Service Date: January 5, 2000

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

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IN THE MATTER OF MONTANA POWER COMPANY, Application for Approval of an Increase in Rates for Natural Gas Service	)))	UTILITY DIVISION DOCKET NO. D99.8.176 ORDER NO. 6197b

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INTERIM ORDER

BACKGROUND

1. On August 12, 1999, Montana Power Company (MPC) filed with the Public Service Commission (PSC) an application for authority to increase rates for natural gas service. In the application MPC requests an increase in natural gas service rates of approximately $15.41 million. MPC's proposed traditional filing revenue deficiency is calculated for the test period, the 12-months ending December 31, 1998. MPC's proposed increase represents a uniform percentage change in overall revenue requirement of 13.99 percent under the traditional filing for the gas utility customers.

2. MPC's application also includes an Alternative Rate Plan (ARP), an alternative proposal to the traditional cost of service filing. The ARP proposes a phase-in of the rate increase request over three years to reduce the rate impact to customers in the first year. Under the ARP, MPC requests approximately $10.3 million for the first year, which includes a $2.3 million rate design error correction, and adjustments of approximately $2.2 million, including ARP, Replacement Allowance and Property Tax Tracker adjustments, to be implemented in rates on January 1, 2001 and 2002.

3. MPC also proposes a new embedded allocated cost of service and rate design study. The study would include, among other things, system charges for the collection of distribution costs for all classes of customers, the consolidation of core customer classes into one class and redivided, for rate purposes, according to meter size and a new line extension policy.

4. MPC requests an interim increase from gas utility customers of approximately $11.53 million, a uniform percentage increase of 15.68 percent to non-gas cost revenues. The

proposed interim rates for the natural gas utility were calculated by MPC based on adjustments, methodologies and rate of return contained in MPC's last general natural gas rate order in Docket No. D96.2.22. The proposed interim increase includes several adjustments to the revenue requirements, including an overall Rate of Return of 9.23 percent on natural gas rate base and a Cost of Common Equity of 11.25 percent, the percentages approved in Order No. 5898d.

FINDINGS OF FACT

Adjustments

INCOME STATEMENT ADJUSTMENTS

ATTRITION ADJUSTMENT

1. The Commission in prior cases has accepted methodology based on the change in the Consumer Price Index (CPI). This adjustment reduces MPC's Other Operating Revenues by $138 and reduces Operation and Maintenance expenses by $13,902.

NORMALIZED MISCELLANEOUS REVENUES ADJUSTMENT

2. MPC has stated that revenues in sub account 2492.1 of Statement H, pg 7 of 12, in Mr. Callahan's testimony, should have been $300,000 rather than the $120,000 that is shown in normalized revenues in this sub account. To correct this understatement of revenues, an adjustment to increase miscellaneous revenues by $180,000 is needed.

FRINGE BENEFITS ADJUSTMENT

3. This adjustment updates MPC's initial filing in this case. The update reflects a decrease in the percentage rate applied to pensionable wages that in turn reduces the test year fringe expense. As a result, projected revenues are reduced by $590,821 and projected fringe expenses are reduced by $1,552,853.

INCENTIVE WAGE ADJUSTMENT

4. MPC has established an Economic Value Added (EVA) incentive wage program. The program was not in effect in Docket 96.2.22 and therefore cannot be used in the interim calculations. The adjustment reduces the operating expenses by $911,800.

HEALTH INSURANCE COSTS ADJUSTMENT

5. MPC used a nine year unweighted average for health costs and a weighted average of 50 percent of the average four-year percent change and 50 percent latest one-year

percent change for dental and vision. This adjustment is to reflect consistent methodologies between dental, vision and health costs. Health costs are calculated by using the same weighted five-year average as dental and vision costs.

The Commission was unable to determine the methodology used in the stipulations of D96.2.22 and rather than disallow all estimated charges has chosen to use the five-year weighted average instead. The adjustment is a reduction in health insurance costs of $81,254.

CTC-GP PROPERTY TAX ADJUSTMENT

6. MPC transferred its gas production properties to a non-regulated subsidiary. A portion of the property tax liability remained with MPC. The regulated utility no longer has the property and the remaining property taxes attributable to production are removed from Taxes Other than Income. This results in a property tax adjustment of $1,228,103 and an adjustment to Administrative and General expenses of $512,179 for costs that are over allocated to the regulated utility.

TAX RATE ADJUSTMENT

7. In the proposed interim filing, MPC estimated the Montana Consumer Counsel (MCC) Tax at 0.10 percent. The appropriate tax rate as determined by the Department of Revenue for the calendar year 2000 is 0.08 percent. Based on the adjusted operating income, this results in a reduction of $21,529 for MCC Tax.

TOTAL ESTIMATED FEDERAL AND STATE TAX ADJUSTMENTS

8. The tax effects for the above adjustments are a tax increase estimated at $1,278,460 for federal income tax and $264,334 increase for Montana Corporate License tax.

RATE BASE ADJUSTMENTS

HIGHWAY RELOCATIONS

9. This adjustment is derived from MPC's accounting for reimbursements from the Montana Department of Transportation. In this case, a project has been booked to plant in service, but the reimbursement has not yet been booked to the accumulated provision for depreciation, and an adjustment is necessary. The project, Highland – Four Mile View Butte, is adjusted by increasing the accumulated reserve for depreciation by $78,640, resulting in a like reduction in rate base.

COST OF REFINANCING DEBT

10. This adjustment results from a change that MPC is proposing in the method used to allocate the cost of refinancing debt between the electric and gas utilities and is different than the methodology used in D96.2.22. The change to gas utility rate base is a reduction of $475,716.

CHANGE IN CASH WORKING CAPITAL

11. The estimated change from the above adjustments is a $393,645 decrease in working capital.

SUMMARY OF CHANGES

INCOME STATEMENT CHANGES

12. MPC's estimated income after taxes is $16,722,919. The net effect of Commission adjustments to the income statement is an increase in operating income of $2,367,867. The estimated after tax income after the adjustments is $19,090,786.

RATE BASE CHANGES

13. MPC's proposed interim rate base is $256,717,384. Commission adjustments to rate base (Paragraphs 9, 10, and 11) total a decrease to the rate base of $160,711. The adjusted rate base is $256,556,673.

RATE OF RETURN CALCULATION

14. MPC's overall rate of return is 9.23 percent with an authorized return on equity of 11.25 percent established in D96.2.22. The revenue requirement based on the adjusted rate base is $23,680,181. The adjusted income after taxes is $19,090,786, leaving an after tax requirement of $4,589,395. Adjusting that figure for taxes results in a revenue increase of $7,591,283.

CONCLUSIONS OF LAW

1. Montana Power Company provides natural gas service within the State of Montana and as such is a "public utility" within the meaning of § 69-3-101, MCA.

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

3. The Commission may at its discretion, within the scope of § 69-3-304, MCA, make temporary approvals of requests pending a hearing or final decision.

4. The rate levels and spread approved in this Order are a reasonable means of providing interim relief to MPC. The rebate provisions of § 69-3-304, MCA, protect ratepayers until there is a final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Montana Power Company shall implement, on an interim basis, rates designed to increase annual Montana jurisdictional natural gas revenues by $7,591,283.

2. The increase represents a uniform percentage change in non gas cost revenue requirement of 10.32 percent under the traditional filing for the gas utility customers.

3. MPC shall adhere to and abide by all Findings of Fact in this Interim Order. All rate schedules shall comply with all determinations set forth in this Interim Order.

4. MPC must file tariffs in compliance with the Findings of Fact in this Interim Order.

5. Nothing in this Order precludes the Commission from adopting in its Final Order a revenue requirement different from that contained in this Interim Order.

6. Any interest associated with a refund that might result from the final revenue increase granted in this Order will be computed at 11.25 percent, the approved return on equity for this Interim increase.

7. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Order.

8. This Interim Order is effective for service on and after December 10, 1999.

DONE IN OPEN SESSION at Helena, Montana on this 9th day of December, 1999, by a 4 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

GARY FELAND, Commissioner

ATTEST:

Kathy 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 38.2.4806, ARM.