission issued its Notice of Public Hearing on the first of two hearings (Tier 1 and Tier 2) scheduled on MPC's Transition Plan, Tier 1 to begin on April 28, 1998. The Commission's Notice outlined the Tier 1 issues, including MPC's presentation of its plan for large customer choice beginning July 1, 1998; an accounting order to track costs stranded during the period before the Commission’s Final Order on stranded costs; customer education and protection, including functional separation, unbundled bills and rate design; pilot programs; and methods to choose electricity suppliers. After the results of the competitive bid sale of MPC's generation are known, the Commission would conduct a later hearing (Tier 2) on transition costs, market power, universal system benefits charge, revenue requirements, and the competitive bid sale of MPC's generation assets.

15. On April 13, 1998, MPC filed a Motion for Clarification, criticizing the Commission's Notice of Public Hearing. MPC maintained that the Notice of Public Hearing should be amended to reflect MPC's request for interim recovery of the hydro-thermal assets, regulatory assets and qualifying facility contracts. MPC proposed that customers leaving the system on July 1, 1998, should pay these costs. MPC also requested clarification on the scope of the universal system benefit charge and revenue requirement testimony at the first hearing.

16. At its work session on April 14, 1998, the Commission acted on MPC's Motion. On April 17, 1998, the Commission issued the Notice of Commission Action Clarifying Public Notice. The Commission denied MPC's position that a request for Competitive Transition Charges (CTCs) is appropriate as a first tier issue at the hearing beginning April 28, 1998. The Commission determined that § 69-8-211, MCA precludes recovery of transition costs before the transition costs are known and measurable, based on an affirmative showing by the public utility of all reasonable mitigation of costs.

17. To approve transition costs, the value of all generation assets, liabilities and supply-related costs must be reasonably demonstrable for the Commission's consideration on a net basis. Under § 69-8-211, MCA, the Commission must make a final approval of transition costs before the utility may recover these costs through a competitive transition charge.

Therefore, the Commission could not authorize any transition charge, "interim" or otherwise in Tier 1. The two-tier hearing approach anticipated accounting order proposals to track those costs for customers entitled to and exercising choice on July 1, 1998, with a final disposition after Tier 2.

18. At Commission direction, Staff addressed the Universal System Benefits Charges (USBC) in a Prehearing Procedural Conference held telephonically on April 17, 1998.
The Intervenors, MPC and Staff addressed the issue of the Commission's clarification related to the universal systems benefits charge (USBC) and the request for recovery of transition costs during the interim period. Parties reached agreement on what limited information witnesses would present in Tier 1 on the USBC, with parties agreeing to propose an abbreviated hearing on this issue only sometime in September before the Tier 2 hearing.

19. On April 20, 1998, Montana Power Company (MPC) filed its Motion for Reconsideration of the Commission's Notice of Commission Action Clarifying Public Notice issued April 17, 1998, on the grounds of (1) alleged due process violations; and (2) the Commission's alleged failure to consider verifiable costs during the "Interim Sale Period." In clarifying what would be heard in Tiers 1 and 2, the Commission, according to MPC, denied MPC its fundamental due process and an opportunity for a hearing.

20. MPC maintained that the Commission did not consider that MPC would incur verifiable costs during the Interim Sale Period that it should be able to recover from customers who leave MPC's system on July 1, 1998. Further, Senate Bill 390 does not address the timing of a sale *vis a vis* the July 1, 1998 deadline. "[T]he statute doesn't require a '[p]ublic utility to divest itself of any generation asset or prohibit a public utility from divesting itself voluntarily of any generation assets.'" MPC maintained that a generation sale could happen years later, and the "result would have to be factored into the CTC recovery that had been in place in the meantime." (Quotes from MPC's Motion, page 4.)

21. MPC requested that the Commission "reverse" its decision and allow MPC to present evidence regarding the transition costs MPC will incur during the Interim Sales Period. Alternatively, MPC asked to be able to collect these costs during the Interim Sale Period; or to accumulate these costs in an appropriate accounting order.

22. Intervenor Large Customer Group (LCG) responded on April 22, 1998. LCG maintained that an accounting order can protect MPC; the Commission's interpretation of Senate Bill 390 is correct; and MPC has not demonstrated any injury from its delayed sale. MPC has a fair opportunity to make its case for recovery of transition costs in the Tier 2 proceeding and can present evidence in support of its accounting order in the Tier 1 proceeding. Due process does not require Competitive Transition Charges for the interim.

23. In its Order Denying Reconsideration issued April 23, 1998, the Commission determined that MPC would not be harmed, because the large customers will be properly assessed their share of costs in the Commission's final order on transition costs after the Tier 2 proceeding. An accounting order to track and accumulate costs incurred during the Interim Sales Period will afford MPC full protection and due process.

24. The Commission determined that by law it cannot grant a request to collect transition costs preceding the Commission's final order on the transition plan. Section 69-8-211(1), MCA, provides that the Commission shall allow recovery of the unmitigable costs of (1) qualifying facility contracts for which the contract price of generation is above the market price for generation; (2) energy supply-related regulatory assets and deferred charges that can be accounted for up to the effective date of the final order on the transition plan; (3) transition costs related to public utility-owned generation and other power purchase contracts; as well as (4) other qualifying transition costs. The Commission cannot allow these costs until the costs and the mitigation can be demonstrated.

25. The Commission determined that a final order on transition costs under Section 69-8-211(2), MCA, must be based on an affirmative showing by the utility, which reflects all reasonable mitigation. The utility must reasonably demonstrate the value of all generation-related assets and liabilities and electrical supply costs for the Commission's consideration on a net basis. Under § 69-8-211(3)(a), MCA, "on Commission approval of the amount of a public utility's transition costs, those costs must be recovered through the imposition of a transition charge."

26. The Commission denied MPC's Motion for Reconsideration of the Commission's April 17, 1998 Notice of Clarification, based on its April 14, 1998 action. The Commission

allowed MPC to propose an accounting order mechanism and make a limited presentation to support its proposal in the Tier 1 proceeding beginning April 28, 1998.

27. Beginning April 28, 1998, the Commission conducted a public hearing at the Colonial Inn, 2301 Colonial Drive, Helena, Montana on the first tier issues of large customer choice on or after July 1, 1998; accounting order proposals; customer education and protection; pilot programs; and methods to select electricity suppliers. At the request and consent of the parties at the hearing on April 28, 1998, Commission Staff moved all the prefiled testimony and data responses into the record for this proceeding and the subsequent hearing(s) on all the issues to be conducted. The scope of cross-examination and use of the testimony, prefiled exhibits and discovery was limited to the issue of large customer choice and pertinent issues identified in the Notice of Public Hearing.

28. Witnesses appearing and testifying in the Tier 1 proceeding follow:

Montana Power Company: Perry J. Cole, Patrick R. Corcoran, R. John Leland, William M. Thomas, Deborah Young, Philip E. Maxwell, and James Falvey, all of 40 East Broadway, Butte, Montana.

Department of Environmental Quality and Northwest Power Planning Council: Mick Robinson, Alan Davis, Lawrence P. Nordell, and John Goroski, Helena, Montana.

Department of Health and Human Services: Thomas J. Schneider, Schneider Consulting Services, Inc., 513 First Street, Helena, Montana 59601.

Montana Consumer Counsel: Matthew I. Kahal and Dale E. Swan, Ph.D., Exeter Associates, 12510 Prosperity Drive, Silver Spring, Maryland 20904.

Large Customer Group: Kathryn E. Iverson, Brubaker & Associates, Inc., 5555 DTC Parkway Ste B-2000, Englewood Colorado 80111-3002; and Alan Rosenberg, Ph.D., Brubaker & Associates, Inc., 1215 Fern Ridge Parkway Ste 208, P.O. Box 412000, St. Louis, Missouri 63141-2000.

District XI Human Resource Council: Thomas M. Power, Ph.D., Professor of Economics and Chairman of the Economics Department, University of Montana, Missoula, Montana 59812.

Summary of Prefiled Testimony Relevant to Tier 1

This Order incorporates the following summary of prefiled testimony that is relevant to the Tier 1 proceeding. All the prefiled testimony and discovery responses to the date of the hearing, plus the late-filed exhibits, are deemed entered into the record. However, the Commission addresses only those matters related to the Notice of Public Hearing on the Tier 1 proceeding and necessary to the decisions rendered in this Order at this time.

Montana Power Company Testimony, July 1, 1997, Supplemented August 26, 1997

29. Transition Period. In MPC's July 1, 1997 filing, Pat Corcoran addressed the transition to choice, customer education, pilot programs, distribution service, transition costs and charges, the rate moratorium, Commission authority and rulemaking, transition cost financing and cost-of-service and rate design supporting detail. Unable to develop all details on its customer choice plan, MPC established internal work teams to finalize policies, procedures and practices necessary to implement customer choice.

30. In its Preliminary Determination on August 15, 1997 (Order No. 5986b), the Commission found MPC's work team approach noncompliant with Senate Bill 390, but allowed MPC some flexibility in redressing deficiencies related to pilot programs and customer education. In MPC's August 26, 1997 Supplemental filing, Mr. Corcoran provided additional testimony on the work team approach, pilot programs, load profiling, customer education, embedded costs of generation and qualifying facility cost mitigation.

31. During MPC's proposed transition period (July 1, 1998 to June 30, 2002), MPC proposed to develop and test administrative requirements for customer choice, such as metering, billing and data systems, mechanisms for scheduling and balancing electricity supply sales delivered over MPC's transmission and distribution system, pilot programs and load profiles for residential and small customer segments.

32. On or before July 1, 1998, customers with loads greater than 1,000 kW and customers with multiple loads of at least 300 kW that aggregate to 1,000 kW or more must have the opportunity to choose their electricity supplier. All other customers must be able to choose their electricity supplier no later than July 1, 2002, unless the Commission determines that additional time is needed. §69-8-201, MCA. MPC's initial filing proposed to transfer all generation assets and power purchase contracts from the Services Division to the Supply

Division on July 1, 1998 . At the same time, MPC proposed implementing a cost based electricity supply contract between the Supply Division and the Services Division to serve the supply needs of customers not yet eligible for choice or who have not exercised their option to choose.

33. Billing, Metering and Load Profiling. To ensure that power supplied matches power taken out of the system by consumers, MPC's Services Division will continue to provide transmission and distribution of electricity, coordinating and scheduling with electricity suppliers. Differences between power put into and power taken out of the system must be monitored and reconciled to ensure that suppliers meet the needs of their customers. Mr. Corcoran testified that these requirements raise a number of questions concerning metering, billing and load profiling.

34. MPC created a work team to address the necessary metering, billing and load profiling systems and to assure that the team's work products will progress over the months leading up to July 1, 1998. Mr. Corcoran provided a working document which discusses MPC's preliminary goals for metering and billing. Exhibit PRC-1.

35. Billing. According to Mr. Corcoran, an effectively competitive market requires participants to use the same data. Accurate metering and usage information is necessary to maintain system reliability, perform accurate billing and conduct other analyses. MPC proposed keeping the responsibility for billing for transmission and distribution services, collecting CTCs and the USBC and owning and operating the metering system. MPC would provide basic customer information and meter data to all market competitors on a non-discriminatory basis through a standardized communications infrastructure.

36. MPC proposed two billing options: a consolidated MPC bill and dual billing. MPC would provide consolidated billing for customers wanting a single bill for electricity supply services and transmission and distribution services. MPC would charge electricity suppliers a fee to perform consolidated billing. With dual billing, a customer would get a separate bill from the electricity supplier for supply services and an MPC bill for transmission, distribution, CTCs, USBC and any other charges related to metering and administrative costs. For small customers

the supplier might be the transmission customer; if so, the supplier would be responsible for identifying the transmission component of the bill.

37. MPC is modifying its billing system so that it can itemize charges for electricity supply, transmission, distribution, CTCs and the USBC. Bills would continue to show information related to meter reads, billing cycles, payment due dates and account numbers. Until the Commission adopts rules for customer nonpayment, MPC proposed to apply its current tariff rule on nonpayment and service termination to both conventional rate service customers and customers served under Market Supply Service. Additionally, MPC proposed applying partial payments to non-electricity supply charges first when MPC is the billing entity.

38. Metering. MPC proposed to retain the responsibility for collecting all meter data and would make the data available to all electricity suppliers. MPC would own, install and maintain the meters. MPC would recover metering costs from customers either through a bundled distribution services tariff, through explicit monthly meter charges for special metering, or through up-front customer contributions when hourly metering is required.

39. Customers with loads greater than 1,000 kW already have meters that record hourly load data. MPC proposed to require single customers with multiple loads greater than 300 kW which aggregate to more than 1,000 kW to install meters that will record hourly load data. Customers with loads greater than 5,000 kW would be required to install meters that record hourly load data which can be collected daily. MPC may use telecommunications links through the Internet to disseminate meter read data to suppliers. Basic customer information such as name, address, account number and historic consumption information would also be available to authorized suppliers. Other customer proprietary information such as credit and payment histories would be released only with customer authorization.

40. Most customers do not have meters that monitor and record consumption on an hour-by-hour, day-by-day basis. Mr. Corcoran testified that without new, low-cost metering technology, an alternative is necessary to allow most customers to have choice. MPC proposed a mechanism called load profiling, which relies on customer load shapes to estimate the electricity supply needs of a group of similar customers. Suppliers use load profiles to schedule the energy for each hour of each day of the month in order to serve their customers. When actual meter read

data is known at the end of the billing cycle, differences between the actual metered consumption and the load profiles are reconciled to ensure that the supplier has provided the right amount of energy at the proper time.

41. Load Profiling. MPC established a work team to develop and implement the load profiles by July 1, 1998. According to Mr. Corcoran's Supplemental Testimony, MPC planned to post class and end-use load profiles on the Internet by February 1, 1998. MPC anticipated developing separate load profiles for residential electric and non-electric space-heating customers, and possibly for non-electric water-heating customers. MPC might develop between ten and fifteen different load profiles for the commercial class. Potential commercial profiles include fast food restaurants, small and large office buildings, small and large retail stores, schools and health care facilities.

42. Load profiles would not affect the actual billing of retail customers. Retail customers would be billed based on metered consumption. The purpose of load profiling is to schedule hourly deliveries of energy from suppliers to MPC's Services Division and to reconcile supplier deliveries and actual customer consumption to ensure suppliers are providing adequate supplies to serve their customers. Mr. Corcoran stated that there are reliability issues related to load profiling. The accuracy of load profiles is critical since the Services Division must cover differences between actual loads and scheduled deliveries. If the Services Division must cover a large shortfall, its ability to follow loads and maintain operating reserves would decrease reliability and increase system costs.

43. Customer Education. Mr. Corcoran stated that the initial step in the transition to customer choice is timely and proper education of customers. Other key steps include creating a schedule for the transition period and a method for assigning an electricity supplier to customers who have not chosen by the end of the transition period. Mr. Corcoran stated that the education plan generally should include a credible, industry-wide message which MPC proposes to develop through a collaborative process. The message should include information specific to MPC restructuring, designed to reach all customers before and during the transition period. Targeted education may be appropriate for customer segments with specific needs such as the low-income, seniors, people with limited education or reading skills and pilot program participants.

44. Mr. Corcoran testified that education should inform customers what portion of their electric service is affected by choice, to avoid unrealistic expectations about savings. Customers need to know that MPC will provide the distribution service, that other suppliers are entering the market, and that the safety and reliability of the delivery system will be maintained. Education should provide the following information: available suppliers; procedure to switch to a new supplier; customer protection safeguards; procedure to report abusive suppliers; opportunities and risks are associated with choice; personal usage patterns; explanations of new terms; and effect of customer choice on disconnection procedures. MPC would stress that MPC will provide electricity supply through a cost-based contract through the transition period for customers who decide not to choose immediately. Customers would also be educated about public purpose programs funded through the USBC.

45. Pilot Programs. MPC's initial pilot program is the first stage in MPC's Load Transition Schedule, the proposal for phasing-in customer choice over the transition period. In its July/August 1997 efforts, MPC selected the percentage of customers eligible for the initial pilot to test MPC's ability to perform tasks related to choice such as metering, billing and energy scheduling. On July 1, 1998, three percent of the residential and GS-1/irrigation classes (6,800 residential customers and 1,500 GS-1/irrigation customers) would be eligible for choice under a pilot program. On July 1, 2000, ten percent of each of these classes would become eligible for choice. The numbers increase to fifty percent on July 1, 2001 and 100 percent on July 1, 2002. MPC believed the pilot size would be sufficient to test electricity supplier participation as well.

46. Mr. Corcoran testified that, due to the filing deadline, MPC had not finished developing the details of how the pilot programs will be implemented and administered. Exhibit PRC-4 of Mr. Corcoran's July, 1997 testimony outlines general concepts related to pilot programs, such as design principles and customer and supplier rights and obligations. A work team will fully define the scope of the pilots.

47. Section 69-8-104, MCA requires utilities to use pilot programs to determine "...the most effective and timely options for providing customer choice." Mr. Corcoran said that utilities need to know (a) the demand for electricity supply choice; (b) the availability of market prices for small customers; (c) ways to develop sufficient markets and bargaining power to

benefit small customers, (d) supplier interest in serving small customers; and (e) necessary procedures to provide unbundled retail services to small customers. MPC's pilot program should mirror the conditions at the time full customer choice occurs. Customers must understand their choices, including those services provided by suppliers and by MPC. The pilot program should provide adequate consumer protections, ensure that MPC does not limit access to competitive electricity supplies, promote workable competition without sacrificing safe and reliable service, prevent any supplier from gaining unfair advantages, and facilitate evaluation of choice.

48. MPC suggested selecting customers eligible to participate in the pilot program through a random selection process. All customers would be given the opportunity to participate in the random selection process. Mr. Corcoran stated that customers would not be forced to participate in the pilot program and would not be solicited by electricity suppliers before signing up for the program. Selected pilot program participants would be mailed an information package on the pilot program. MPC would survey customers to determine what factors influenced their decision on whether to participate.

49. MPC proposed that a proportionate share of low-income and irrigation customers would be "hard wired" into the pilot program. MPC also proposed that the multi-site commercial customers (e.g., Safeway) be limited to having only one site participate in the initial pilot program to eliminate the possibility of selecting two or three sites of one type of commercial customer and selecting no sites of other types of commercial customers.

50. Once the pilot program participants were selected, MPC proposed to make the name, address and telephone number of each participant available to all licensed suppliers. MPC would also provide all pilot program participants a list of all licensed suppliers. Participants may switch to a licensed supplier at any time during the pilot, or may stay with MPC's Services Division. Participants switching to a licensed supplier may also return to MPC's Services Division.

51. To switch to a licensed supplier, MPC proposed that a pilot program participant complete a Participating Customer Consent Form, agreeing to the terms and conditions of the pilot and confirming entry into a contract with another supplier. It would be the supplier's

responsibility to obtain signed Participating Customer Consent Forms from customers and forward copies of the forms to MPC's Services Division.

52. Pilot program participants would then be served under MPC's Market Supply Service (MSS) tariff, which covers transmission and distribution charges, as well as CTCs and the USBC, while the supplier would provide the customers' electricity supply.

53. Distribution Services. Retail customers exercising customer choice would obtain distribution services from Mr. Corcoran's proposed Market Supply Service (MSS) tariffs. MSS would provide customers with access to market-based electricity supplies. Other than Emergency Supply Service, MPC proposed having no obligation to supply electricity to customers served from MSS tariffs.

54. Delivery Service Charge (DSC). Mr. Corcoran offered separate MSS tariffs for each of the existing rate classes (residential, general service, irrigation and lighting). The MSS tariffs outline how customer specific Delivery Service Charges (DSC) covering access to the distribution system are calculated for each rate class. The MSS tariffs state that billing for transmission and ancillary services is in accordance with MPC's FERC transmission tariffs.

55. Through the MSS tariffs, MPC proposed to establish a customer-specific Delivery Service Charge. The DSC would be a monthly charge designed to leave each customer's bill unchanged after restructuring, based on historic consumption. Mr. Corcoran testified that distribution costs are fixed, regardless of how much electricity a customer uses. Therefore, distribution cost recovery (prices) should not be tied to usage. The monthly DSC could be designed as an average for each rate class. However, Mr. Corcoran stated that this would give customers with above average usage an added incentive and those with below average usage a disincentive to choose MSS. Under existing rate structures, customers with above average usage could reduce their bills by switching to MSS, even if the electricity supply price was the same, while customers with below average usage would experience increased bills.

56. Mr. Corcoran testified that the proposed DSC is required to ensure that customer decisions are based on market prices for electricity. Collecting the DSC through a kWh charge would inappropriately allow electricity suppliers to influence the Service Division's collection of

revenue requirements, which could occur if a supplier provides customers energy efficiency services, in addition to supply, thus reducing consumption.

57. A particular customer's DSC would be the difference between that customer's total bill at traditional bundled rates, using the customer's average historic consumption over a two-year period, and the bill using the sum of unbundled rates, excluding distribution. The table below illustrates the calculation for a typical residential customer with consumption of 750 kWh per month and using Mr. Corcoran's unbundled rates.

Table 1.

			Ave. Use / Month	Monthly Bill
1	Ave Retail (bundled) Rate	**6.5¢/kWh**	x 750 kWh	= $48.75
2	Sum of Unbundled Rates Less Distribution	**3.9¢/kWh**	x 750 kWh	= $27.25
3	**Delivery Service Charge** (1 - 2)	**2.6¢/kWh**	x 750 kWh	**$19.50/month**

58. Emergency Supply Service. MPC's Energy Services Division must be an emergency supplier of electricity and related services. §69-8-208 (1)(c), MCA. Mr. Corcoran stated that emergency power service is primarily a transmission issue. MPC proposed to provide emergency power service under its FERC Open Access Transmission Tariff. Under this FERC tariff, MPC would charge an energy supplier a 100 mill per kWh penalty if the supplier fails to provide sufficient resources to cover its load obligations.

59. Cost-of-service, Rate Design. Mr. Corcoran applied a 1996 test period allocated cost-of-service study, presented in MPC witness Mr. Maxwell's testimony, to support MPC's rate design proposals. Mr. Corcoran stated that the cost-of-service study is used primarily to separate out all generation costs, because the rate moratorium in the Act does not allow MPC to charge rates higher than those in effect on July 1, 1998. Thus, the proposed rates are designed to produce the revenue level that results from applying current base rates (including the 1/1/98 ARP adjustment) to the normalized 1996 test period billing statistics. Mr. Maxwell's cost-of-service study estimated embedded costs/revenue requirements by rate class and cost function.

60. During the transition period (1997 supplemented filing), customers would be separated into two groups. Those who do not have choice, or have not chosen, will be served under conventional service rates. Customers exercising the option to choose would be served under MSS rates. Other than the uniform percent increase associated with the January 1, 1998 ARP, MPC did not propose changes to conventional rates. However, to comply with the bill information requirements of the Act. MPC would break out unbundled charges for generation, transmission, distribution, the USBC and CTCs on bills.

Intervenor Response Testimony, November, 1997

Montana Consumer Counsel

61. Dr. Dale E. Swan testified for Montana Consumer Counsel, addressing (1) pilot programs; (2) consumer information related to pilot programs; (3) MPC's proposed method for assigning customers who do not choose by the end of the transition period; (4) the Commission's role in overseeing the development and administration of agreements between suppliers and MPC's Services Division; (5) MPC's proposed residential rate design; and (6) miscellaneous issues.

62. Pilot Programs. Dr. Swan testified that MPC's plan implied that the Commission would have little oversight on the development and implementation of the transition plan. Dr. Swan recommended that the Commission explicitly state what and how it will oversee MPC's plan. Given the "very fast track" of the legislation, Dr. Swan believed that MPC's need for flexibility in designing pilot programs and educating consumers is valid. However, flexibility should not be considered a legislative "carte blanche" for MPC to do whatever it decides meets the requirements of the legislation with no Commission oversight. According to Dr. Swan, the Commission has a critical role in ensuring that the transition to an unregulated supply market leads to benefits rather than harm for Montana ratepayers.

63. Dr. Swan challenged MPC's pilot program proposal for residential and small commercial customers as not providing an adequate basis for the analyses required by the Act. Assuming the pilots are fully subscribed, MPC's pilot program contemplates three percent of its smaller customers (6,800 residential and 1,500 small commercial) participating in the pilot program through July 1, 2000. The Transition Advisory Committee (TAC) must provide a report

to the speaker of the house, the president of the senate and the Commission evaluating pilot programs by November 1, 2000. Dr. Swan believed this report will be based on a report MPC is required to provide to the Commission and the TAC. According to Dr. Swan, small consumers will only be able to benefit from electricity supply competition through aggregation that allows suppliers to assemble combined loads that are worth serving. Dr. Swan stated that 6,800 residential consumers represent a relatively small aggregated load. To better evaluate the extent of other suppliers' interest and success in serving residential and small commercial consumers, Dr. Swan recommended that MPC increase the number of pilot program participants to 10 percent by July 1, 1999 and to 20 percent by July 1, 2000.

64. Information Provided to Pilot Program Participants. Dr. Swan testified that, under MPC's pilot program proposal, necessary information for consumers to decide whether to participate may not be provided until after the initial decision to enter the potential participant pool. Consumers might decide not to participate who otherwise would have if they had sufficient information. The most critical information a consumer needs relates to the potential savings that may come from participating. The opportunity to achieve sufficient bill savings may encourage consumers to put up with the "added annoyance" of having to shop for power supply, according to Dr. Swan. Thus, information about potential savings and what price consumers will have to beat to achieve those savings should be provided before consumers are asked if they want to participate in the pilot program. Dr. Swan recognized that potential savings and the price to beat depend on Commission decisions on CTCs. Therefore, he suggested presenting consumers with a range of possible market prices and informing them that the actual prices will not be known until the Commission issues its Order on stranded costs.

65. Assigning Customers who do not Choose. Beginning April 1, 2002, MPC proposed giving customers who have not chosen a supplier a three month window of opportunity to make an affirmative choice. After the window is closed, customers who still have not chosen would be allocated among licensed suppliers based on each supplier's share of the population of customers who have made a choice. A supplier signing up 70 percent of the choosing customers would receive 70 percent of the customers who did not choose. Dr. Swan asserted that MPC's method will result in the marketing arm of MPC's supply division securing the lion's share of

residential and small commercial customers, in turn, leading to a dominant market share which, with MPC's competitive advantages, could enable MPC to exercise unregulated monopoly power.

66. Dr. Swan described several factors contributing to this unregulated monopoly power. First, to entice consumers to switch, alternative suppliers would have to offer retail supply prices at less than the market supply price used to calculate MPC's transition costs. This would produce small customer savings and small profit margins that will work against new entrants. Second, Montana's small, widely dispersed market would provide less incentive for suppliers to make the necessary up-front marketing investments. Third, if MPC succeeded in obtaining total control over the terms and conditions of agreements between suppliers and the Services Division, MPC would have the incentive and the opportunity to erect barriers to new entrants. Last, MPC has a marketing advantage over new entrants, given long-standing relationships with customers and name recognition. But even without the established name recognition there would be significant customer inertia. The transactions costs associated with researching alternative suppliers along with little or no savings potential would lead many customers to stay with "the utility company" -- MPC.

67. As an alternative, Dr. Swan recommended that MPC's Services Division act as the aggregator for customers who do not choose. The Services Division would use a competitive bid process to obtain the power to supply to non-choosing customers. This eliminates most of the concern about the Supply Division using the allocation process to augment its market share. It also provides a measure of protection for customers who do not want to shop because they cannot find a competitively priced alternative, are too confused or do not want to incur the transactions costs to choose. Dr. Swan believed this alternative is consistent with the legislation. Dr. Swan indicated that the Commission should monitor the development of the market for several years before making a decision on either MPC's allocation method or MCC's alternative proposal.

68. <u>Agreements Between Suppliers and MPC's Services Division</u>. MPC proposed that electricity suppliers enter an Electricity Supplier Agreement (ESA) with MPC's Services Division. The ESA would specify terms and conditions for power scheduling and delivery,

transmission and distribution losses and billing settlements. Dr. Swan asserted that the only way suppliers can sell to retail customers is through MPC's transmission and distribution system. Therefore, the nature of the ESAs can critically affect the number of suppliers willing to compete for Montana retail customers. If the ESA contains onerous terms and conditions, it will discourage suppliers from entering the markets. Dr. Swan testified that the only supplier unaffected by onerous terms and conditions would be MPC's own marketing division, since costs for the supply division translate into revenue for the services division, both part of the same company.

69. MPC did not include a pro forma ESA in its transition plan for Commission approval. According to Dr. Swan, during a discovery meeting MPC indicated that it does not feel the Commission has authority over the contents or administration of the agreements. Dr. Swan suggested that allowing MPC to have total control over the contents of the ESA gives MPC an unfair advantage over competing suppliers. The ESA would likely cover the terms and conditions under which a supplier would schedule and deliver power to MPC's system, metering and billing settlements, emergency supply arrangements, nonpayment and termination arrangements, indemnification provisions, limitations of liability, demonstrations of creditworthiness and insurance requirements.

70. Dr. Swan pointed to load profiling, the mechanism through which most small consumers would have choice, as one means that MPC could use to make it difficult or less profitable for a competitor to serve a retail customer. The ESA would probably specify how suppliers will compensate MPC for differences between actual loads and the supplier's scheduled deliveries based on load profiles. This would involve payments for monthly energy imbalances and fees associated with covering hourly imbalances. The prices MPC would charge for these services will affect suppliers' ability to make money and could be used to discourage suppliers from serving small consumers. Dr. Swan stated that the Commission has an obligation to ensure that the ESAs do not prevent a sufficient degree of electricity supply competition to protect retail customers from monopoly prices.

71. Customer Education. Dr. Swan testified that the Commission faces a dilemma with respect to MPC's customer education program. MPC is in the best position to develop and

disseminate information to customers about competitive supply options and restructuring. MPC has the data, experience, knowledgeable staff and budget to efficiently perform education. Additionally, the utility is generally viewed by customers as an authority and primary point of contact on all issues related to electric service. However, MPC will also be a supplier competing for the loads of currently captive customers. Dr. Swan asserted that MPC has a great incentive to bias and present the educational material to favor MPC as a supplier.

72. Dr. Swan stated that MPC's collaborative process, while preferable to no public input at all, is not sufficient, since MPC will still dominate the development of the education program. Further, despite MPC's commitment to standards of conduct, Dr. Swan believed it is naive to think that MPC's employees will not provide answers to customer questions which favor MPC. Dr. Swan supported establishing an independent entity to distribute literature and answer questions about customer choice. He stated that this may entail contracting out this function to ensure that the staff of the entity are independent of any suppliers.

73. Residential Rate Design. Dr. Swan testified that MPC's proposed residential rate design is discriminatory. Comparing a customer under traditional rates and a customer under the MSS rate schedule, each increasing consumption from 750 kWh to 3,000 kWh, the customer served from traditional rate schedules would see an annual bill increase of almost $600 more than the customer under the MSS rate schedule, even though the consumption characteristics of the two customers are identical. This results from the MPC proposal to calculate the DSC based on a customer's usage for an historic 12-month period and then fix that DSC for an indefinite period.

74 MPC supported the DSC by stating that it provides better price signals to customers than the traditional rate design. Dr. Swan testified, however, that the DSC provides no mechanism whereby customers can affect their bill by responding to the price signal. According to Dr. Swan, if it makes sense initially for larger customers to pay larger DSCs, based on historical consumption, then it does not make sense that the customer cannot lower the DSC by reducing consumption over time. Dr. Swan further disagreed with MPC's proposal, because it would establish going-forward rates based on consumption which took place under a completely

different cost recovery mechanism -- it is unreasonable to implement a completely new rate design in a way that does not allow customers to affect their bill in response to that design.

75 MPC asserted that a fixed DSC is appropriate because distribution costs do not vary with energy consumption. Dr. Swan stated that charging a zero price for incremental delivery service is unreasonable for several reasons. First, MPC’s suggestion that marginal delivery costs are "zero" can only be true in the short-run. Dr. Swan stated that it is generally recognized that long-run costs play an important role in pricing regulated utility services. Second, according to Dr. Swan, there are long-run incremental costs associated with delivering electricity which should be reflected in prices. Third, Dr. Swan believed that all service units should make a contribution to fixed costs and should be priced above short-run variable costs. Mr Swan recommended that the Commission reject MPC’s proposed DSC rate design and continue to apply the current authorized rate design.

76 Dr. Swan recommended two changes to the MSS rate schedules. First, the rate schedules should not include charges for transmission and ancillary services, since these charges will be assessed on suppliers and, most likely, passed on to consumers in supply rates. Second, a condition limiting a customer to purchasing electricity from only one supplier at a time should be rejected. Dr. Swan stated that while this may be a reasonable condition for small customers, large customers should have the option of packaging a bundled energy supply from several suppliers if they choose.

Large Customer Group

77 Dr. Alan E. Rosenberg and Ms. Kathryn E. Iverson testified on behalf of Large Customer Group (LCG) with respect to unbundled rate design, MPC’s proposed DSC, and the allocation of CTCs.

78 Unbundled Rate Design. According to LCG, MPC had not unbundled its rates into distinct generation, transmission and distribution components as required by SB 390. Instead MPC used the DSC as a "catch-all" without considering cost functionality. Unbundled rates are required for customers with choice, but LCG believed all customers should face unbundled rates, if only to prepare and educate them in the transition to choice.

79 As distribution will continue to be a monopoly service, LCG recommended establishing distribution rates based on cost-of-service. Dr. Rosenberg testified that customer choice increases the importance of having distribution rates reflect cost causation, so that price signals are not distorted between the generator and the meter.

80 LCG recommended calculating transmission rates from the FERC approved revenue requirement and allocating transmission costs among service classes based on FERC approved allocation methods. Although FERC only has jurisdiction over unbundled transmission service, LCG suggested that all customers should face comparable transmission charges. Also, because suppliers rather than retail end users will often be the transmission customer, MPC's tariffs should specify the credit a retail customer will get if their supplier is paying MPC for transmission.

81 Any CTCs and the USBC should then be accounted for. Dr. Rosenberg recommended allocating CTC charges on the same basis as the underlying cost. Thus, 31.8% of the CTC would be allocated to classes based on a production energy allocator and 68.2% would be allocated based on a production demand allocator, consistent with the breakdown of MPC's embedded production energy and demand costs. Finally, the contestable, production-related component of the unbundled rate would be determined on a residual basis.

Department of Environmental Quality/Northwest Power Planning Council

82 Alan Davis, Mick Robinson, Dr. Lawrence Nordell and John Hines submitted testimony for DEQ and NWPPC representing the positions of the Governor's Office. Where several administration witnesses testified on the same issues with the same basic testimony, only the primary witness's testimony on a particular issue is summarized.

83 Functional Separation Mr. Davis testified that functionally separating a utility is intended to prevent a formerly vertically integrated utility from using its monopoly functions to advantage its affiliates which participate in competitive markets. Mr. Davis asserted that MPC's plan fails to adequately separate retail energy services from its distribution function. According to Mr. Davis, DSM, metering and billing function should not be regulated and should not be part of the distribution function. Mr. Davis stated that metering and billing act as an umbilical cord connecting a utility to its customers. If the metering and billing functions are not severed from

MPC through this restructuring case, MPC would be able to maintain control over its current customers. Through metering and billing, the utility obtains information about customers and communicates with customers on a monthly basis. Mr. Davis stated that metering and billing will provide a link to future energy services such as electronic home management, alarm services and telecommunications services. Allowing MPC to retain control over these energy services prevents fair and unfettered access to consumers by other providers and inhibits competition.

84 Mr. Davis maintained that SB 390 clearly requires utilities to functionally separate energy services. Mr. Davis cited Section 69-8-103(12), MCA which defines functional separation as “...a utility’s separation of the utility’s electricity supply, transmission, distribution, and unregulated retail energy services assets and operations.” Section 69-8-204(1), MCA requires a vertically integrated public utility to separate “...its electricity supply, retail transmission and distribution, and regulated and unregulated energy services....” Mr. Davis stated that, in spite of requests from DEQ/NWPPC, the Commission and others, MPC used its own interpretation of SB 390 to avoid providing a record with adequate information to separate the costs of energy services.

85 Mr. Davis recommended that the Commission amend MPC’s transition plan to separate its regulated and unregulated functions by requiring MPC to file the necessary cost information. The Commission should require standards of conduct consistent with FERC’s separating the distribution function from the energy services function and the power marketing business. Only services essential to the distribution function should be included in the regulated part of MPC. If MPC subsidiaries can offer the service outside MPC’s service territory, then the service should be removed from the regulated function. Mr. Davis recommended specifically that DSM, metering and billing be part of the unregulated business and that the Commission not allow MPC to deregulate its generation or recover any stranded costs until MPC has sufficiently complied with these requirements.

86 Pilot Programs. Mr. Davis stated that Montana’s pilot programs differ from those offered in other states. Instead of being used to decide whether or not to move to retail choice, Montana’s pilot programs are proposed as a way of implementing choice and determining if there is workable competition. Mr. Davis stated that if the pilot programs fail to get customers to

choose, there will be no effective competition, and MPC will be a deregulated monopoly. Mr. Davis expressed concern that MPC would have no incentive to make the pilots work and could benefit if pilots fail to produce workable competition.

87 Mr. Davis stated that there are several pilot program features which can help make them successful. First, there should be a large number of customers, from all customer classes eligible to participate. The program should simulate a market with full choice. Second, few restrictions should be applied to new competitors; new competitors should have unfettered access to customers. Third, it should be easy for customers to sign up and participate in pilot programs, and the sign up period should be open-ended. The pilots should take customers on a first come, first served basis. Fourth, customers should be educated early to be prepared to participate when choice is offered. Fifth, aggregators and brokers must be able to bring into the pilot aggregations of customers and serve the customers they bring in. Last, pilot programs must test the infrastructure necessary to provide choice in a way that does not inhibit competition.

88 Mr. Davis criticized MPC's proposed pilot program for having too few eligible customers and for ramping up too slowly. MPC's random selection proposal creates a barrier for new entrants and restricts aggregators' ability to bring customers into the program. MPC has too much control in the program; customers and suppliers have to keep going back through MPC-controlled processes and MPC controls all information. Finally, Mr. Davis stated that the program would not adequately educate customers.

89 Mr. Davis recommended that the Commission modify MPC's pilot program so that at least ten percent of customers are initially eligible to participate. Mr. Davis also recommended open enrollment with a first come, first served selection process. Aggregators should be allowed to bring in blocks of customers and new suppliers should be able to offer metering, billing and other energy services. Mr. Davis maintained that the education program should be up and running before the pilot begins, even if this means delaying choice for small customers by a few months. Mr. Davis suggested targeting certain geographic areas such as Missoula or Helena, using an independent pilot program administrator and restricting MPC's marketing affiliate from participating in the pilot program.

90 Customer Education. Mr. Davis testified that there is a very fine line between marketing and customer education. According to Mr. Davis, it is ironic that the utility is asked to objectively educate its customers so that they might choose another supplier. If MPC's customer education program promoted MPC's marketing affiliate or did not adequately educate customers about choice, the result would be customer choice without effective competition, and MPC would be a deregulated monopoly. Mr. Davis has the same concerns with MPC's customer education as he does with pilot programs: MPC has no incentive to make its education program work and actually benefits if it fails. According to Mr. Davis, it is important for customers to get consistent, factual information. Customers should be able to go to an objective source for information. Education must be clearly separated from marketing and should occur prior to choice.

91 Mr. Davis recommended that the Commission adopt basic guidelines for MPC's customer education program to define the line between marketing and education. The Commission should review and approve all customer education materials before their release and establish itself as an independent source of information, along with MPC's education efforts. The Commission should also require MPC's customer education program to be in place for a sufficient amount of time before beginning the pilot program and should direct MPC to begin customer education as soon as possible. Finally, Mr. Davis recommended that the Commission not approve the deregulation of generation assets or stranded cost recovery until the customer education program has been approved.

92 Market Power. Dr. Nordell testified that the Commission's primary goal in this case must be to ensure that MPC's restructuring is consistent with SB 390. A key requirement is to establish competitive retail electricity markets. Dr. Nordell maintained that retail electricity markets include markets for electric power, ancillary services and retail energy services. Since MPC currently holds a 100 percent market share in its retail markets, MPC's assertion that it has only a small market share in the Pacific Northwest does not address MPC's market power in its retail market, but in the regional wholesale market. Dr. Nordell rebutted MPC witness Dr. Shepherd's suggestion that an effective independent grid operator and efficient wholesale markets will eliminate MPC's retail market power. Dr. Nordell asserted that this argument

ignores the long-term barriers that MPC has attempted to build into its transition plan which, if successful, will provide MPC significant long-term market power within its current customer base. Additionally, Dr. Nordell maintained that an operational independent grid operator is not a certainty.

93 Dr. Nordell testified that MPC included the following barriers to competition in its transition plan: (1) retaining metering and billing in the regulated distribution function; (2) overestimating stranded costs and requesting excessive CTCs; (3) collecting a distribution service charge as a fixed residual; (4) using regulated ratepayer derived revenue to fund efforts to build customer loyalty for the supply division; (5) controlling customer education programs; (6) designing pilot programs that discourage choice; and (7) proposing an improper method for allocating customers who have not chosen by the end of the transition period. Taken together, these barriers ensure that MPC would retain a large market share and significant market power. MPC's market power would enable it to raise prices above competitive levels, a result that is not consistent with the goals of restructuring.

94 Distribution Charges, Delivery Service Charge. Dr. Nordell disagreed with MPC's proposed delivery service charge mechanism, characterizing it as a non-cost based residual charge that ensures that customers who choose another supplier do not benefit from a bill reduction. Dr. Nordell stated that MPC's DSC ensures that no matter how low MPC estimated the market value of electricity or how low the Commission set CTCs, the customer's bill would not change if the customer selected another supplier. He recommended that the Commission reject the proposed DSC and direct MPC to redesign the distribution tariff to include cost based charges for core-regulated services and separate charges for metering and billing costs.

95 Assigning Customers who do not Choose. Dr. Nordell also disagreed with MPC's proposed method for assigning customers who have not chosen a supplier by the end of the transition period. MPC proposed to allocate these customers based on the market share of each supplier. He testified that most customers probably will make no immediate change when offered choice. Of those who do choose, most will likely opt for remaining with what looks like their traditional supplier, i.e., MPC. As a result, most customers who do not choose will be

allocated to MPC's marketing affiliate, enhancing MPC's market power. Dr. Nordell recommended that the Commission direct MPC to issue a competitive solicitation for a supplier to serve customers who have not chosen.

Bonneville Power Administration

96 Pilot Programs. Mr. Fred Rettenmund testified for BPA on MPC's proposed pilot programs and method for assigning customers who have not chosen a supplier at the end of the transition period. Mr. Rettenmund doubted that the structure of the proposed pilot programs would produce sufficient interest by alternative suppliers for the program to achieve its objectives. Several pilot programs are currently running throughout the country, and California has recently begun full customer choice. Mr. Rettenmund believed that suppliers' interest in the initial phase of pilot programs in Montana might be low, since suppliers will have already experimented with choice in other pilots. Because millions of customers are available in California, Montana's pilot programs must be as attractive as possible.

97 Mr. Rettenmund stated that good pilot design features include a large customer participation base which includes all customer classes; an opportunity for customers to save; few restrictions on competitive suppliers; easy customer sign-up and a long sign-up period; and early and effective customer education. He also advocated a pilot program design incorporating a high degree of geographic concentration among participants. Geographic concentration of eligible customers is attractive to new suppliers, because it lowers barriers to marketing and communication and facilitates customer aggregation. MPC's method of determining eligible participants is likely to lead to a participant group scattered widely throughout the MPC service territory. This outcome would create a situation that does not resemble the circumstances that will exist under full customer choice and, according to Mr. Rettenmund, is inconsistent with MPC's own design principles.

98 Mr. Rettenmund testified that 6,800 residential customers and 1,500 commercial customers likely represents too small a market to attract alternative energy suppliers, particularly given the mandate of full customer choice by July, 2002. He also suggested that MPC provide more specific information about load profiling, scheduling and reconciling power schedules and actual loads. These matters can affect the cost to suppliers of participating in open markets;

uncertainty in these areas may have an adverse impact on the level of interest in the pilot programs.

99 Mr. Rettenmund recommended that MPC's proposed pilot programs be adjusted so that energy suppliers can market to MPC's residential and small commercial customers of their choice, subject to a cap on the total number of customers that may take service from all the suppliers in the initial phase of the pilot program. This approach would enable the suppliers to target their marketing efforts, reduce transactions costs and encourage participation by suppliers. Alternatively, the Commission should designate all customers in one of the bigger cities in MPC's service territory, as well as all customers in one or more rural counties, eligible for participation in the initial phase of the pilot program.

100 Assigning Customers who do not Choose. Mr. Rettenmund also disagreed with MPC's proposal to randomly assign non-choosing customers to licensed suppliers based on each supplier's share of the market. This method may result in some suppliers being allocated customers or customer types that are not being targeted by the supplier. For example, a supplier may target certain geographic areas or customer types, such as senior citizens. Mr. Rettenmund suggested that suppliers have the option of not participating in the random assignment process.

Enron Capital and Trade

101 Three witnesses filed testimony for Enron. Mona Petrochko discussed functional separation, metering and billing, pilot programs, standards of conduct and stranded costs. Greg Wolfe addressed MPC's market power and estimated future market price. Jess Galura responded to MPC's proposed delivery service charge.

102 Ms. Petrochko testified that MPC's restructuring plan is wrought with problems. MPC has not demonstrated that it will functionally separate its supply, transmission, distribution and regulated and unregulated energy services. MPC's analysis of market power is flawed. MPC has not properly unbundled its retail rates. The design of pilot programs is flawed, and the customer education plan is biased. MPC has not designed standards of conduct that will prevent abuses between the utility and its affiliates.

103 Functional Separation. Ms. Petrochko stated that MPC's functional separation is inadequate, since MPC will still own generation through its Supply Division and transmission

and distribution through its Services Division. MPC has not described how it will keep its merchant function separate from transmission. Essentially, according to Ms. Petrochko, MPC remains a vertically integrated utility. Furthermore, regulated and unregulated energy services activities are commingled in the Services Division; services such as DSM, metering and billing are provided as regulated services within MPC's traditional service territory but as unregulated services in other areas.

104 Metering and Billing. Ms. Petrochko recommended that the Commission decide that other services relevant to providing power supply should also be provided competitively, including DSM, billing, metering, customer service and collection. According to Ms. Petrochko, competition should lead to innovative power supply services. Services such as metering and billing may serve as a foundation for some of this innovation. MPC recognizes the opportunities for innovation such services provide, which is why it is coordinating restructuring with the installation of a new metering and billing system. Ms. Petrochko stated that restricting competitors from providing these services would put them at a disadvantage relative to the utility. She asserted that innovations in service will come from technological advances in metering, meter reading, billing and information technology. If competitors are not allowed to provide these services, utilities will set the pace of technological innovation.

105 Ms. Petrochko conceded that SB 390 does not specifically state that metering, billing and information services should be competitively provided. However, the purpose of pilot programs is to determine the most effective and timely options for providing customer choice. Ms. Petrochko maintained that representative conclusions will not result from pilot programs unless metering, billing and information services can be offered by alternative suppliers. At a minimum, the pilots should allow for a demonstration of the market viability of these services.

106 Unbundled Prices - Delivery Service Charge. Mr. Galura supported MPC witness Maxwell's testimony on embedded allocated cost-of-service, but he testified that the tariffs MPC proposed for Market Supply Service do not comply with SB 390's requirements. MPC used a net approach to derive distribution and transmission rates for Market Supply Service customers, while customers who do not choose an alternative supplier would continue to receive fully

bundled rates. Mr. Galura maintained that in both cases this is inappropriate. The net approach subtracts MPC's estimated market supply price and CTC's from current rates and attributes everything else to distribution and transmission, shifting some generation costs into these functions. He stated that even if a customer has not chosen an alternative supplier, unbundled rates are important for educating customers and preparing them for choice.

107 Mr. Galura maintained that MPC's proposed fixed delivery service charge is discriminatory. Customers selecting market supply service would experience a fixed distribution charge, while customers staying with utility service would experience a combination of fixed and volumetric charges. According to Mr. Galura, MPC's proposed rate design will discourage customers from taking market supply service, because the fixed charge may be perceived as an economic barrier. Furthermore, the rate design would not send appropriate price signals, because it would not respond to reduced consumption as a result of energy conservation or improved efficiency. He recommended that MPC simply unbundle its rates based on the results of the functionalized, embedded cost-of-service study sponsored by MPC's Mr. Maxwell.

MPC Generation Sale Revised Plan/Rebuttal Testimony, January 30, 1998

108 MPC filed Rebuttal Testimony on January 30, 1998, which, along with responding to intervenor testimony, outlined the Company's planned sale of its generation facilities. Perry Cole's testimony indicated that the offering memorandum would be released in early February with a short list of bidders developed in April.

109 Generation Sale. MPC witness Mr. Cole explained why the Company made the decision to divest its generation. MPC concluded that it would be in a better position if it did not own generation in the regulatory jurisdiction where it provides transmission and distribution services. MPC would be able to react more quickly to business opportunities and meet customers' needs. MPC believed that companies larger than MPC could compete more successfully in the dynamic, evolving competitive generation market. MPC intended to focus even more on its core strength of customer services. Companies larger than MPC concentrating on generation would be in a better position to take the risk that energy prices in the future, determined by competition, may be more or less than actual costs of generation.

The following testimony on the generation sale is included only so far as it relates to the request from the Commission for late filed exhibits on a proposed accounting order mechanism to track costs from July 1, 1998, the date of large customer choice, and the conclusion of the sale of the generation assets. The Commission allowed MPC to make a limited presentation on the CTCs for purposes of the accounting order.

110 Competitive Transition Charges and Accounting Order Mechanism. Pat Corcoran stated that the Company's internal work teams continue to develop and finalize procedures and policies necessary to implement customer choice on July 1, 1998. He noted that the final outcome of the generation sale will not be known until some time in 1999. During the interim period between July 1, 1998, until the sale is complete, MPC proposed CTCs for hydro/thermal/Basin (CTC-HTB) and qualifying facilities (QF) based on a revenues lost approach, using an estimated market price, to recover generation-related regulatory assets. This interim sale period would continue until the sale is complete, when hydro/thermal/Basin and qualifying facilities charges in effect during the interim sales period would be adjusted, as necessary to reflect actual market prices. Further, MPC proposed adjusting all CTCs prospectively to reflect the results of the sale.

111 CTC-HTB Charge. MPC proposed a CTC to recover its transition costs related to hydro/thermal generation and the Basin Contract, less exchange returns. However, since the market power supply price is assumed to be equal to MPC's rate moratorium power supply price, net of generation-related regulatory assets and out-of-market QF costs, the CTC-HTB is zero during the interim sales period. The CTC-HTB would be subject to true-up for customers who choose an alternative supplier during the interim sales period and would cover the associated hydro, thermal and Basin out-of-market generation costs otherwise recovered in conventional rates during the interim sales period. If the actual average market power supply prices are less than the net rate moratorium power supply prices, MPC proposed that customers who exercise choice during this period may be required to pay a prospective CTC-HTB for any difference. However, this would depend on the results of the generation sale, which could offset all or part of this difference. New or additional loads of 1,000 kW or greater will not be responsible for the recovery of the CTC-HTB.

112 MPC intended that the interim sales period CTC-HTB and CTC-QF would exactly recover the associated out-of-market rate moratorium costs for these two items. MPC proposed that the Commission issue an Accounting Order, to be effective during the interim sales period, that would allow MPC to track and prospectively adjust for any actual out of market power supply price differences. During the interim sales period, MPC would track the difference between the actual monthly market price and the rate moratorium power supply price. After the sale, this tracking balance would indicate whether an under collection of MPC's CTC-HTB occurred. This balance would then be factored into the prospective level of CTCs.

113 During the interim sale period, MPC proposed that all customers pay a CTC-QF based on the difference between MPC's QF costs and the rate moratorium power cost. MPC would track the actual average monthly market price and the difference between this actual price and the rate moratorium power supply price. After the sale, this tracking balance would indicate whether an under/over collection of MPC's CTC-QF occurred, which would then be factored into the prospective level of CTCs. The actual average market price would be determined by dividing total wholesale market revenues by total actual wholesale kWh sold. This price would be computed monthly. To make this comparison, the actual market price would have to be reduced for actual transmission costs to move the power to market.

114 Mr. Corcoran testified that the CTC-HTB and associated tracking and adjustment mechanisms would not be necessary for customers who did not have choice during the interim sales period. Those customers would pay rate moratorium power costs through their Services Division power supply charge; therefore, no CTC-HTB adjustment is necessary for these customers.

115 If the generation sale produced net proceeds below book value, a regulatory asset would be recorded, in which case MPC proposed to recover the total below book difference over a reasonably specified period of time through the CTC-HTB. If the generation sale produced net proceeds above book value which completely eliminated all CTCs, MPC proposed to amortize the balance as a reduction in distribution rates over a reasonably specified period of time. MPC would accumulate the net proceeds from the generation sale in order to treat all sales proceeds at

one time for the purpose of adjusting the CTC charges. MPC proposed an accounting order if it is necessary to accomplish this,.

116 On a complete sale, MPC proposed to submit a CTC compliance filing with the Commission that would provide all of the details associated with the generation sale and the interim sale period. The filing would detail all of the respective CTC adjustments, including the respective amounts accumulated under any accounting orders. This compliance filing would be filed upon final closing of the sale, the interim sale period CTCs would cease and, as appropriate, the prospective CTCs would begin. The compliance filing would net the CTC adjustments from the interim sale period and generation sale net proceeds to implement any required prospective CTCs.

117 <u>Functional Separation -- Standards of Conduct</u>. Mr. Cole testified that MPC has satisfied SB 390's functional separation requirements. MPC claimed it satisfied FERC's functional separation requirements and appropriately trained its employees with regard to the requirements in FERC Orders 888 and 889. Mr. Cole stated that the debate over functionally separating energy services focused on which energy services should become unregulated, with the intervenors stressing metering and billing. MPC proposed a transition to competition in metering and billing, if that is determined to be desirable and logical goal.

118 Mr. Cole disagreed that it is required to functionally separate transmission and distribution; separating these functions will not further the goal of preventing unfair advantage to MPC's supply or energy services activities. Mr. Cole disagreed with Enron's assertion that MPC's code of conduct is inadequate. However, MPC is willing to add to its code of conduct to accommodate some of Enron's suggested provisions.

119 <u>Load Profiling</u>. Mr. Corcoran testified that MPC has hired ICF Kaiser Consulting to purchase and install a load profiling and settlement system called Load Vision. MPC plans to have Load Vision operational by May 1, 1998. The Load Vision system: (1) creates hourly customer load profiles for various customer segments based on historical data; (2) calculates schedule profiles for each supplier; and (3) calculates imbalance energy or dollars for settlement between suppliers and the utility.

120 Mr. Corcoran testified that MPC plans to install interval recording meters on all customers with 500 kW or more of average annual billing demand (all customers in the GS-2 class and some of the larger GS-1 customers). Customer-specific scheduling profiles will be used for these customers based on hourly usage information. Load Vision will calculate load profiles for at least the GS-1 Primary, GS-1 Secondary, Irrigation, Lighting and Residential classes. MPC has not decided whether to develop additional load profiles within these segments, such as whether there should be separate load profiles for electric heat and non-electric heat residential customers. Based on the load profiles and the customers served by a supplier, MPC will calculate schedules that suppliers will use to provide electricity to the delivery system. Suppliers will be responsible for reserving necessary transmission facilities to deliver supplies to their customers. Mr. Corcoran stated that the details of the scheduling process and the imbalance calculations are still works in progress.

121 Metering and Billing. William M. Thomas addressed MPC's position on competitive metering and billing. MPC originally proposed retaining metering and billing as a regulated service of the distribution company. Intervenors including DEQ and Enron have countered that metering and billing should be competitive. Mr. Thomas suggested that MPC, intervenors and the Commission have larger and more immediate issues to address before moving to competitive metering and billing for all existing customers. Mr. Thomas supports a planned and phased transition to competitive metering and billing in his testimony. The Commission should convene a working group with appropriate parties to monitor and evaluate how competitive metering and billing evolve in other states and, based on this analysis, develop guidelines and procedures for Montana.

122 Mr. Thomas identified several reasons for not supporting an immediate transition to competitive metering and billing. Metering and billing products differ substantially compared to electric energy. Whereas a distribution utility may perform a supplier of last resort role with respect to electric energy without having to duplicate a supplier's generation, performing the same role with respect to metering and billing is more complicated. According to Mr. Thomas, a distribution company cannot act as a supplier of last resort for metering and billing without duplicate facilities, and duplication is costly. The potential gains of competitive metering and

billing are small, compared to the gains from competitive supply. Parties are currently dealing with many problems related to restructuring and implementing choice. When ranking these problems in order of importance, metering and billing are not at the top of the list and are not critical to achieving a competitive electricity supply markets. Finally, the necessary framework to allow competitive metering and billing has not been defined in Montana. Issues related to oversight, operational procedures, data processing and transfer systems need to be established, and this task is best undertaken after similar systems for competitive supply are in place.

123 Mr. Thomas disagreed with DEQ witness Alan Davis that MPC will be able to use its metering and billing functions to retain its current customers. If the meter can really be used to prevent customers from moving to another supplier then, according to Mr. Thomas, no supplier should be allowed to provide metering. But for the majority of customers who only require monthly meter reads, the meter only provides information necessary for billing, system operation and planning, load-balancing and settlement. Little information about a customer's lifestyle, purchasing patterns and decision-making can be obtained through monthly meter reads. Mr. Thomas testified that experience in the natural gas industry demonstrates that continued utility metering does not prevent access to customers or inhibit customers from seeking alternative suppliers.

124 Mr. Thomas indicated that competitive metering may increase costs to society by eliminating some economies of scale related to meter reading and installation, particularly for residential and small commercial customers only requiring monthly reads. Mr. Thomas further stated that retaining metering in the regulated utility function will not prevent technological advances. New meter technologies are introduced regularly by equipment vendors under the monopoly utility environment. Mr. Thomas stated that if a customer or a supplier on behalf of a customer requests advanced metering, MPC will install it. Mr. Thomas recommended phasing in competitive metering and billing based on demonstrated success in other states. Customers with loads greater than 1 MW would be allowed choice of their metering and billing provider in 2000, customers greater than 300 kW in 2002, all commercial customers in 2004 and residential customers in 2006.

125 Customer Education. Deborah Young presented MPC's rebuttal testimony on customer education and pilot program issues. Ms. Young responded to intervenor testimony concerning the need for neutral education messages and education specific to, and in advance of, the pilot programs. Ms. Young agreed with DEQ's Mr. Davis that the education program must provide customers with objective information that promotes informed choices. The education program should not advantage any supplier, but must be specific enough so customers understand the what, how and when of choice and the effect on their energy bill, service and reliability. Ms. Young believed that customer education messages must refer to the Transition Plan of the utility from which the customer receives service, and therefore cannot be void of all references to MPC.

126 Ms. Young also agreed that customer education should start sooner rather than later. She stated that MPC is amenable to Commission staff review of education material to assure that messages are consistent with the tone, terms and intent of messages developed through the Customer Education and Pilot Program Collaborative. Ms. Young proposed modifications to MPC's original customer education plan, based on the results of the Customer Education Collaborative, input from MPC's customer advisory panels and information from education experiences in other states. These modifications include additional time for educating customers before implementing choice, establishing targeted messages for hard to reach customers (e.g., large print for seniors), and staff review of education messages to ensure consistency with recommendations of the Customer Education Collaborative.

127 Pilot Programs. MPC revised some aspects of its proposed pilot programs in response to intervenor testimony. Ms. Young presented the revised pilot program proposal and responds to intervenor recommendations which were not incorporated into the revised program. Responding to DEQ's suggestion to have an independent administrator operate the pilot program, Ms. Young suggested that MPC's proposed code of conduct will sufficiently prevent self-dealing concerns. MPC is committed to informing the Commission of any changes in the operation of the pilot program on an on-going basis. Ms. Young disagreed that MPC's supply affiliate should be excluded from the pilot program, saying that such a requirement goes beyond what is necessary to ensure a competitive supply market. Again, Ms. Young believed that MPC's standards of conduct will prevent subsidization between regulated and unregulated parts of MPC

and ensure that distribution services are provided without discrimination. Further, MPC does not believe the Commission has the authority to limit MPC's participation in the market.

128 Ms. Young disagreed with Mr. Davis's recommendation that the Commission refrain from approving other aspects of MPC's transition plan until pilot programs are approved. Although it would be ideal to have a Commission order which addresses all the pieces before the plan is implemented, Ms. Young maintained that SB 390 sets a specific schedule by which customers start moving to choice. Ms. Young believed that MPC's generation sale and revised pilot program design should address many of Mr. Davis's concerns.

129 Ms. Young disagreed with Dr. Nordell and Dr. Swan that MPC's proposal to randomly assign customers who have not chosen at the end of the transition period advantages MPC's marketing affiliate. She countered their assumption that MPC's marketing affiliate will enroll a disproportionate share of customers who do choose. Ms. Young stated that because customers may not understand that they have to take affirmative action to enroll with the marketing affiliate it is likely that other suppliers will have greater market share.

130 <u>Revised Pilot Program</u>. Ms. Young outlined the following revisions to MPC's original pilot program. First, MPC proposed increasing the sample in the initial phase of the pilot program from 3 percent to 5 percent and implementing a shorter time line for moving to full customer choice. Second, MPC adjusted the nomination process to better accommodate aggregation. Third, enrollment would be based on a capped, first-come, first-served approach. Fourth, MPC further defined the education process.

131 To accommodate quality education and a smoother transition to a new billing system, MPC proposed to begin educating customers in April to prepare for the first phase of customer choice on November 2, 1998. Ms. Young testified that the adjusted time line allows more accurate education about the pieces and prices of unbundled bills and the portion of the bill which may be influenced by customer choice (MPC's natural gas pilot program is also scheduled to begin in November). In May, 1999, MPC would evaluate the first phase and, if successful, increase the number of eligible customers to 10 percent (22,000 residential and 5,000 commercial/irrigation). Beginning in August 1999, if everything has gone well, MPC proposes to expand the program at a rate of not more than 10 percent per month until full customer choice is

achieved in April 2000. The increased size of the initial phase of the pilot program, the additional time for customer education and faster ramp-up to full customer choice are intended to promote supplier and customer participation.

132 MPC's revised pilot program nomination process will allow suppliers to submit a group of customers from whom the supplier has obtained individual requests to participate in the pilot program. Suppliers can bring customers into the pilot by successfully marketing their products. Aggregators may focus on a specific geographic area or a specific customer type, such as a senior citizens group. MPC would still require a customer's signature before releasing customer specific information to the supplier. Customers would also be able to self-nominate by mailing, calling or e-mailing MPC and could authorize MPC to release their customer information to all suppliers. MPC proposes to cap the number of customers any supplier could subscribe to keep any one supplier from dominating the pilot. Ms. Young states that the specific cap would be determined once the number of suppliers participating in the initial pilot phase is known.

133 Assigning Customers who do not Choose. MPC also revised is proposal for assigning customers who have not chosen a supplier by the end of the transition period. The revised method allows suppliers to opt out of the assignment process. Ms. Young stated that some suppliers who have targeted their marketing efforts to certain customer types may not want to be assigned a random mixture of customers.

134 Distribution Services. In its original filing, MPC proposed two sets of distribution tariffs, one for conventional utility service and one for customers choosing an alternative supplier (Market Supply Service). In rebuttal testimony, Mr. Corcoran proposed combining conventional service and Market Supply Service into a single set of distribution tariffs. Conventional service would be called Full Utility Service. Mr. Corcoran sponsored proposed tariffs for Residential, General Service, Irrigation and Lighting customer classes. The tariff schedule for each customer class separates charges for power supply, transmission, CTCs, USBC and a delivery service charge.

135 Power Supply Charges. The power supply charge for Market Supply Service is the market price offered by an alternative supplier. For Full Utility Service Customers, the power supply charge is derived from the test year functionally separated production-related revenues,

less MPC's estimated regulatory asset and QF-related stranded costs. Hydro and thermal stranded costs are assumed to be zero. The remaining production revenues are divided by the test year retail kWh sales to produce a per unit power supply cost. This power supply cost is then adjusted for class-specific losses. As a result, the power supply cost for the residential class is the same as for general service-secondary customers. Mr. Corcoran testified that the power supply rates for Full Utility Service customers should only vary by losses, not because of past rate decisions.

136 Transmission Charges. Transmission charges for Full Utility Service are derived from the test year functionally separated transmission-related revenues. For Market Supply Service, Mr. Corcoran stated that transmission rates will be those in MPC's FERC-approved tariff. Large Market Supply Service customers may purchase transmission directly from the FERC tariff, while for small customers it is likely that the power supplier will purchase transmission from MPC and, in turn, bill the customer. Mr. Corcoran testified that currently approved FERC transmission rates reflect 1994 cost-of-service data and that MPC will make a filing with FERC in March to update those rates.

137 Delivery Service Charges. Although intervenors criticized MPC's proposed Delivery Service Charge (DSC), Mr. Corcoran stated that MPC continues to propose using the DSC to collect costs related to distribution secondary, distribution primary, meters and services, and customer costs. Mr. Corcoran maintained that none of the intervenors presented evidence contradicting the DSC as a method for recovering fixed costs.

138 According to Mr. Corcoran, the intent of SB 390 is for customers' bills to approximate the level produced by current rates. The DSC provides this result, and allows customers to perform an apples-to-apples comparison of Full Utility Service vs. Market Supply Service. Mr. Corcoran proposed some modifications to the DSC as originally proposed. The modified monthly DSC is equal to each customer's bill under currently tariff rates, minus the bill that is produced using unbundled power supply, transmission, CTC and USB charges. Table 2 below demonstrates the calculation of the modified monthly DSC for a residential customer with 750 kWh consumption. The DSC is shown for both the Full Utility Service and the Market Supply Service options. To simplify the calculation, the transmission rate for Full Utility Service

and Market Supply Service are assumed to be equal. All charges are from Mr. Corcoran's rebuttal testimony exhibits, except the power supply charge for Market Supply Service which was made up.

Table 2

	Full Utility Service		Market Supply Service	
Tariffed Residential Rates				
$4.20/month				
$0.057434/ kWh (summer)				
Total Bill @ 750 kWh =		**$47.28**		**$47.28**
Unbundled Rate Components				
Power Supply Charges	$0.025401	$19.05	$0.0200	$15.00
Transmission Charges	$0.007605	$ 5.70	$0.007605	$ 5.70
CTC-RA	$0.002411	$ 1.81	$0.002411	$ 1.81
CTC-QF	$0.003196	$ 2.40	$0.003196	$ 2.40
USBC		----		----
Delivery Service Charge		**$18.32**		**$22.37**

139 Mr. Corcoran stated that the proposed DSC produces no billing impacts when compared to the current rate bill levels. As a result, Mr. Corcoran asserted that the only relevant billing impact comparison between Full Utility Service and Market Supply Service is the power supply charge. Customers will be able to shop the power supply market with a target power supply cost to compare to compare to what suppliers offer.

140 MPC's Dr. Falvey responded to criticism offered by Mr. Schneider from DPHHS and Dr. Swan from MCC. Dr. Falvey stated that the basic task of the distribution utility is to deliver electricity from the transmission line to the end user as well as to transform the voltage to usable levels and measure usage. The cost of performing these tasks determines the cost of providing distribution service. Performing the tasks requires planning and building facilities, operating and maintaining the facilities deriving a return of and a return on the investment in the facilities and paying relevant taxes. The physical links involved in delivering electricity from the

distribution line to the end user start with the distribution substation where the voltage of the electricity carried on the transmission line is reduced to a level that can be delivered over the primary distribution system. The transformed electricity travels over the primary distribution system until it reaches the vicinity of the end use customer. Customers taking service directly at the primary distribution level are connected to the system by a service drop and a meter. Customers taking service at a lower secondary voltage level require a line transformer in addition to the service drop and meter.

141 As presented by Dr. Falvey, the costs of the individual physical components involved in delivering electricity depend on the maximum load which will be placed on the component. Implicitly, costs caused by the end use customer depend on the customer’s coincident peak demand and the installation and maintenance of the physical link between the transmission line and the customer’s premise. Dr. Falvey maintained that costs should be assigned to customers accordingly.

142 There are no distribution costs caused by incremental energy flows on the distribution system, which Dr. Falvey asserted implies that a rate structure focusing on energy-based (kWh) prices will not encourage efficient decisions. However, Dr. Falvey stated that questions of how best to recover distribution costs through prices, i.e., the appropriate price structure, is being delayed for now because of more pressing issues related to competitive supply. The purpose of Dr. Falvey's original testimony was to use marginal cost reasoning to support the increase in the fixed portion of the distribution rate structure associated with the DSC.

Intervenor Response Testimony, March 17, 1998

Montana Consumer Counsel

143 Matthew Kahal and Dr. Dale Swan provided supplemental testimony addressing MPC’s proposed sale of generation assets, interim CTCs, pilot programs, customer education, method for assigning customers who do not choose, and rate design. This Tier 1 order will focus on the Tier 1 issues.

144 Sale of Generation. Mr. Kahal testified that while MPC’s proposal to sell all its generation assets has the effect of setting aside much of MCC’s November testimony on stranded cost and CTCs, it raises many new questions. With the understanding that MPC’s divestiture

plan is preliminary, Mr. Kahal stated that he does not object to the plan. A properly performed auction should establish a fair market value for MPC's generation assets and has the potential to enhance competition by mare cleanly separating transmission and generation ownership. Mr. Kahal outlined concerns with MPC's divesture process and proposals for interim CTCs, which will be addressed in subsequent Tier 2 proceedings.

145 Pilot Programs. MPC's revised pilot program satisfied Dr. Swan's concerns raised in his intervenor testimony. Dr. Swan stated that he remains skeptical that there will be significant voluntary participation by small customers but he believes that MPC's revised pilot programs does what is possible to maximize participation.

146 Customer Education. Dr. Swan agreed with MPC's proposal to implement the choice part of the pilot program in November, since it will provide an additional four months during which customer education can occur. Dr. Swan reiterated that the most important piece of information for customers to have when shopping for power is the price they must beat to realize any savings. If initial phase of the pilot program were to commence on July 1 as originally proposed, the initial group of participants would have to select a supplier without this piece of information. Dr. Swan believed that deferring the start date for the initial phase of the pilot, along with increasing the number of eligible participants and speeding up the rate at which choice is expanded, is a much better approach than MPC's original proposal. However, to the extent the Commission approves MPC's request for an interim CTC with a true-up mechanism, the price to beat could turn out to be wrong. There is the possibility that customers could be worse off after exercising choice. Dr. Swan recommended fully educating customers about this risk before they are given choice.

147 Dr. Swan stated that MPC's divestiture of its generation assets does not necessarily dispel his concerns that MPC could use its education program to benefit its marketing affiliate. The proposal to have Commission staff review all educational material before it is distributed should provide some degree of protection.

148. Electric Supplier Agreements. In direct testimony, Dr. Swan raised concerns about the potential for MPC to manipulate terms and conditions of Electricity Supplier Agreements to limit entry into MPC's service area. Dr. Swan stated that MPC's proposal to cap the

number of customers any one supplier may serve during the initial phase of the pilot program mitigates this concern. He suggested that perhaps the cap should be extended beyond the initial phase as well.

149. According to Dr. Swan, there is a fundamental need to regulate the terms and conditions through which suppliers are granted access to the distribution system. MPC has yet to agree that the Commission has the authority to regulate these terms and conditions. Dr. Swan asserted that if MPC truly wants to encourage maximum participation by alternative suppliers it should submit for Commission review and approval a pro forma Electric Supplier Agreement.

150. Assigning Customers who do not Choose. Dr. Swan testified that he continues to believe that the best way to handle customers who have not chosen a supplier at the end of the transition period is for MPC's regulated distribution utility to assume the role of an aggregator. This approach eliminates concerns that the allocation mechanism will benefit the marketing affiliate and provides the benefits of competition to customers who prefer to stay with bundled service. MPC's revised allocation method does not convince Dr. Swan that his approach is unnecessary.

151. Delivery Service Charge. Dr. Swan stated that he is in complete agreement with Dr. Falvey that issues related to revamping the distribution rate structure should wait until MPC's next cost-of-service and rate design filing. In direct testimony, Dr. Swan recommended that the Commission reject MPC's proposal for a fixed Delivery Service Charge (DSC) based on historical usage. Instead, he recommended using the current authorized rate design. Dr. Swan believes MPC's revised DSC captures the essence of his recommendation.

Large Customer Group

152. Alan Rosenberg and Kathryn Iverson submitted response testimony on behalf of LCG. Dr. Rosenberg addressed a mixture of Tier 1 and Tier 2 issues, but concentrated on Tier 1: MPC's proposed sale of generation assets, disposition costs, addition of CTC for a contract with Basin Electric Cooperative, and interim CTCs with true-ups. Ms. Iverson addressed unbundled rates and a tariff for USBCs which incorporates large customer credits. This order will focus on the testimony related to Tier 1.

153. Dr. Rosenberg explained that MPC proposes an interim sale period that begins on July 1, 1998 and ends with the financial closing of the asset sale. During this period, MPC had propose to collect interim CTCs based on a revenues lost calculation. MPC assumed that the market power supply price exactly equaled the rate moratorium power supply cost, so that the CTC for hydro and thermal and Basin costs (CTC-HTB) is initially set at zero. MPC proposed and accounting mechanism to track actual power supply costs so that the CTC-HTB could be trued up later. The accounting mechanism would track the difference between MPC's rate moratorium power supply cost and MPC's average wholesale selling price less transmission costs to move the power to the market.

154. Dr. Rosenberg disagreed with the MPC proposal to collect interim CTCs. The interim CTC-HTB is a request for lost revenues and stranded costs. Dr. Rosenberg asserted that this mechanism would provide MPC with undue revenues and preclude customers the opportunity to participate in "authentic competition." In fact, Dr. Rosenberg suggested that it is misleading to call MPC's proposal a "true-up." Dr. Rosenberg recommended a simple accounting mechanism that would allows MPC to track and collect any difference between the book value of its plants and the market price obtained through the sale.

155. Similarly, Dr. Rosenberg disagreed with MPC's proposed interim CTC-QF. He recommended that the initial value of all CTCs should be set at zero. Section 69-8-211, MCA conditions stranded cost recovery on an affirmative showing by the utility that the value reflects all reasonable mitigation and that the value is reasonably demonstrable on a net basis. According to Dr. Rosenberg, at this time MPC has not satisfied these conditions and the value is subject to considerable dispute. A minimal accounting order which allows MPC to recapture, with interest, CTC revenues from customers opting for choice during the period between July 1, 1998 and the Commission's final order on Tier 2 issues is appropriate. However, Dr. Rosenberg recommends that the accounting order not extend beyond six months.

156. With respect to MPC's lost revenue approach, Dr. Rosenberg asserted that the wholesale market price is not the correct benchmark. This benchmark tacitly assumed that the average off-system sales price was the best price MPC could have obtained for the sales it lost to another supplier. It is not proper to subtract any transmission costs from the relevant market

price. According to Dr. Rosenberg, MPC will not lose any transmission money because a customer purchases its supply of electricity from an alternative supplier rather than from MPC. Some entity still must use the MPC transmission system to deliver the power to those customers and pay its transmission tariff. The interim sales period ought to encompass the period between July 1, 1998, and the date of the Commission's final determination of stranded costs, which should be no later than December 31, 1998.

157. Unbundled Rates. Ms. Iverson testified that MPC's proposed rates inaccurately and incompletely unbundle power supply, transmission, distribution and CTCs. First, MPC's unbundled rates for transmission and distribution, which reflect functions that remain regulated, are not cost based. Second, the DSC includes costs for billing and metering functions that could be provided competitively in the future; the residual nature of the DSC camouflages any price information about competitive components of the delivery system. Third, MPC proposed power supply charges ignore cost differences associated with load shape, seasonality and diversity and distinctions between energy and capacity. Fourth, the unbundled rates include CTC that have not been substantiated.

158. Transmission Rates. MPC based its unbundled transmission rates on proposed rates filed with FERC. Ms. Iverson recommended using the currently approved FERC rates rather that a speculative rate, until FERC a new rate is approved by FERC.

159. Delivery Service Charge. Ms. Iverson reiterated that the residual method of determining the DSC is inappropriate, because it allows the distribution utility to collect revenues for a regulated service based on something other than the actual costs incurred to provide the service. Under MPC's proposal, the customer would pay the total bundled rate currently in effect, and anything that is not power supply-related, transmission-related, USBC- or CTC-related is assumed to be delivery-related. Ms. Iverson recommended, as she did in her direct testimony, that unbundled rates for customer-related and distribution-related functions be recovered by stand-alone charges.

160. Power Supply Charges. Ms. Iverson testified that MPC's proposed power supply rates are inappropriate, because they are based on a system-wide production costs for all customer classes, adjusted only for losses. Ms. Iverson maintained that MPC's proposal has two

critical problems. First, it ignores load shapes, diversity, seasonality and load factors of the customer classes by allocating a year-round power cost to every kWh equally, disregarding how costs are incurred to provide power as well as costs included in current rates. Second, it recovers power supply costs in a flat kWh charge, again ignoring seasonality and load factors. As a result, any costs differences associated with differences in load factors are shifted to the DSC.

161. Ms. Iverson's recommendation for unbundled power supply charges is unchanged from her direct testimony. Distribution and transmission charges are based on functionally separated class revenue requirements. Revenues from unbundled distribution and transmission rates, and from CTC and USBC charges are removed from the production revenue requirements. The remaining production revenue requirement is collected through the same rate structures (though not at the same levels) in current rates, which Ms. Iverson stated accomplishes three goals. First, customers staying with MPC's distribution utility are indifferent between the current fully bundled rates and the new unbundled rates. Second, it maintains current class differences for production costs which reflect varying load shapes and seasonality, preventing any cost shifting in this case. Third, it avoids a complicated crediting scheme as proposed by MPC.

Department of Environmental Quality/Northwest Power Planning Council

162. Alan Davis, Lawrence Nordell, John Hines, Mick Robinson and John Goroski submitted response testimony to MPC's proposed generation asset sale and rebuttal testimony. These witnesses focused on functional separation, competitive metering and billing, pilot programs, customer education, standards of conduct, market power, conditions attached to the generation sale, interim CTCs and USBC issues.

163. Mick Robinson testified on the Administration's main policy concerns with MPC's revised filing. He stated that in many ways MPC's plan continues to advantage the company and will inhibit the development of competitive markets for electricity supply and related energy services. Mr. Robinson's concern is that if the Commission approves MPC's plan MPC, and its affiliate retains nearly all its current customers, there would be limited competition.

164. Functional Separation. Mr. Davis testified that the problems DEQ identified in its direct testimony with respect to functional separation still exist in MPC's rebuttal filing; MPC still has not functionally separated the Company as required by SB 390. Mr. Davis asserted that

MPC is proposing to separate into two functions rather than the four required in SB 390. MPC's Energy Supply Division includes energy supply functions including Montana Power Trading and Marketing Co. MPC's other Division, Energy Services and Communications, includes business development, regulatory affairs, distribution services, transmission services and communications services. MPC has failed to separate distribution from energy services and transmission from distribution, according to Mr. Davis.

165. Mr. Davis maintained that DEQ's direct testimony on which energy services should be competitive has not been rebutted by MPC. DEQ recommended that if MPC's subsidiaries can offer the service outside MPC's service territory, the service should be an unregulated function. The specific functions which Mr. Davis recommended should be performed by the regulated distribution company are:

Restoration of service after outages

Troubleshooting and resolution of companies' service claims

Line extension for new construction and road expansions

Customer facility relocation and upgrades

Maintenance/upgrading of the distribution system

Disconnections and reconnections

System monitoring and reliability response

Tree trimming.

Mr. Davis recommended deregulating all other services.

166. Metering and Billing. Disagreeing with MPC's proposal for an 8-year investigation into whether metering and billing can be provided competitively, Mr. Davis maintained that MPC should have developed the framework for competitive metering and billing as part of its restructuring filing. Mechanisms could be in place to allow competitors a fair opportunity to offer these services to customers with choice.

167. Mr. Davis stated that MPC's new customer information system (CIS) highlights DEQ's concerns regarding the anticompetitiveness of MPC's control over access to customers. The new CIS allows MPC to provide customers a joint gas and electric bill when other competitors cannot. Mr. Davis's concern is that MPC has offered no protections or safeguards to prevent

MPC from using the new CIS to advantage its marketing affiliate. Mr. Davis maintained that MPC has already used its billing system to advantage and affiliate by allowing Touch America to include an advertisement in MPC’s electric bills.

168. According to Mr. Davis, there is a general consensus that the profit margins in the restructured electric industry will come from value added services, not from the electric commodity, which is why MPC wants to be the monopoly provider of metering and billing services. DEQ's recommendation was that the Commission modify MPC’s plan to make metering and billing competitive services and allow alternative energy suppliers to provide these services as well. Mr. Davis believed that the Commission should order MPC to address infrastructure and compatibility issues and establish mechanisms to allow competitive metering and billing to be in place by July 1, 1999. Mr. Davis also proposed that the Commission incorporate a non-performance financial sanction if MPC has not implemented competitive metering and billing mechanisms by July 1, 1999.

169. Code of Conduct. Mr. Davis argued that MPC has yet to produce a code of conduct that satisfies the requirements of SB 390. Further, the Federal Energy Regulatory Commission has not approved MPC’s code of conduct for FERC-jurisdictional services. Even if it had, Mr. Davis maintained that MPC’s FERC code of conduct would not be sufficient, because FERC does not require functional separation between MPC’s distribution functions and energy services functions. According to Mr. Davis, standards of conduct are the Commission’s tool for enforcing antidiscrimination and self-dealing matters involving a functionally separated company. Normally, these standards are adopted as tariff provisions. MPC’s rebuttal filing enhanced DEQ’s concerns regarding MPC advantaging its affiliates. Therefore, Mr. Davis recommended that the Commission adopt a code of conduct for MPC which satisfies SB 390.

170. Pilot Programs and Customer Education. Although he agreed that some of the specifics of MPC’s proposed pilot programs move in the right direction, Mr. Davis maintained that these movements are overshadowed by MPC's failure to adequately functionally separate. DEQ questioned whether MPC can objectively run pilot programs and educate customers in a way that does not advantage its affiliates. DEQ recommended that MPC and its affiliates be prohibited from participating in pilot programs run by MPC until MPC demonstrates there will

be no self-dealing or advantages given to its affiliates, as required by SB 390. Further, given MPC's rebuttal filing, Mr. Davis proposed that both the pilot program and customer education program be operated by independent entities.

Enron Capital and Trade

171. Mona Petrochko's rebuttal testimony addressed MPC's proposed generation sale, interim CTC proposal distribution service rate design, pilot programs and access to metering and billing. This Order will focus on the Tier 1 issues.

172. Distribution Service Rate Design. Ms. Petrochko agreed with MPC's proposal to implement the same rate structure for customers who continue to receive service from the distribution company and customers that choose market service.

173. Pilot Programs. Ms. Petrochko supported MPC's decision to expedite the phase-in of full customer choice but she believes the Company has given itself a great deal of discretion. According to Ms. Petrochko, the Commission should link stranded cost recovery to MPC's commitment to allow competitive access.

174. Metering and Billing. Ms. Petrochko believed that MPC's plan for introducing competitive metering and billing is progressing too slowly. There are no assurances that MPC will ever unbundle these services. Ms. Petrochko suggested that it would be productive for MPC to encourage dialog on the technical issues associated with competitive provision of metering and billing.

Avista Energy

175. Robert Pierce filed response testimony for Avista Energy asserting that MPC's filing focuses more on ensuring MPC will be made whole than on providing clarity to customer choice issues. Mr. Pierce stated that MPC's interim CTC proposal injects uncertainty with respect to stranded costs which will hinder both suppliers and customers. Mr. Pierce also objects to MPC's proposal to calculate distribution charges using a residual approach.

Findings, Discussion and Analysis

Unbundled Rate Design

176. To implement large customer choice and prepare for pilot programs for other customers beginning July 1, 1998, the Commission must decide how to unbundle MPC's

currently tariffed rates for all customer classes. To unbundle all the rates involves separating the test year revenue requirements for each customer class into functional components: production, transmission and distribution, at a minimum. Some parties such as Enron and DEQ recommend further separating the distribution function to establish rates and revenues for meter, meter reading, billing and customer accounting and other energy-related services. The Commission must also determine the specific rate structures to recover the functionalized revenue requirements for each class.

177. This proceeding is not a rate case; therefore, there are no changes to the revenue responsibilities produced by currently tariffed rates. However, since the results of MPC's embedded allocated cost-of-service study produces different revenues than do current rates, both total and for each class, the record contains different proposals on how to handle the residual when splitting class revenues into separate functions. For example, according to MPC's allocated cost study, current residential rates produce less revenues than allocated embedded costs, while the large general service substation and transmission level customers' current rates produce more revenues than allocated embedded costs.

178. MPC and LCG are the primary parties addressing the separation of current revenues into functional components. MPC addresses the residual problem on an individual class and function basis, using the embedded cost study results. Mr. Maxwell refers to this as "shaping" the intraclass revenue responsibility. July, 1997, Testimony of Philip Maxwell, p. 2. For example, if the results of the embedded allocated cost study show that production costs account for 46 percent of total embedded costs allocated to the residential class, then 46 percent of the residential class's current rate revenues are assigned to the production function.

179. LCG's method of functionalizing class revenues begins by using the results of MPC's embedded allocated cost study to establish distribution revenues for each class. Dr. Rosenberg testified that since distribution is still a monopoly service regulated by the Commission, distribution rates should be based on cost-of-service, derived from the Company's cost study (corrected for errors). November, 1997, Testimony of Dr. Alan Rosenberg, p. 31. Next, LCG asserts that transmission revenues should be based on the approved, current FERC revenue requirement allocated among the customer classes, using FERC allocation methods.

Although FERC has jurisdiction only over unbundled retail transmission service under direct access, Dr. Rosenberg believes that customers who do not have choice or who have not exercised choice should face the same transmission rate as those who do; customers should not pay more or less for transmission simply because they buy generation from a supplier other than MPC. Ibid., p. 32. Having established the other components, production revenues become the residual with Dr. Rosenberg's method.

180. MPC's rebuttal testimony disputes LCG's proposal to use the current FERC transmission revenue requirement as the basis for functionally separated class revenues. According to Mr. Corcoran, current FERC transmission rates reflect 1994 cost-of-service data, and MPC has filed with FERC to update those rates. At the hearing Mr. Corcoran suggested that unbundled retail transmission rates should reflect Montana Public Service Commission jurisdictional costs:

> Montana Power Company's proposal is that we can only give a customer a credit for those transmission costs that are inherent in their MPSC rate. To give them a credit for something, an amount greater than or less than that, would be an amount that's different than what they are paying in their MPSC tariff. Tr. p. 235.

Decision on Unbundled Rate Design

181. Marginal cost information is not available in MPC's restructuring case. Therefore, the Commission finds that it must take a different approach to analyzing functional separation methods than that taken in the PacifiCorp Docket No. D97.7.91, Order No. 5987e, issued June, 1998, where marginal cost information was available. However, the Commission's goals are generally the same: balance the need to separate regulated and unregulated functions with the desire to promote economically efficient consumer decisions through appropriate price signals, while maintaining current class revenue levels. Neither MPC's nor LCG's method is entirely appropriate. The Commission finds it appropriate to take the approach recommended by MPC and use a hybrid of MPC's and LCG's methods. MPC Legal Brief, p 14.

182. The Commission finds persuasive LCG's position that the unbundled transmission price should be consistent with the FERC transmission price, to the extent possible. Consistent transmission prices prevent customers from having to make supply decisions based on how both

the transmission and supply portions of their bills may be affected by their decisions to move to market-based supply. Consistency in transmission should promote more efficient initial supply decisions, so that consumers will judge supply offers on their relative merits, not on differences in how FERC and the Montana Commission treat regulated transmission services. However, the Commission finds that the current FERC transmission rates are not appropriate, as LCG has suggested. Nor does the Commission find appropriate MPC's shaped, allocated embedded transmission numbers, which MPC maintains are close to the retail portion of the transmission revenue requirement the Company recently filed with FERC.

183. At the hearing MPC's Mr. Corcoran testified:

> [W]hen you compare the transmission costs that retail customers are paying in their current MPSC rates ... to a comparable number in the FERC filing ... those numbers would be approximately the same. Therefore, those retail customers moving from their Montana Public Service Commission based tariff should be paying transmission costs in a range similar to those ... we have proposed to recover in the FERC transmission rates. Tr. pp. 231-32.

MPC filed to increase its annual revenues from FERC transmission and ancillary service revenues by $14 million/year. Docket Nos. ER98-2382-000, et al. Therefore, current rates may not be appropriate on a forward looking basis. Enron, BPA, WAPA, Big Horn County Electric Cooperative, LCG, Central Montana Electric Cooperative, Western Montana G&T, Washington Water Power and Montana Power Trading and Marketing have intervened in the FERC proceeding. Enron, Big Horn, LCG and Central filed protests and requests for suspension of the proposed rates pending an evidentiary hearing. In an Order issued May 28, 1998, FERC states:

> Our preliminary analysis of Montana Power's proposed rate changes in Docket No. ER98-2382-000 indicates that they have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. ...[O]ur examination suggests that the proposed rates may yield substantially excessive revenues.[1]

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[1] Federal Energy Regulatory Commission, *Order Accepting For Filing And Suspending Proposed*

184. It is unlikely FERC will grant MPC the full request of $14 million. Since the ultimate FERC rates will probably be higher than current rates, but less than what MPC has proposed, the Commission finds it reasonable to set transmission revenues at the mid-point between current FERC revenues and MPC's proposed FERC revenues, as the first step in establishing functionalized class revenues. The allocation of these revenues among customer classes should be based on MPC's estimated load share ratios.

185. Next, the Commission will set the distribution revenues based on the results of MPC's embedded allocated cost-of-service study, as recommended by LCG, since distribution will remain regulated by the Commission. However, the Commission's use of MPC's embedded distribution costs in this Order cannot be considered approval of those costs or the methods that produced the costs, because there has been minimal effort by any party to scrutinize that cost study.

186. The Commission determines that it will set production revenues using MPC's shaped, allocated embedded costs, which should partially address MPC's concern that LCG's method results in too high an indication of current rate production costs which customers will compare to market prices. See MPC Legal Brief, p. 12. The final step is to reconcile the class revenues produced by the first three steps to the class revenues at current rates by allocating the differences proportionally among the three functions.

187. The Commission will allow an opportunity to adjust the unbundled rates after FERC issues a final order on MPC's transmission revenue request, upon petition by any intervenor in this proceeding. An adjustment may not be necessary if this hybrid approach produces transmission revenues that are reasonably close to those approved by FERC, but the option should be available.

Rates As Modified, Accepting In Part And Rejecting In Part Proposed Open Access Tariff Revisions, And Establishing Hearing Procedures, Docket Nos. ER98-2382-000, OA96-199-002, and OA97-679-000, May 28, 1998.

<u>Unbundled Rate Structure (DSC)</u>

188. The other rate design issue the Commission must decide is whether to approve MPC's proposed Delivery Service Charge (DSC). None of the parties testifying on rate design issues initially supported the DSC. Through the course of the proceeding, MPC modified the DSC. Enron and MCC now state that they do not object to the DSC. Other parties, including LCG, DNRC, BPA, DEQ, DPHHS, Avista, Energy West and MECA still appear to oppose the DSC.

189. MPC states that its DSC proposal provides a balance between recovering distribution costs, while not introducing individual customer bill impacts. April, 1998, Rebuttal Testimony of Patrick Corcoran, p. 26. Dr. Falvey at one point suggested that the DSC offered a more economically correct way of collecting fixed distribution costs, but then testified that questions of how best to recover distribution costs through prices should be delayed because of more pressing issues related to competitive supply. January, 1998, Rebuttal Testimony of James Falvey, p. 3.

190. MPC's modified DSC incorporates fixed production credits that reflect class cost/load relationships (e.g., load factor) and transmission credits based on customers' load ratio shares of the transmission revenue requirement (consistent with FERC allocation). As Table 3 shows, MPC's modified DSC varies according to consumption and by season.

Table 3

MPC Proposed Residential Class DSC (per month)			
Season	Consumption		
	400 kWh	750 kWh	1,000 kWh
Summer	$9.41	$18.83	$25.56
Winter	$9.41	$22.50	$31.85

191. Avista Energy states that the DSC poses a potential significant entry barrier for Avista and other competitors. LCG continues to dispute MPC's modified DSC because of its seasonal variability and because for some customers, in some months, the DSC can be negative.

On cross-examination, Mr. Corcoran responded to Mr. Quander that the actual cost of distributing or delivering power to the Company does not change dramatically by season and the actual cost of distribution is never negative. He agreed that in applying MPC's cost estimates from his Exhibits 24 and 25 to the DSC, individual customer DSCs would vary by season, and could be negative under MPC's proposed tariffs. Tr. pp. 225-26.

Decision on Delivery Service Charge

192. The Commission rejects MPC's proposed DSC. The formula-driven DSC would be confusing to customers and difficult for MPC and the Commission to explain in customer education material. Further, the Commission agrees with LCG that the seasonal variation in the delivery charge may not be appropriate and is not supported by the record. Although MPC states that its fixed production credit reflects variations in load factors, Mr. Corcoran stated at the hearing that the charges reflect average class load factors, not individual customer load factors. Tr. p. 267.

193. MPC prefers its DSC because it prevents customer bill impacts. But as shown in Table 4, there are no bill impacts from implementing understandable, per unit distribution and transmission charges and maintaining currently tariffed monthly customer charges. (The specific rates shown are illustrative, but generally approximate the unbundled residential rates that are produced by the Commission's decisions on functional separation of class revenues.)

Table 4

Unbundled rate design

monthly customer charge		$4.20	**Sample Bill**		
			kWh(s)	Summer	Winter
Distribution		0.02315	400	$27.17	$27.17
Transmission		0.00744	750	$47.28	$50.95
Power supply	summer	0.02684	1000	$61.63	$67.93
	winter 0-400	0.02684			

	winter 400+	0.03733

Current rate design

monthly customer charge		$4.20	**Sample Bill**		
			kWh(s)	Summer	Winter
Commodity	summer	0.05743	400	$27.17	$27.17
	winter 0-400	0.05743	750	$47.28	$50.95
	winter 400+	0.06792	1000	$61.63	$67.93

194. The unbundled residential rate design in Table 4 derives the per unit distribution rate based on functionalized class distribution revenues, minus the revenues produced by the current customer charge. The per unit transmission rate is based on functionalized transmission revenues. These two components are then subtracted from currently tariffed commodity rates. The same can be done for other customer classes. Demand-metered customers can be assessed per-unit distribution and transmission charges based on kW demand rather than kWh consumption. This method is consistent with LCG's recommended tariff structure and with MCC witness Dr. Swan's recommendation that the current rate design continue to apply until MPC's next cost-of-service and rate design filing. March, 1998, Response Testimony of Kathryn Iverson, Exhibit KEI-1, Schedule 3; March, 1998, Supplemental Testimony of Dale Swan, p. 11.

195. Although MPC's tariffs will be unbundled on July 1, 1998 as ordered by the Commission in the above findings, MPC's billing system will be unable to provide customers unbundled bills which itemize charges for each of the unbundled rate components. Tr. p. 406. The Commission determines that, to enhance customers' understanding of rate unbundling, MPC shall create an informational worksheet to include in bills for all residential, commercial and irrigation customers with average annual load of 300 kW and less. The worksheet should provide the unbundled tariffed rates approved by the Commission and instruct the customers how to find their relevant kWh consumption and kW demand for the current billing period and how to

compute the billed amounts for each unbundled rate component. MPC may also include an 800 telephone number and e-mail address for customers to request a Company determination of the separate billed amounts for each unbundled rate component.

196. MPC's proposed Electric Market Supply Service tariffs require customers choosing market-based supply to release the Utility from its traditional obligation to serve, as that obligation relates to power supply. April, 1998, Rebuttal Testimony of Patrick Corcoran, Exhibit PRC-26. MCC witness Dr. Swan testified that this kind of tariff clause, especially for residential and small commercial customers, is not appropriate. According to Dr. Swan, the clause considerably changes the risk that residential and small commercial customers face when deciding whether to move to choice or remain under the standard Utility service. Tr. pp. 610-11. Dr. Swan asserted that it would be imperative for customer education to emphasize that risk and suggested that informing customers of the risk would significantly impact participation in the pilot program. Tr. p. 611.

197. DPHHS witness Mr. Schneider testified that small customers, particularly residential customers, will experience anxiety and uncertainty over whether markets will develop to serve them. Mr. Schneider stated that MPC should remain the provider of last resort until a viable alternative provider is available. Tr. p. 546. MPC stated that, for smaller customers, MPC is willing to delete the clause releasing the utility from its obligation to serve smaller customers. MPC's Legal Brief, May 28, 1998, p. 15. The Commission determines that MPC's compliance tariffs shall exclude the clause that releases the utility from the obligation to serve in tariff schedules for service to customers with loads of 300 kW and less.

Functional Separation of Revenue Services (Metering, Billing, etc)

198. Section 69-8-204(1), MCA requires vertically integrated public utilities to functionally separate "...electricity supply, retail transmission and distribution, and regulated and unregulated retail energy services...." However, the Act does not define regulated and unregulated energy services. A dispute exists between MPC and Enron, DEQ and LCG, as to whether MPC has adequately separated regulated and unregulated energy services. Enron, DEQ and LCG testify that functions such as metering, meter-reading, billing customer accounts and energy management-related functions should be functionally separated and possibly deregulated.

However, even the strongest supporters of further functional separation, Enron and DEQ, concede that the record to date is not sufficient to accomplish what they propose. Tr. p. 512, DR PSC-170. Nevertheless, these parties recommend that the Commission establish in its Tier 1 order the process and schedule for more complete functional separation.

199. MPC witness Mr. Thomas testified that, although metering and billing are often included together, the metering issue involves economic and technical challenges that require dealing with it separately from billing. April, 1998, Rebuttal Testimony of William Thomas, p. 2. Mr. Thomas agreed with Enron that a collaborative process on metering and billing would be valuable. Ibid, p. 4. Under cross examination by DEQ's Mr. Madden, MPC witness Mr. Cole stated that a Commission Notice of Inquiry on these issues would be appropriate and could be held within the next year. Tr. pp. 93-94.

Decision on Unbundling of Billing and Metering

200. The Commission agrees with MPC that issues related to unbundling billing are somewhat different from those of unbundling metering. With respect to billing, the policy issue is whether the Commission should order MPC to allow, if requested by a customer or a supplier, the supplier to provide the customer a consolidated bill for energy supply and delivery services. PacifiCorp included this option in its Montana transition plan. However, MPC asserts that it should be able to bill for its own services and should not be forced to bill for regulated distribution services through a supplier. Parties such as Enron, LCG and DEQ assert that allowing suppliers to provide additional services like consolidated billing will promote competition in supply markets by increasing margins.

201. Under MPC's proposed plan it is the customer's choice whether to take consolidated billing or dual billing. Tr. p. 403. Thus, suppliers have little or no control over their ability to communicate to customers through the billing process. Without this interface with customers, it may be more difficult and costly to inform customers of additional services and new, innovative services. Without an alternative that allows customers to choose consolidated billing from their chosen electricity supplier, the Commission determines that it shall be the electricity suppliers' choice whether consolidated or dual billing will be used.

202. MPC provided a late-filed exhibit identifying preliminary estimates of fees that MPC will charge electricity suppliers to perform consolidated billing. Until MPC demonstrates that such charges should not be regulated by the Commission, the Commission will assert jurisdiction over such rates. MPC's compliance tariffs pursuant to this Order shall include a tariff schedule which defines prices, terms and conditions for consolidated billing services performed for electricity suppliers. MPC shall produce cost information during the Tier 2 phase of this proceeding supporting the tariffed consolidated billing prices.

203. With respect to unbundled metering and meter reading and the potential for competition in these functions, the Commission agrees with MPC that the threshold question is whether separating these functions makes sense from public policy and economic perspectives. The answer may differ by customer class. Several parties concede the potential for lost efficiencies (e.g., economies of scale) from further separating these functions. Tr. pp. 478-488, DR PSC-170. The question is whether potential economies of scope produced by separating these functions will increase efficiency gains from competitive supply markets enough to offset any lost economies of scale. The Commission will initiate a Notice of Inquiry (NOI) to provide a forum to debate this and other issues, including billing and net metering issues. DEQ recommends that the Commission establish a one-year process to determine the future of metering services. DEQ Legal Brief, p. 3. As a preliminary matter in the NOI, the Commission will examine the proper timeline for concluding its inquiry on various issues.

Standards of Conduct

204. Section 69-8-204, MCA requires MPC to functionally separate its electricity supply, retail transmission and distribution, and regulated and unregulated energy service operations, prevent undue discrimination in favor of its own divisions or affiliates, and prevent self-dealing. These requirements are deemed satisfied if the Company adopts and complies with standards of conduct consistent with FERC approved standards. MPC witness Mr. Cole provides proposed standards of conduct as a tool for accomplishing the functional separation required by SB 390. July, 1997, Testimony, Exhibit PJC-1. MPC provided a modified version of Mr. Cole's Exhibit PJC-1 as a late filed exhibit.

205. The debate over appropriate standards of conduct primarily relates to how broadly the standards should apply. DEQ and Enron believe the standards should apply to transactions and interactions between the utility and any MPC affiliate. MPC's witness Mr. Cole asserts that this is not the intent of SB 390. April, 1998, Rebuttal Testimony of Perry Cole, p. 21. MPC believes it should be able to allow its telecommunications affiliate to advertise through the utility's distribution bills while preventing other telecommunications companies from doing the same. Tr. p. 87. MPC also believes it is appropriate to transfer customers' telephone calls from the utility to the marketing affiliate, although it cannot perform this same function for other marketers. January, 1998, Rebuttal Testimony of Perry Cole, p. 20. Yet MPC suggests that the reason for having standards of conduct is to ensure that its unregulated supply affiliate is treated the same as any other supplier. April, 1998, Rebuttal Testimony of Perry Cole, p. 20.

206. DEQ's witness Mr. Davis testified that MPC's proposed standards of conduct do not satisfy SB 390's requirements and that FERC has not approved standards for MPC's FERC-jurisdictional services. March, 1998, Rebuttal Testimony of Alan Davis, p. 10. DEQ recommends that the Commission adopt standards of conduct which clearly prohibit MPC from using its electric system to advantage any MPC services, divisions or affiliates, including telephone and natural gas affiliates. Ibid., p. 11.

207. Enron's witness Ms. Petrochko testified that MPC's proposed standards of conduct do not comply with SB 390, in that they do not prevent undue discrimination, self-dealing or provide non-discriminatory access to distribution and transmission systems. November, 1997 Testimony of Mona Petrochko, p. 25. Enron recommends that the Commission adopt rules for standards of conduct that facilitate a competitive environment that is fair to all participants. FERC requirements for standards of conduct are not sufficient for retail markets, according to Enron, but MPC's proposed standards of conduct fall short of even FERC's rules with respect to disclosure and reporting. Ibid., pp. 26-27. According to Enron, MPC's standards are too narrow in scope, applying only to the distribution and transmission functions of the Services and Communications Division, not to the part of the company involved in energy services such as billing, metering and information services. Enron recommends that the Commission adopt the standards of conduct provided by Ms. Petrochko. Ibid., Exhibit MLP-5.

Decision on Standards of Conduct

208. The Commission determines that it must adopt standards of conduct which ensure that all third parties interacting with the regulated electric utility will be treated equally, including MPC's affiliates. The Commission agrees with DEQ that the SB 390 does not single out the marketing affiliate in requiring the utility to prevent undue discrimination and self-dealing.

209. MPC's vision for standards of conduct allows affiliate interactions that could interfere with the development of efficient markets. For example, telecommunications and electricity supply are not as separate as MPC suggests. Advanced metering depends on telecommunications. Cable and telephone companies attach their lines to utility poles. MPC cites the example of AT&T's electricity marketing business. To the extent there are synergies involved in combining electricity supply and telecommunications services, all providers, including electricity suppliers, telecommunications providers and utility affiliates, should be treated equally with respect to access to the electric utility's distribution system and customer information.

210. The Commission determines that MPC shall adopt the standards of conduct included as Attachment 1 to this Order. Attachment 1 is a modified version of MPC's exhibit PJC-1 provided as a late filed exhibit. The modified standards of conduct eliminates language pertaining to transition period power supply, including references to a buy-back provision in the generation asset sales documents. This language does not belong in the standards of conduct. There should be no implicit approval of the buy-back provision in the Tier 1 order.

Pilot Programs

211. MPC's current pilot program proposal gives residential and small commercial and irrigation customers the option to choose their electricity suppliers beginning in November, 1998. The number of customers eligible for the initial phase of the pilot program is five percent (11,000 residential, 2,500 commercial/irrigation), rather than the three percent proposed in its original plan. The November date coincides with MPC's switch to a new customer information and billing system. MPC will use the period between July and November to educate customers about choice and enroll interested customers in the first phase of the pilot on a first-come-first-served basis. During the first stages of the pilot MPC proposes to cap the number of customers any one supplier may serve, based on the total number of participating suppliers. MPC witness

Ms. Young testified that the cap is intended to assure that multiple suppliers and customer groups participate in the pilot, which will allow MPC to better test its infrastructure for supporting retail choice. April 17, 1998, Rebuttal Testimony of Deborah Young, p. 5.

212. MPC proposes to evaluate the initial pilot phase and, if satisfied, expand the pilot by another five percent of customers in June, 1999. If the pilot continues to run smoothly, MPC would expand the pilot again in August, 1999, by another 10 percent of customers, and continue to expand the pilot by 10 percent each month thereafter. All MPC's customers would be eligible for choice by April, 2000. MPC would randomly assign customers who have not made a choice by July 2002 on a market share basis to suppliers willing to accept randomly assigned customers.

Decision on Pilot Programs

213. Most intervenors generally support MPC's revised pilot program. The Commission applauds MPC's flexibility on the pilot structure. The pilot program, as modified during the course of this proceeding, is a great improvement over the initial proposal. The Commission approves MPC's pilot program, subject to several modifications.

214. First, the Commission rejects the cap that limits the number of customers any single supplier can serve. MPC's desire to keep one supplier from dominating the pilot seems reasonable, but the cap may have unintended consequences for aggregation. The cap may also produce an artificial structure in emerging residential and small commercial markets, which may lead to inaccurate conclusions about whether markets are developing to the point where residential and small commercial customers are protected from monopoly pricing. Accurate information is critical in terms of both MPC's obligation to obtain information through pilot programs (§ 69-8-104, MCA) and the Commission's duty to monitor the development of workable competition (§ 69-8-403, MCA). MCC's witness Dr. Swan agreed that, while the cap may protect against MPC's marketing affiliate obtaining the lion's share of small customers, it could cloud any assessment of whether or not the market is workably competitive. Tr. p. 612.

215. If MPC's infrastructure cannot handle the transaction volumes associated with retail choice, or if one or a few sellers will dominate residential and small commercial markets, it is better to have timely knowledge to consider possible solutions. If, after the initial phase of the

pilot program, MPC determines that its infrastructure needs additional testing, it should notify the Commission and request a change in the pilot schedule.

216. Second, MPC is creating load profiles for customers who do not have interval recording meters. Suppliers use load profiles to schedule hourly energy deliveries to meet their customers' demands. MPC will initially not create separate load profiles for electric heat and non-electric heat residential customers. April, 1998, Rebuttal Testimony of Patrick Corcoran, p. 39. Load profiles impact suppliers' costs. Ibid., p. 36.

217. The Commission determines that MPC's report on pilot programs (required by SB 390 on or before July 1, 2000) must analyze whether there is a statistically significant difference between the rates at which electric heat customers and nonelectric heat residential customers exercise choice. If there is a significant difference, MPC shall attempt to explain the reason for the difference, including whether the absence of an electric heat customer load profile is a contributing factor. MPC must also evaluate and report on suppliers' overall acceptance of MPC's load profiles and energy imbalance reconciliation process.

218. Third, MPC shall file quarterly reports with the Commission outlining, by customer class, the number of customers eligible for choice and the number who have exercised their option to choose. MPC's witness Ms. Young testified that MPC would be willing to do this. Tr. pp. 404-5. These quarterly reports should also inform the Commission on other aspects of the transition, such as which eligible customers are not participating and conjectures on why, supplier complaints (to MPC) about access agreements, processing customer requests and other infrastructure-related matters which MPC will be testing during the transition.

219. Fourth, as part of its report on pilot programs due on or before July 1, 2000, MPC shall include an evaluation and the results of either a public opinion poll or a series of focus groups. To maximize the objectivity and quality of the polls and focus groups, the Commission strongly advises that the poll be conducted by an independent entity. MPC's agreement to obtain independent expertise outside the company would be in its self-interest, avoiding the appearance of bias. The public opinion poll or focus groups shall be designed to collect information related to:

what factors influence decisions to opt for choice;

what factors influence decisions not to opt for choice when given the opportunity; whether education material has been useful, adequate, accurate and understandable; whether/what additional information is necessary or useful to make informed decisions; whether information provided by suppliers is understandable, truthful and adequate.

220. Section 69-8-104, MCA requires MPC to obtain information through pilot programs, including the level of demand for supply choice and the best means to encourage and support markets that will benefit small customers. Neither MPC nor the Commission can determine how to encourage and support markets that will benefit small customers without knowing the factors that influence consumers' decisions to participate, the information customers feel they need to make decisions and whether or not they feel they can trust information received from potential suppliers. MPC's Ms. Young testified that MPC has not conducted focus groups or performed surveys on these issues to date. Tr. pp. 415-418.

221. Fifth, the Commission defers a decision on how to assign customers who have not chosen a supplier by the end of the transition period. As the end of the transition period approaches, the Commission should have more information on the nature of any problem. The Commission and interested parties must devote serious attention to this issue.

222. Finally, the Commission may later order additional modifications to the pilot program in order to obtain further information on the best means of encouraging efficient and workable competition in residential and small commercial market segments. Such modifications could include testing the impact of disclosing specific information related to electricity supply service through uniform labeling.

Customer Education

223. MPC's customer education plan incorporates guidance provided by the Collaborative on Customer Education and input from Customer Advisory Panels. MPC witness Ms. Young testified that MPC intends to provide neutral, consistent and objective messages on energy supply choice. April, 1998, Testimony of Deborah Young, p. 2. MPC intends to use a mix of radio, television and newspaper spots, brochures, bill inserts, web sites, public presentations and one-on-one conversations to inform customers about energy supply choice. Messages

will be specialized to meet particular customer needs (low-income, senior citizen, small business).

224. In February, 1998, MPC filed a Motion to Grant the Commission Staff Permission to Review MPC's Customer Education Material. In March, the Commission granted MPC's Motion and directed MPC to consult with Commission Staff on all education material prior to its release to the public. The Commission required that if Staff and MPC cannot agree on the appropriateness of customer education material, Staff shall bring the issue before the Commission. MPC's initial customer education bill insert was released in April 1998. The insert contained the following statement:

> This message has been prepared by The Montana Power Company as part of the company's Customer Education Plan and has been approved by the Montana Public Service Commission staff.

According to MPC, the qualification language is intended to inform customers as to the source and credibility of the message. Without it, customers will not know that the message is part of the required customer education plan and that it was developed to be neutral, objective and consistent with guidelines and processes recommended by the Collaborative on Customer Education.

225. At a May 11, 1998, work session the Commission determined that such statements on MPC's customer educational material should not include references to Commission Staff. In April Rebuttal Testimony, MPC's Ms. Young testified that there were no formal responses to MPC's motion to have customer education messages reviewed by staff and that testimony in the case generally supports messages based on the Collaborative consensus script. Tr. p. 3.

226. MCC witness Dr. Swan's March Supplemental Testimony addresses MPC's ability to bias its customer education information to advantage its marketing affiliate. Dr. Swan stated that it is important, as recommended by the participants in the Collaborative on Customer Education and Pilot Programs, that the Commission Staff review and have the right to approve or reject the education material produced by the regulated utilities before they can be distributed to customers. Tr. p. 6.

227. DEQ's Mr. Davis testified that because there is no assurances that MPC will not advantage its affiliates in MPC's refiling, DEQ/NPPC does not believe that having the Commission Staff review MPC's materials before they go out will provide the necessary safeguards to prevent MPC advantaging itself." March Supplemental Testimony of Alan Davis, p. 12. Responding to data request PSC-227, Mr. Davis clarified that DEQ's concern is that the educational issues are symptoms of a larger problem regarding the lack of functional separation and clear prohibitions against self-dealing. DEQ recommends that the Commission establish a process for Commission Staff to review and approve education material with an opportunity for other parties to comment on the objectivity of the materials.

Decision on Education Material

228. The Commission will continue with the staff review process granted with respect to MPC's earlier Motion. Expanding the review process to allow other parties an opportunity to comment on education material before it is made public introduces several complications, including additional time and higher costs. Unanimous agreement by all parties to the specific words and presentation of any message is unlikely. Staff review, with the option of involving the full Commission in the case of disputes, reasonably balances MPC's obligation to educate customers with the Commission's duty to see that MPC does not abuse that obligation to benefit its affiliates. An interested party objecting to education material being distributed to the public can lodge a complaint with the Commission and can propose an alternative method of review.

229. The Commission determines that the qualifying language that appears on MPC's customer education material can state the following:

> "This message has been prepared by the Montana Power Company and reviewed by the Montana Public Service Commission Staff."

The Commission agrees with MPC that adding the reference to the Commission adds credibility to the message. This language identifies the individual responsibilities conferred on MPC and the Commission in the Act; MPC shall educate customers consistent with a plan approved and enforced by the Commission. §§ 69-8-102 and 69-8-103, MCA.

Agreement on Accounting Orders

230. At the Tier 1 hearing in this case, MPC, MCC and the LCG discussed the need for Accounting Orders and agreed to file Late-Filed Exhibits containing their proposals. While the hearing was in progress, the parties met several times and reported on their progress. After the hearing, the parties asked for a brief extension of time to file their Exhibits and to make more progress.

231. On May 15, 1998, MPC filed a Joint Agreement Regarding Accounting Orders reached by MPC, MCC and LCG. In its case MPC requested stranded costs in three categories: Hydro/Thermal/Basin, Regulatory Assets and QF Costs. In the discussions on Accounting Orders, LGC found that MPC had not reflected off-system sales of approximately $13 million. MPC ultimately agreed with LCG, and in the agreement MPC has eliminated its request for an accounting order during the interim sales period for Hydro/Thermal/ Basin costs associated with customers who opt for choice. The agreement states that after April 1, 1999, MPC may apply to the Commission to revisit the prospective need for an accounting order. The parties presented two proposed accounting orders (1) for generation related regulatory asset costs and (2) qualifying facility costs.

232. At the hearing MPC argued that the interim sales period should start July 1, 1998, and run until the final closing of the sale of the generation assets. Both of the proposed accounting orders defined the interim sales period as July 1, 1998, until April 1, 1999. Carrying charges in both orders are set at 6 percent, which was the interest rate recommended by LCG in the case. It is also the interest rate recommended by Plum Creek Timber in the PacifiCorp Docket No. D97.7.91. Both proposed accounting orders state that MPC may apply to the Commission to revisit the on-going need for the accounting order after April 1, 1999.

Decision on Accounting Orders

The Commission adopts the two proposed accounting orders as agreed to by MPC, MCC and LCG.

Conclusions of Law

1. The Commission exercises authority over public utilities and the electric utility industry restructuring pursuant to its authority under Title 69, particularly Chapters 3 and 8, MCA. MPC is a public utility subject to the Commission's jurisdiction and authority.

Order

WHEREFORE, THE COMMISSION ORDERS THE FOLLOWING:

1. MPC shall file an unbundled rate design with the Commission, functionally separating and unbundling its currently tariffed rates into transmission, distribution and production components as directed in this Order.

2. The Commission denies MPC's request to incorporate a Delivery Service Charge and directs MPC to institute per unit distribution and transmission charges as set forth in this Order. MPC shall provide customers the information necessary to determine unbundled bill components, as set forth in this Order.

3. The Commission defers a decision on unbundling of metering and billing services and will institute a Notice of Inquiry to address the issue in more detail.

3. The Commission adopts Standards of Conduct as modified from MPC's Proposed Standards of Conduct, as attached and incorporated into this Order as Attachment 1, and directs compliance with these Standards.

4. The Commission approves the Pilot Program as modified in this Order, and directs MPC to perform the evaluations as described herein and to file the quarterly reports required by this Order, performing the requisite analyses.

5. MPC shall continue with appropriate customer education efforts, as required by Senate Bill 390.

6. The Commission will issue Accounting Orders as adopted herein and agreed to by Parties.

Done and dated this 18th day of June, 1998 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
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 ARM 38.2.4806.