Service Date January 2, 1968

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the petition of the GREAT FALLS GAS COMPANY for authority to increase its rates and charges for natural gas service.	))))))	UTILITY DIVISION DOCKET NO. 5603 ORDER NO. 3222

On March 20, 1967, the Great Falls Gas Company (hereinafter referred to as Company) filed its petition with this Commission for authority to increase its rates and charges for natural gas service furnished to its general service customers only. The Board assigned this petition to Docket No. 5603.

Following proper notice, Docket No. 5603 was assigned for public hearing in the City Council Chambers of the Civic Center, in the City or Great Falls, Montana, commencing at the hour of 10:00 o'clock A.M. on the 12th day of July, 1967.

APPEARANCES
Carter Williams and Cresap S. McCracken of the law firm o' Church, Harris, Johnson & Williams, P. O. Box 1645, Great Falls, Montana, appearing for the applicant.

PROTESTANTS:
None

OTHER APPEARANCES:
Leo Graybill, Jr., Attorney at Law, First National Bank Building, Great Falls, Montana.

FOR THE COMMISSION:

William E O'Leary, Counsel
William Fl. Johnson, Auditor

BEFORE:

ERNEST C. STEEL, Chairman
PAUL T. SMITH, Commissioner
LOUIS G. BOEDECKER, Commissioner

RATE BASE

The Company introduced exhibits which showed the various valuations attached to the Company's properties by witnesses for the Company.

For the test year the Company showed the following valuations:

Original Cost	$4,728,487
Original Cost Depreciated	$3,272,383
Reproduction Cost New	$7,735,087
Reproduction Cost New Depreciated	$6,241,513
Materials and Supplies	$ 23,329
Contributions for Extensions	$ 28,059

Examination of the witnesses developed that the Reproduction Cost New Valuation had been developed with methods acceptable to this Commission. The per cent condition of the reproduction valuations however was considerably higher than the per cent condition of the original cost valuations. The reproduction cost valuation per cent condition being 80.6 per cent condition as opposed to a 69.2 per cent condition of the original cost valuation. The Commission must, under this wide variation of per cent conditions, assume that the depreciation being taken on the original cost valuations
is too high or that the observed depreciation was too low. The Commission will consider this variation in making its fair value determination. Montana-Dakota Utilities Company Docket Nos. 5447, 5472, Order No. 3163.

A Company witness testified that in applying indices to the original cost valuation of plant, no determination had been made as to whether the original cost valuations carried on the Company's books reflected construction core under normal construction conditions. Without making a determination of this kind, there is always the possibility that in one or more of the years trended there had been a sudden but temporary upward movement in costs due to industry strikes, shortage of materials, etc. To trend these abnormal costs on the same basis as normal costs, of course, tends to inflate the reproduction cost unrealistically. The Commission will consider this lack of the above determination in arriving at a fair value of the Company's properties. Montana Power Company, Docket No. 4997, Order No. 2897.

After due deliberation upon all evidence to be considered in establishing the fair value of the Company's properties actually used and useful for the convenience of the public and

taking cognizance of the above, the Commission determines the fair value of the Company r S properties actually used and useful for the convenience of the public to be $4,640,000 at the end of the test period.

OPERATING RESULTS

For the test period, the Company showed revenues of $3,901,000 under the present rate level and total operating expenses for the same period, including depreciation and income taxes, of $3,756,700. This would leave earnings of $144,300 for the test period or a rate of return of 3.10 per cent on the fair value of the Company's properties.

For the past several years the Company has been paying a consulting firm approximately $50,000 a year plus travel expenses, subsistence, etc. for management services. Operating witnesses for the Company testified under cross examination that one of the services performed, amounted to the institution of an accounting system needed to properly use the machine accounting recently installed. The Commission has talked to several major suppliers of machine accounting equipment, and all have informed the Commission that they, the suppliers, have departments that furnish this type of service free of charge to purchasers of their equipment.

The same witness testified that another service performed (by the consulting firm was that of giving advice on financial matters. A review of the financing activities of the Company, reveals that only debt financing has been used for a considerable period of time. The Uniform System of Accounts provides that services of this nature in regards to debt financing should be placed in Account No. 428, Amortization of Debt Discount and Expense. This account, in effect, is a below the line account.

The Company has been placing these expenses in Account No. 923, Outside Services Employed. The Uniform System of Accounts has a special note on Account No. 923 which states:

> "Do not include inspection and brokerage fees
> and commissions chargeable to other accounts or
> fees and expenses in connection with security
> issues which are includible in the expenses of issuing securities."

The Commission does not believe that justification was shown for the inclusion of the $50,000 annual fee as an above the line operating expense.
Some testimony was given that the consulting firm rendered services in connection with rate applications. However, the Company projected $50,000 for rate case expenses in the

instant matter to be amortized over a period of five years. The Commission finds no fault with this treatment of rate case expenses but to add another $50,000 per year on to this, irregardless of whether there is a rate matter within the next five or ten years or not, is in the opinion of the Commission not justifiable.

The Company presented evidence showing annual salaries in the amount of $79,200 paid to Company officers. Among these was one of $5,000 being paid to a director, who was also chairman of the executive committee. Testimony was given that this officer had not been in Great Falls for some time. This Commission has never allowed as an above the line operating expense' salaries paid to absentee officials Butte Water Company Docket No. 4746, Order No. 2803.

Shortly after the close of the public hearing in Docket No. 5603, the Commission was informed that a reduction in ad valorem taxes paid by the Company had been made in an amount approximating $100,000. The Commission verified that a reduction had been made and obtained the actual amount of the ad valorem taxes to be paid by the Company.

The Commission finds the operating revenues for the test year at the present rate level to be $3,901,000. After making the adjustments in the operating expenses for the reductions set forth above and also making the necessary upward adjustment in the income taxes to be paid, the Commission finds the operating expenses for the test year to be $3,678,838. This would leave earnings of $222,162 under the present rate level or a rate of return of 4.78 per cent on the fair value of the Company's property. This would of course be deficient earnings.

Company proposed a rate of return of 6.02 per cent. With this the Commission finds no fault. A rate of return of 6.02 per cent on the fair value of the Company's properties would produce earnings requirements of $279,328 or additionn1 required earnings of $57,166. As in all rate adjustments, allowance must be made for state and federal income taxes. In this case, of every hundred dollars of additional revenue produced, fifty dollars and eighty six cents goes for federal and state income taxes.

The Commission is of the opinion that the rate schedule hereinafter ordered filed will provide the additional earnings requirements along with the concomitant additional income taxes.

Therefore, from the evidence and for the reasons stated above, the Commission makes the following:

FINDINGS OF FACT

1. That the Great Falls Gas Company is a public utility furnishing natural gas service in the City of Great Falls, Montana and vicinity, and is subject to the jurisdiction and authority of this Commission.

2. That the present fair value of the Company's properties actually used and useful for the convenience of the public will be $4,640,000 at the end of the test year.

3. That the present schedules of rates and charges will produce earnings of $222,162 during the test year.

4. That earnings of $222,162 would produce a rate of return of 4.78 per cent on the present fair value of the Company's properties as of the end of the test year.

5. That the existing rates and charges provide the Company with a deficient rate of return and that rate relief is needed by the Company.

6. That the schedule of rates and charges hereinafter set forth is fair, just, equitable and non-discriminatory.

7. That the schedules of rates and charges hereinafter set forth will produce earnings of approximately $279,323 during the test year.

8. That earnings of $279,328 will produce a rate of return of 6.02 per cent on the present fair value of the Company's properties for year end of the test year.

9. That a rate of return of 6.02 per cent on the fair value or the Company's properties is fair, just and reasonable

CONCLUSION

The Commission concludes that the application of the Great Falls Gas Company for an increase in its schedules of rates and charges should be granted in part as hereinafter ordered.

O R D E R

NOW THEREFORE, as a session of the Public Service Commission of the State of Montana held in its offices in the State Capitol, Helena, Montana, on December 8, 1967, there being present Chairman Ernest C Steel, Commissioner Paul T. Smith and Commissioner Louis G. Boedecker, there regularly came before the Commission for final action, the matters and things in Docket No. 5603 and the Commission being fully advised in the premises;

IT IS ORDERED that the Great Falls Gas Company be, and it is hereby authorized to file a schedule of rates and charges in conformity with the schedule of rates and charges set forth below Rate

Base Rate:

First	1 MCF or less per month	$2.50
Next	99 MCF per month @	.65 per MCF
Next	200 MCF per month @.	.47 per MCF
Next	700 MCF per month @	.36 per MCF
Next	4000 MCF per month @	.32 per MCF

MINIMUM BILL $2.50 per month, per meter, which includes 1 MCF or less. All other portions of the General Natural Gas Service Schedule of the Great Falls Gas Company now on file with and approved by this Commission shall remain the same.

IT IS FURTHER ORDERED chat the schedule of races and charges in conformity with the above, after being filed with and approved by this Commission, shall become effective on all bills rendered on or after February 1, 1968.

IT IS FURTHER ORDERED that a full, true and correct copy of this Order be sent forthwith by first-class United States mail to the applicant and all appearances herein.

The foregoing Order was adopted by the Public Service Commission of the State of Montana. Chairman Steel and Commissioner Smith voting for the Order.

DONE in open session at Helena, Montana, this 8th day of December, 1967.

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ERNEST C. STEEL, Chairman

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PAUL T. SMITH, Commissioner

ATTEST:

William E. O'Leary
Acting Secretary
(Official Seal)

Commissioner Boedecker passed his vote.
LOUIS G. BOEDECKER, Commissioner