Service Date: August 3, 1999

DEPARTMENT OF PUBLIC SERVICE REGULATION

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MONTANA

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IN THE MATTER OF GREAT FALLS GAS,	)	
A DIVISION OF ENERGY WEST, INC.	)	UTILITY DIVISION
Application for an Increase in Rates for the	)	DOCKET NO. D98.9.213
Great Falls Gas System Pursuant to its Gas	)	ORDER NO. 6102c
Cost Tracking Mechanism	)	

* * * * *

FINAL ORDER

PROCEDURAL AND BACKGROUND INFORMATION

1. On September 17, 1998, Great Falls Gas Company (GFGC), a division of Energy West Incorporated, filed an application with the Public Service Commission (Commission) to increase rates for natural gas service by $892,420 through a surcharge pursuant to the gas cost tracking mechanism. GFGC proposed that full service customers be allocated an increase of $1,035,993, distribution transport customers be allocated a decrease of $64,350, and West Yellowstone Gas (WYG) customers be allocated a decrease of $77,403.

2. On October 9, 1998, the Commission issued a Notice of Application and Intervention Deadline with November 10, 1998, as the deadline for intervention.

3. Three parties intervened: Montana Consumer Counsel (MCC), Commercial Energy of Montana (CEM), and Montana Power Trading & Marketing Co. (MPTM).

4. On November 17, 1998, the Commission issued Interim Order 6102a, allowing an interim increase of $718,412.

5. On December 9, 1998, the Commission issued Procedural Order 6102b.

6. On February 8, 1999, MCC filed a motion to amend the procedural schedule in order to gain additional time to prepare testimony. MCC said the other parties to the case did not object to the procedural order changes, which did not change the hearing date of April 14, 1999.

7. On March 25, 1999, the Commission issued an amended procedural schedule.

8. The hearing in this docket was held April 14, 1999, at the Civic Center in Great Falls.

9. In its original application, GFGC proposed to spread the increase for natural gas service among its customer classes in the following manner:

Rate Class	Proposed Increase	% Difference
Residential	$653,282	6.54%
Small GS	$93,659	6.12%
Medium GS	$150,730	6.73%
Large GS	$133,735	6.69%
Extended GS	$ 4,589	6.86%
WYellowstone Residential	($16,612)	(7.88%)
WYellowstone Commercial	($60,791)	(8.80%)
Distribution Transport	($64,350)	(10.10%)

10. As proposed by GFGC, the total average retail sales rates would increase roughly 6.5 percent, the average distribution rate would decrease about 10 percent, and WYG's sales rates would decrease about 8 percent. The average monthly sales bill for a residential customer would increase by $2.39 and the average small commercial customer's sales bill would increase by $4.53.

11. According to GFGC, this tracker was filed because the company's cost for natural gas has increased approximately $400,000, since its last filing in July of 1997. In addition, last heating season was warmer than expected, resulting in decreased revenue of between $300,000 and $400,000, while delays in implementing last year's tracker amounted to an approximately $300,000 revenue shortfall. Combined, these account for the vast majority of the company's $1,035,993 full service customer revenue increase request.

12. GFGC requested rate reductions for distribution transport and WYG. The distribution transport reduction would result from: the removal of firm transport costs upstream of Montana Power Company, along with some reduction in MPC meter charges; a reduction from MPC of firm transport for peak day demand; and a GFGC request to Energy West Resources (EWR) to reduce storage deliverability.

13. The requested rate reduction for WYG would result from approval of GFGC's proposal that upstream delivery costs be spread among all customers, not just those in West Yellowstone. The Commission denied the WYG decrease in its November interim order.

14. The elimination of the proposed WYG rate reduction neutralized any rate change in West Yellowstone and reduced the amount of the increase proposed by GFGC for Great Falls. GFGC's original application contained errors in the calculation of the volumes and the revenues for the distribution transport classes. Correction of those errors results in a decrease of $36,790, or 4.68 percent, to the Large General Service DT class and a decrease of $63,708, or 7.68 percent, to the Extended General Service DT class, for a total decrease of $100,498 to the combined DT classes. The overall request by GFGC for an annual revenue increase has been reduced from $892,420 in the original application to $718,412. The new GFGC proposal is as follows:

Rate Class	Proposed Increase	% Difference
Residential	$544,884	5.46%
Small GS	$78,118	5.10%
Medium GS	$125,720	5.62%
Large GS	$111,544	5.58%
Extended GS	$71,512	5.72%
WYellowstone Residential	$0.00	0.00%
WYellowstone Commercial	$0.00	0.00%
Distribution Transport		
Large GS	($36,790)	(4.68%)
Extended GS	($63,708)	(7.68%)

15. This tracker uses the sales volumes of 4,129,919 mcfs approved in Docket No. D96.7.123, less expected open access volumes of .5 Bcf or (500,000) plus the expected West Yellowstone feed stock, used for liquefaction, for estimated commodity sales for FY 99 of 3,749,919 mcfs.

ISSUES AND COMMISSION DECISIONS

16. MPTM originally recommended that the Commission disallow the following GFGC gas costs:

1.	Nova Firm Transport Costs	$	42,121
2.	Havre Pipeline Firm Transport	$	253,995
3.	Storage Demand Charges	$	235,676
4.	Storage Demand Charges – NCS	$	145,575
5.	System Balancing Fee	$	116,487
Total		$	793,854

17. In MPTM's June 16, 1999, brief, the company stated it no longer objected to the Nova Firm Transport Costs and the Storage Demand Charges – NCS. The total amount of costs MPTM argued should be disallowed was reduced from $793,854 to $606,158.

Havre Pipeline Firm Transport Costs

18. MPTM believes there has been confusion regarding Havre Pipeline Firm Transport Costs because GFGC failed to clarify the issue in a timely fashion. MPTM stated that the $253,995 should be disallowed because Havre Pipeline does not offer firm transportation service. MPTM argues that only in a response to an MPTM data request regarding Mr. Culliton's rebuttal testimony did GFGC acknowledge it had misidentified these costs and that they were actually costs for Eagle Gas Marketing.

19. MPTM argues that because the term "reservation charge" is not defined in the contracts, it must be assumed that it is a firm demand charge to reserve transport pipeline space plus Eagle Gas Marketing's markup for profit and overhead. MPTM does not believe these charges by GFGC are reasonable and said none of the agreements requires Eagle Gas Marketing to hold firm capacity upstream of the three listed receipt points, Blaine County #3, Aden and Carway. MPTM also stated that nowhere in the record is there evidence that Eagle Gas Marketing holds any firm capacity on Nova. MPTM contended GFGC is paying Eagle Gas Marketing $253,955 just in case Eagle Gas Marketing has to sell gas to GFGC. MPTM argued that the Commission should disallow

the entire $253,955 because there is no evidence GFGC received any tangible or real service from Eagle Gas Marketing.

20. GFGC dismissed MPTM arguments by stating if it had not contracted for storage with Eagle Gas Marketing at a cost of $253,955, it would have cost approximately $582,000 to receive an equivalent amount of storage from MPC.

Commission Decision

21. MPTM's request that the Commission disallow the $253,955 cost for the contract with Eagle Gas Marketing is denied. The Commission agrees with GFGC that it did indeed receive tangible service from Eagle Gas Marketing and that if the company had not contracted with Eagle there would have been additional costs.

Storage Reservation (Demand)

22. Costs MPTM and CEM recommended that the Commission disallow $235,676 in storage reservation (demand) costs related to the reassignment by EWR to GFGC of some storage volumes. MPTM contended GFGC's arrangement with EWR caused GFGC to pay more than it had to for the 4,302 MMBTU/day. MPTM argued that EWR needed to collect only 50 percent of the charges associated with the 4,302 from GFGC to be able to pay 100 percent of MPC charges. MPTM also stated that EWR is allowed to collect 130 percent of the MPC charges for that space, which, it believes, gives EWR a competitive advantage. MPTM argued the Commission should disallow the entire $235,676 in storage reservation charges. CEM argued that GFGC, whether intentionally or not, engaged in conduct that was almost certain to chill competition for natural gas supply within its service territory. CEM states that first, prior to GFGC offering unbundled service to its core customers, storage cost were subsidized by the GFGC ratepayers to the benefit of EWR and its acquired customer base in the MPC service territory. Second, in the first year under restructuring in the GFGC service area, the fixed two-year gas supply price created a cash advance paid by the GFGC ratepayers to EWR without interest charges that completely inhibited any competition in its service territory. CEM pointed to Docket No. D98.3.68, Order No. 6064b, ¶ 89, December 29,

1998, in which the Commission found no evidence that EWR was prevented from taking advantage of storage prior to PSC review of this case and that the Commission would scrutinize this issue in the ongoing tracker. CEM argued that the benefit of this contract did not flow to GFGC's core customers, but rather to EWR and to the customers to whom EWR marketed natural gas. Additionally, CEM believes that EWR received an interest-free loan from ratepayers in the amount of $225,000. CEM argued the two-year fixed gas supply contract served the dual purposes of creating a war chest for EWR in the first year and, in year two, when gas prices increase, of reducing the likelihood of any customer on GFGC's system choosing another supplier. CEM stated that GFGC has not met the burden of proving that the structure of its storage and supply costs is reasonable in light of an evolving competitive market.

23. GFGC disputed MPTM's claim that EWR made excessive profit on this arrangement. GFGC stated that MPTM made assumptions not supported by the record or contrary to law. The first incorrect assumption made by MPTM, stated GFGC, was that EWR did not incur additional costs of upstream demand in order to satisfy the requirement of firm demand coming into the MPC system to match its firm load on the system. MPTM's argument, stated GFGC, requires an assumption that there are no costs to replace the reduction in storage for EWR customers. Because of this, GFGC contended, the amount of profit discussed by MPTM is inflated.

24. Second, GFGC argued the Commission should be reminded that GFGC already achieved a similar cost savings by contracting with Eagle Gas Marketing as opposed to increasing its capacity with MPC. Accordingly, any savings suggested by MPTM have already been achieved through contracting with Eagle Gas Marketing. GFGC argued that GFGC is seeking to recover legitimate storage costs at the MPC approved tariff level for the amount of capacity that it requires to meet its peak day.

25. GFGC responded that CEM's arguments are not supported by and directly contradict the evidence. GFGC disputed CEM's contention that EWR received an $225,000 interest-free loan on which interest should be assessed by noting that EWR has not borrowed money from GFGC. GFGC referred to data request CEM–15, in which GFGC witness Mr. Culliton stated that, as controller for GFGC, he could assure the

Commission that no additional personnel were retained by EWR in the later part of the contract. Mr. Culliton further stated that advertising expense and other promotional expenses at EWR have not changed materially from one year of the contract period to the other. GFGC argued that no evidence has been produced by CEM that any competitive advantage has derived by GFGC as a result of positive cash flow in one year vis-a-vis the other, as contended by CEM.

Commission Decision

26. The Commission denies MPTM's and CEM's requests to disallow the $235,676 in storage reservation charges. The Commission finds merit in the arguments presented by GFGC and finds that insufficient justification for the disallowance has been presented by MPTM and CEM. The Commission is not convinced by CEM's argument that EWR's received an interest free loan in the amount of $225,000 of the first year, by using a two-year fixed price contract. It is clear that there was a positive cash flow in the first year and the price paid for gas, in some instances was over market, however, if the Commission removes the over market cost for gas during the tracking period, CEM's argument becomes moot.

System Balancing Costs

27. MPTM recommended the Commission disallow $116,487 in costs related to recovery of a system balancing fee. The contract between EWR and GFGC, argued MPTM, does not specifically state a system balancing fee, but the contract expressly provides that EWR is to provide balancing, nomination and management services to GFGC, in addition to supplying GFGC with gas. According to MPTM, GFGC is already recovering monies to cover these services in its current rates because GFGC performed these services prior to November 1, 1997. It is not reasonable, contended MPTM, for the GFGC ratepayers to pay twice for these services.

28. GFGC responded that MPTM's argument rests solely on the basis that GFGC's witness Sheila Rice used a $.05 justification for the increase over the prior tracker rate of $1.54 to the $1.59 that had been negotiated with EWR. The nickel, as

suggested by GFGC, is designed to cover costs for balancing, nominations, storage management and the assumption of all natural gas supply agreements. GFGC believes MPTM chose to ignore the evidence that has been developed in support of the $1.59, which ignores the fact that this price has actually saved money over what the costs would have been without the contract. Accepting MPTM's argument, said GFGC, would result in the utilization of a commodity price to the Great Falls customer at a rate below market prices. GFGC argued that the nickel per unit for the tracker was a reasonable price associated with the costs of balancing, nominations, storage management and the assumption of all natural gas supply agreements. GFGC believes that, since GFGC has been relieved of those obligations, the nickel per unit is a reasonable price to pay over and above existing costs. GFGC said the evidence suggests that the ratepayer is getting a market price for his gas and the additional services for nomination, balancing, contract management, storage management are all being provided at no cost.

Commission Decision

29. The Commission feels that the arguments made by MPTM have merit. The Commission is concerned with the consequences of a two-year fixed price contact with no price adjustment included. If the price is to rise in the second year the contract may prove to be a savings for ratepayers, if the price does not rise the ratepayers are trapped into higher than necessary prices with no avenue for escape. When such a contract is agreed upon, future market movements are, in part, based on speculation. The arguments made by MPTM are similar to those made by MCC, and as such are resolved by the Commission decision shown in ¶ 32.

Commodity Gas Supply Costs Under EWR Contract

30. MCC recommended that the Commission disallow $159,411 from GFGC's recoverable gas costs for the period of November, 1997, to June, 1998, because MCC believes GFGC incurred excessive commodity gas supply costs under the EWR contract. MCC disagreed with GFGC's decision to assign, in a two-year contract, 100 percent of its gas supply to EWR on a fixed-price basis. MCC witness George Donkin testified MCC does not oppose fixed-price contracts, but does oppose GFGC's locking in 100 percent of its gas supply at a fixed price for two years without a market provision. MCC contended the effect of contracting for all of its gas supply on a fixed-price basis is that GFGC's actual commodity gas costs were $159,411 higher than they would have been if GFGC had not entered into the EWR contract and had continued to purchase its gas supply requirements under the contracts that were assigned to EWR. MCC stated that GFGC's attempt to justify its unreasonable actions by looking beyond the test period and speculating about future prices and periods that have not been addressed by the parties in this proceeding should be rejected. MCC concluded that GFGC failed to demonstrate that the commodity gas supply costs it incurred from November, 1997, through June, 1998, were reasonable

31. GFGC argued it is critical that the Commission give attention to the failure by MCC to address the "look forward period." This failure, stated GFGC, is the most serious flaw in MCC's analysis. GFGC contended there is no test period for gas trackers, and MCC's argument that doing such an analysis beyond the test period of this tracker is certainly not correct. MCC's reasoning is that such a look forward period would require speculation. GFGC argues that test periods are used in general rate case proceedings, but the very nature of a tracking mechanism eliminates the need for test periods. GFGC stated it does not contract 100 percent of its gas supply from EWR; the contract with EWR is only for core customers and amounts to approximately 80 percent of its total system load. GFGC concluded by stating that MCC admits it would be reasonable to apply its methodology to both the "look back period" as well as the "look

forward period," but failed to do so. GFGC contended that if the standard is applied both ways it yields a favorable result for the ratepayer. Mr. Donkin, according to GFGC, admitted that it was an error to omit the variable storage costs from his analysis.

Commission Decision

32. The Commission must be extra-vigilant when dealing with a utility's transactions with its affiliates. Strong evidence must be presented to ensure that affiliated transactions were made strictly on the basis of what is in the best interest of ratepayers. The Commission finds that GFGC has not presented such evidence. The Commission is concerned that GFGC aligned itself with its affiliate in a two-year fixed-price contract without an avenue to allow itself to adjust to fluctuations in the market price. By tying itself to a two-year fixed-price contract without provisions for price changes, up or down, the Commission believes GFGC is setting a dangerous precedent, one that includes an element of speculation. The Commission is uncomfortable with a reliance on speculation and concurs with the evidence and testimony presented by MCC. The Commission is not opposed to a long- term contract, but a contract must be able to adjust. Prior to November, 1997, GFGC's long term contracts contained various price and quantity provisions. The Commission finds that the request by MCC to disallow $159,411 is justified.

WYG Upstream Delivery Costs

33. In Interim Order 6102a the Commission denied the request by GFGC to allow upstream delivery costs associated with WYG to be spread among all customers. The Commission does not accept GFGC's arguments of sharing distribution costs among all customers, which would result in a reduction for WYG while causing an increase for GFGC's Great Falls customers. The Commission finds the costs associated with WYG are unique to WYG and as such must be allocated to WYG. The request to spread WYG upstream delivery costs among all customers is denied.

Low Income

34. The maximum cost of $66,725 for low income customers in Order 5933b will remain the same, but, because the total will increase, the percentage will decrease. The $66,275 is computed by taking 15 percent of the total average expense of the 901 GFGC LIEAP customers. The Commission also approved distributing the discount based on 4 categories to effectively serve the needs of GFGC's low income customers without adding undue administrative burden. The following tables show the categories to be applied:

GFGC Customer Household Income as a Percentage of Poverty	**15% Average Effective Discount**
0-30	21.02 %
31-60	17.87 %
61-90	14.72%
91 and Over	11.56%

Summary Information	
# Of Recipients	901
Average Discount	$74.06
Total Cost To GFGC	$66,724.61

Commission Decision on Final Increase and Refund To Ratepayers

35. In Interim Order 6102a the Commission granted the full amount requested by GFGC, less the decrease proposed for West Yellowstone Gas, for an increase of $718,412. After reviewing all testimony and briefs filed in this case, the Commission affirms its refusal to allow the decrease for WYG and, in its concurrence with MCC, disallows excessive commodity gas supply costs of $159,411. The Commission's finding in this order is a reduction from Interim Order 6102a of $159,411 and approves a final increase of $559,001. This decision results in a refund of $159,411 to be paid with interest calculated at GFGC's return on equity.

CONCLUSIONS OF LAW

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

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

3. The rates approved herein are just and reasonable.

ORDER

1. Great Falls Gas Company is hereby authorized to increase rates for natural gas service by $559,001.

2. The increase approved in this Final Order is a reduction from Interim Order 6102a of $159,411, which results in a refund to be paid with interest, calculated at Great Falls Gas Company's return on equity.

3. Great Falls Gas Company must file tariffs in compliance with the Commission decision at ¶ 35.

4. Rates which implement the increases and decreases approved in this Final Order will be effective for meters read on and after August 1, 1999.

DONE AND DATED at Helena, Montana, this 27th, day of July, 1999, by a vote of 5 – 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

_____
DAVE FISHER, Chairman

_____
NANCY MCCAFFREE, Vice Chair

_____
BOB ANDERSON, Commissioner

_____
GARY FELAND, 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.