Service Date September 12, 1972

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the application of THE MONTANA POWER COMPANY for authority to increase its rates and charges for natural gas and electric service furnished in the State of Montana	))))))	UTILITY DIVISION DOCKET NO. 6100 ORDER NO. 4068

Be it remembered that this matter was regularly heard before the Public Service Commission of the State of Montana in accordance with the notices of hearing issued in this docket. The hearing commenced at the hour of 10:00 o'clock a.m. (MDT) on the 27th day of September, 1971 in the Senate Chambers of the State Capitol Building, in the city of Helena, Montana, and continued on the 28th, 29th and 30th of September, and on the 1st, 4th, 5th, 6th, 7th, 8th, 12th, 13th and 18th of October. The hearing was recessed until December 6, 1971, and was then held on December 6th, 7th and 8th.

Hearings at which only the public were allowed to appear and testify were held at Billings on November 9, 1971; at Great Falls on November 11, 1971; at Missoula on November 16, 1971; and at Butte on November 18, 1971.

During the twenty days of the hearings there were sixty-five exhibits introduced, and one hundred and eighty witnesses testified, including five expert witnesses.

Appearances: For the Applicant

Robert D. Corette, attorney at law, 40 East Broadway, Butte, MT 59701
J. J. Burke, Jr., attorney at law, 40 East Broadway, Butte, MT 59701
R. D. Corette, Jr., attorney at law, 40 East Broadway, Butte, MT 59701

Protestants

C. W. Leaphart, Jr., attorney at law, Montana Club Building, Helena,

MT 59601, appearing on behalf of Yellowstone Pine Company, Burkland Studs, Elk Studs, Holmstrom Land Company, Camas Creek Cattle & Sheep Company, Vollstedt Kerr Lumber Co., Townsend Lumber Company, Brand-S Lumber Company, City of Helena, Helena School District No. 1, Betty Mae Curran, Jack R. Sharp and C. W. Leaphart, Jr.;
William N. Jensen, attorney at law, Montana Legal Services Association, 601 Power Block, Helena, MT 59601, appearing on behalf of Betty Mae Curran and Jack R. Sharp;
Capt. Wolfgang Drescher, Office of the Judge Advocate General, Dept. of the Army, Washington, D.C. 20310, appearing on behalf of the Secretary of Defense for the Dept. of Defense and all Federal Executive Agencies;
William Dee Morris, attorney at law, of the firm of Morris & Gottwig, 421 North Main, Helena, MT 59601, appearing on behalf of Guy Maycumber, Darrell Farmer, Roy Rogers and the Montana Tavern Association;

Protestants (continued)

James A. Robischon, attorney at law, 600 Hennessey Building, Butte, MT 59701, appearing on behalf of the Anaconda Co. and the Anaconda Aluminum Company;
William P. Mufich, attorney at law, 600 Hennessey Building, Butte, MT 59701, appearing on behalf of the Anaconda Co. and the Anaconda Aluminum Company;

Richard A. Motta, Drawer D, Missoula, MT 59801, appearing on behalf of Hoerner Waldorf Corporation;
S. C. Demers, Polson, MT 59860, appearing on behalf of Pack River Company, Diehl Lumber Company, Thompson Falls Lumber Co. and 3-D Lumber Company.

Other Appearances:

Cresap S. McCracken, attorney at law, 725 Central Avenue, Great Falls, MT 59401, appearing on behalf of the Great Falls Gas Company, as its interests may appear;

Earle E. Garrison, 725 Central Avenue, Great Falls, MT 59401, appearing on behalf of the Great Falls Gas Company, as its interests may appear; Robert Creek, 725 Central Avenue, Great Falls, MT 59401, appearing on behalf of the Great Falls Gas Company, as its interests may appear.

For the Commission:

William E. O'Leary, Counsel David L. Astle, Associate Counsel William M. Johnson, Director of Utilities Dennis Crawford, Asst.

Director of Utilities George F. Hess, Consultant

Before:

Ernest C. Steel, Chairman
Louis G. Boedecker, Commissioner
Alfred C. Langley, Commissioner

BY THE COMMISSION:

On July 2, 1971, The Montana Power Company (hereinafter referred to as the company or applicant) filed its application with this commission for authority to increase rates and charges for natural gas and electric service furnished in Montana. The commission set a single hearing procedure for this docket which continued intermittently from September 27, 1971 through December 8, 1971.

At the hearing the company introduced forty-nine exhibits. The company entered testimony from eight witnesses, including two expert witnesses.

Those protesting the application entered sixteen exhibits and presented evidence from sixteen witnesses, including two expert witnesses.

The commission presented testimony from one expert witness.

At the four hearings held exclusively for testimony from the public, testimony was given by 158 individuals.

At the close of the hearings on December 8, 1971, briefs were ordered filed by all so desiring to do so.

As heretofore stated, the company filed a petition for authority to increase its rates and charges for both natural gas and electric service within the State of Montana. For the purpose of identification and clarity the commission in this docket will confine its order relevant to natural gas service to Part "A" of the order, and will confine its order relevant to electric service to Part "B" of the order.

Part "A"
Rate Base

The company presented the valuations set forth below for the test year ending December 31, 1972 in their original exhibits:

	1972
Reproduction Cost New (RCN)	$249,780,187
Reproduction Cost New Depreciated (RCND)	175,204,200
Original Cost (OC)	121,122,330
Original Cost Depreciated (OCD)	73,774,725
Material and Supplies (MS)	500,165
Working Capital (WC)	1,015,705

During the hearing various adjustments were made to the various valuations and the company's final valuation exhibit set forth the following figures:

RCN	$249,780,187
RCND	175,092,059
OC	121,122,330
OCD	73,696,929
MS	500,165
WC	1,020,953

Included in the RCN and RCND valuations were recoverable natural gas reserves of the company. These reserves were valued at 5.13 cents per MCF. This value of 5.13 cents perMCF was based on two transactions occurring in 1971.

The company had purchased 2.79 billion cubic feet of recoverable gas reserves in the South Devon field at a cost of $152,000. The company also purchased 5.26 billion cubic feet in the Lait field in southern Canada at a cost of $261,150. The weighted average cost of these purchased
reserves was 5.13 cents per MCF. This unit value was then l used for all the recoverable gas reserve in place of the company in arriving at the reproduction coat valuations of the company.
The commission is of the opinion that these reserves are of tremendous importance to the customers of the company and certainly have a value in any reproduction cost determination of the company's natural gas properties. No other unit valuation was proposed at the hearings.

The change in the natural gas reserve picture adds to the tremendous importance of the

natural gas reserves of the company. In 1950 the known reserves of gas were 185 trillion cubic feet (TCF) and the annual production of gas was 6.9 TCF, so that reserves were almost 27 times annual use. Reserves climbed slowly until 1968, but annual use climbed faster.

By 1960 the reserve to production ratio had declined to 20 times, and by 1965 to 17.5 times. In 1971 annual use was over 22 TCF. Excluding Alaska, reserves were 247 TCF and the ratio of reserves to production dropped to 11. Including the Alaskan reserves would bring the 1971 ratio to only 12.6.

Only recently the Federal Power Commission authorized the importation of LNG from Algeria. After liquefaction, cryogenic transportation, and regasification costs are considered it is estimated that this gas will be delivered to eastern pipelines at about $1.00 per MCF. The commission points this out merely to emphasize the importance of the gas reserves of the company to the consumers.

The commission will include the natural gas reserves in its determination of the reproduction cost depreciated valuation of the company's natural gas properties.

The commission has again made a detailed examination of the leases held by the company and found them all to be producing or contiguous to producing properties of the company. The commission in some detail, in Order No. 2897, explained its opinion that contiguous leases held to protect producing leases are properly includable in the rate base.

The commission once again has deleted the accrued depletion from the original cost figures submitted by the company.

The Pakowki Lake contract has been discounted for valuation purposes as was done in Order Nos. 2897 and 3295. The company in its RCN and RCND computations escalated certain land values. The commission has not and will not permit land values to be escalated in RCN and RCND determinations. The commission has deleted all escalated land valuations.

Section 70-106, RCM 1947, requires the commission to determine the value of the

properties of the utility. In this docket the commission has determined the fair value of the company's properties. In doing so it has followed the mandate of the Montana Supreme Court in Tobacco River
Power Co. v. Montana Public Service Commission (1940),
109 Mont. 521, 529, 530, 33 PUR NS 151, 156, 98 P.2d 886, as follows:

"It is observed from '3884 that considerable latitude is allowed the public service commission in determining value. Neither the public service commission nor the utility company is limited to or bound by any particular method in arriving at the solution of the question of value. It must be borne in mind always that the ultimate fact to be determined is value upon which rates are based, which must of course be done under proper legal procedure and restrictions.

The cost of reproduction new, less depreciation, is usually regarded as one of the most important, if not the dominant factor, in the determination of value. (Citation) Under the - section of the Montana codes cited, assessment rolls are likewise admissible as evidence of value, but of course are not exclusive. When the state condemns property of a landowner it frequently resorts to assessed valuations as evidence, but more often than not the jury will determine damages and valuation in excess of that set out in the assessment rolls. Original cost, assessment values, cost of reproduction new, prudent investment theory, public records mentioned in '3884, and opinions of
value are all means to an end, namely, the determination of value.

"Since the above decision was issued it has been affirmed three times by the Montana Supreme Court. Montana ex rel Olsen v. Montana Pub. Service Comm. (1957) 131 Mont. 272, 276, 18 PUR3d 355, 309 P.2d 1035; Montana ex ref. Olsen v. Montana Pub. Service Comm. (1957) 131 Mont. 111, 308 P.2d633; Cascade County Consumers Asso. v. Montana Pub. Serv. Comm. (1964) 144 Mont. 169, 196, 55 PUR3d 314, 394 P.2d 856. The latest assessed valuation figure available to the commission at the time of the hearing for the natural gas proper ties was $40,342,253.

The commission in its deliberations spent considerable time on the RCND valuations. There was a considerable difference between the percent condition of the OCD valuations and the percent condition of the RCND valuations.

The Montana Supreme Court has set forth observed depreciation as the preferred method to be used in determining RCND valuations in Tobacco River Power Co. v. Montana Public Service Commission, supra, 109 Mont. at 534, 33 PUR NS at 159, where the court states:

"The accrued depreciation should be ascertained, where possible, by actual inspection or examination of the property, especially where the age of various items of the property is different or the depreciation is wanting in uniformity, and such method of determination is always preferable to calculations or estimates based merely upon probabilities."

The commission again had the valuable services of Mr. George Hess, consulting engineer of Minneapolis, Minnesota. Mr. Hess developed several methods by which the commission could test the accuracy of the observed depreciation computations of the company. All tests found the observed depreciation to be dissimilar to the book depreciation studies upon which the book depreciation is based. The commission, after reviewing all the evidence submitted, has come to the conclusion that the RCND valuations percent condition should be brought into closer proximity with the percent condition of the OCD valuations and has done so. This is in line with previous decisions and with the reserve requirement study of Mr. Hess.

The commission has also eliminated all future expectations of inflation contained in the valuations presented by the company.

The commission has adopted the "rolled in system; that is, combining the two Canadian companies' operations with the operation of the Montana natural gas division of the utility. This of course results in a duplication of expense. The commission has determined that all duplications of expense have been removed from the exhibits submitted by the company.

An allowance of $500,165 for materials and supplies and an allowance of $1,020,953 for working capital was requested by the company.

One half the request for materials and supplies has been included in the rate base.
The request for working capital is denied as the commission is of the opinion that sufficient reserves and accruals are available to the company to take care of the company's working

capital needs.

The commission has considered and reviewed all exhibits and testimony submitted by the company and protestants.
All elements of value and the deletions set forth above have been considered by the commission in determining the present 'fair value of the company's natural gas properties for the test year ending December 31, 1972. After these considerations the commission finds the present fair value of the company's combined natural gas properties, United States and Canadian, devoted to the use of
the public and actually used and useful for the convenience of the public at $116,100,000 as of December 31, 1972.

Operating Results

The company's exhibit 34B established the earnings of the natural gas division of the company for the period ending December 31, 1972 at $5,173,536. This took into consideration an increase in the cost of purchased gas of $1,807,318 considering both an increase in quantity and in price.

The commission has examined this exhibit in great detail. The commission finds that wage increases accounted for a considerable part of the remaining increase in expense items. Since the close of the hearing the company has sent a letter to all appearances, as it stated it would at the hearing, which said that the wage agreements reached by the company with the I.B.E.W. had been approved by the Pay Board. All major labor agreements have been approved by the Pay Board.

The commission finds that the company estimates of revenue under the present rates for the test year were underestimated. This revenue estimate has been increased by $250,000 by the commission.

The commission also finds that claimed operating expenses for general advertising and for institutional advertising should be reduced.

The commission will also add $17,000 to earnings as an adjustment for taxes capitalized

but deducted as current expense for income taxes.

The commission will allow the additional expense for the Alberta and Southern quantities of purchased gas that will not be available after November 1, 1973, as this is an actual expense for the test year. The purchased gas adjustment clause set forth below will make automatic any adjustment necessary upon termination of these quantities, if additional quantities are not secured from Alberta and Southern.

The commission has caused to be made a study of the productivity of the natural gas division of the company. The commission finds that the productivity of the company meets the standards set forth by the Price Commission.

The commission has made the adjustments set forth above, including an adjustment for additional production expense caused by the projection of additional customers, and after making the proper allowance for income tax expense, the commission finds that the earnings of the company's combined natural gas division will be $5,4l6,536 for the test year ending December 31, 1972 under the existing rate structure.

The commission finds that there is no future expectation of inflation allowance in the commission's revised operating computations.

Rate of Return

Leon Keyserling, a consulting economist and attorney, testified for the company and recommended rates of return which he felt were proper for a company such as The Montana Power Company. Mr. Keyserling found needed rates of return of 7.33 - 7.83 percent for 1972 electric operations;
7.64 - 8.14 percent for 1972 gas operations; 7.42 - 7.94 percent for 1972 combined operations. Mr. Keyserling further found that his needed rates of return be used only with a fair value rate base.

Edgar H. Bernstein, vice president of the firm of Van Scoyoc and Wiskup, Inc., Public Utility Consultants, Washington, D.C., testified for the protestants on a needed rate of

return. Mr. Bernstein testified that the total cost of capital based on the capital structure for The Montana Power Company shown on his exhibits would be 6.26 percent to 6.47 percent. He also found a fair rate
of return for the electric operations to be from 6.30 to 6.50 percent applied to a fair value rate base for the test year.

Mr. Bernstein found slightly more risk to the natural gas operations and that a fair rate of return for the natural gas operations would be some twenty basis points higher, or 6.50 to 6.70 percent.

The commission is of the opinion that under Price Commission regulations, consideration in this docket can be given only to the increase in the imbedded cost of debt in determining a fair rate of return.

In Docket No. 5698, the last preceding docket for The Montana Power Company, the commission found a fair rate of return for the electric operations to be 6.125 percent and for the natural gas operations to be 6.5 percent. The natural gas operations were given a higher rate of return due to the inherent higher risk associated with the natural gas operations.

In Docket No. 5698 the imbedded cost of debt was determined to be 4.85 percent for both the electric and natural gas operations. Debt was found to be 45 percent of the capital structure with the debt portion of the rate of return 2.1825 percent.

Giving consideration to the $25,000,000, 7-1/2% first mortgage bonds sold by the company in 1971 and the planned $25,000,000, 7-1/2% long term debt to be offered in the near future, the commission finds the imbedded cost of debt to be 5.64 percent and the debt portion of the capital structure to be 45 percent at test year end, December 31, 1972. This results in the debt component of the rate of return being 2.5380.

The commission accordingly finds that the increase in the debt component of the capital structure at the test year end to be .3555 percent (2.5380 - 2.1825).

Accordingly the commission has added the increase in the imbedded cost of debt to the rates of return allowed in Docket No. 5698. This results in a rate of return of 6.4805 percent

(6.125 + .3555) for the electric operations and a rate of return of 6.8555 percent (6.5 + .3555) for the natural gas operations.

However, in view of the purchased gas adjustment clause set forth hereinbelow, the commission finds that the risk of the natural gas operations has been reduced.

The commission therefore finds that a rate of return of 6.48 percent for the electric division of the utility, and a rate of return of 6.6 percent for the natural gas division of the utility meets all the test required to determine a fair rate of return on a fair value rate base.

CONCLUSIONS

As set forth above under operating results, the commission has determined the estimated earnings of the natural gas division under the existing rates will be $5,416,536 at the end of the test period.

These earnings taken in conjunction with the present fair value rate base established by the commission of $116,100,000 at the end of the test period results in a rate of return of 4.665 percent. This is clearly deficient and rate relief must be provided.

Taking the fair value rate base and applying to it a fair rate of return of 6.6 percent, produces required earnings of $7,662,600; earnings under the existing rates being $5,416,536, increased earnings of $2,246,064 are indicated. As 51.51 cents of every additional revenue dollar goes for federal income taxes and state corporation license taxes, a conversion factor of 48.49 percent will
be used to determine the additional revenues required.
After allowing for increased revenues of $1,085,677 from the industrial customers covered by this application and the Great Falls Gas Co., the commission determines that additional revenues of $3,546,337 are required from - the customers served under the General Service Rate Schedule.

This amounts to an increase of 19 percent, based upon the revenues which the existing General Service Rate Schedule would produce as computed by the commission.

The revenues from Great Falls Gas Company and the industrial customers were also computed at a 19 percent increase.

The company filed a General Service Rate Schedule with its application in this docket which would have produced $6,266,520. This schedule is not concurred in by the commission.

The commission is of the opinion that all contracts f, for natural gas service to be reopened in the near future for price, shall be negotiated at no less than a 19 percent increase. The Great Falls Gas Co. contract must also contain not less than a 19 percent increase. Any industrial contract customer of the company desiring to obtain a substitute fuel has the wholehearted support of the commission in so doing.

The company applied for authority to file a cost of purchased gas adjustment clause. Over 80 percent of the gas delivered in Montana is now being purchased in Canada by the company. Neither this commission nor the company nor any federal agency has any control over the price to be charged the company. As was clearly demonstrated in this docket, the price of gas purchased in Canada can be changed on short notice.

At least one federal power commissioner is advocating that domestic wellhead gas prices be decontrolled.

The other gas expense in the instant proceedings is the largest single item of expense, accounting for over 51 percent of the company's operating expenses.

It is abundantly clear that the cost of purchased gas must be recovered by the company. The use of an adjustment clause would effect no change in the rate of return.

The power of a state commission to authorize adjustment clauses is set forth in two leading court decisions. City of Norfolk, Va. v. Virginia Electric & Power Co., (1955)197 Va. 505, 11 PUR3d 438, 90 SE2d 140, City of Chicago v. Ill. Comrce. Comm., (1958) 13 Ill. 2d 607, 24 PUR3d 334, 150 NE2d 776.

Purchased gas adjustment clauses have been adopted in a large majority of jurisdictions as a

principle of regulation of the retail rates of gas distribution companies.

The clause merely provides for an adjustment in rates to provide for known changes in costs of purchased gas.

Therefore, the commission authorizes the company to file a cost of purchased gas adjustment clause as set forth hereinbelow.

Therefore, after reviewing all the testimony, exhibits and evidence, and from the testimony, exhibits and evidence, and for the reasons stated above, the commission makes the following

FINDINGS OF FACT

1. That The Montana Power Company is a public utility furnishing natural gas, water and electric service in the state of Montana, and is subject to the jurisdiction and authority of this commission.

2. That the present fair value of the company's combined natural gas properties used and useful for the convenience of the public will be $116,100,000 as of December 31, 1972.

3. That the net annual earnings of the company's combined natural gas operations for the test year under the existing schedules of rates and charges will be $5,416,536.

4. That these net annual earnings under the existing schedules of rates and charges will produce a rate of return of 4.665 on the present fair value for the test year of the company's combined natural gas properties and that such a rate of return is neither fair nor reasonable.

5. That the existing schedules of rates and charges do not provide the company with a fair return upon the present fair value of its combined natural gas properties for the test year

6. That the present schedules of rates and charges must be increased in order to provide the company with a fair return upon the present fair value of its combined natural gas properties for the test year.

7. That a rate of return of 6.6 percent would be an adequate fair and reasonable rate of return.

8. That net annual earnings of $7,662,600 are required to provide a fair rate of return of 6.6 percent on the present fair value of the company's natural gas proper ties for the test year of $116,100,000.

9. That an increase in net annual earnings of $2,246,064 will provide the company with a fair and
reasonable return upon the present fair value for the test year of the company's natural gas properties.

10. That the company be authorized to file a revised schedule of rates and charges that will provide additional net annual earnings of not more than $1,719,619, which, together with the projected additional earnings from the contract customers and the Great Falls Gas Company, will
produce the required additional net annual earnings of$2,246,064.

11. That in the determination of the actual amount of required additional annual revenues to be produced under the revised schedules of rates and charges, a conversion factor of 48.49 percent be used to allow for federal income taxes and state corporation license tax.

12. That the company should be authorized to file a cost of purchased gas adjustment clause which shall apply to all classes of customers served by the company.

13. That the increase approved is cost justified and does not reflect future inflationary expectations.

14. That the increase approved is the minimum required to assure continued adequate and safe services or to provide for necessary expansion to meet future requirements.

15. That the increase approved will achieve the minimum rate of return needed to attract capital at

reasonable costs and not to impair the credit of the company.

16. That the increase approved does not reflect labor costs in excess of those allowed by policies of the Price Commission.

17. That the increase approved takes into account expected and obtainable productivity gains.

18. That the commission has provided reasonable opportunity for participation by all interested parties or their representatives, in this proceeding.

19. That the schedules of rates and charges hereinafter set forth are fair, just, reasonable and nondiscriminatory.

The commission concludes that the rate relief requested in the petition of The Montana Power Company for its natural gas division in this docket should be granted in part.

O R D E R

NOW, THEREFORE, at a session of the Public Service Commission of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana, on September 5, 1972, there being present Chairman Ernest C. Steel and Commissioners Louis C. Boedecker and Alfred C. Langley, there regularly came before the commission for final action the matters and things relating to the application of The Montana Power Company for authority to adopt new rates and charges for natural gas service in Docket No. 6100, and the commission being fully advised in the premises.

IT IS ORDERED by the commission that The Montana Power Company be authorized to file a revised schedule of rates and charges for natural gas service in conformity with the schedule of rates and charges set forth hereinbelow.

General Natural Gas Service

Available for: Residential, limited commercial and limited industrial service in all territory served by the company with natural gas.

Base Rate:

First 1 MCF or less, per month ------- $2.97
Next 99 MCF per month at ---------- 0.881 per MCF
Next 200 MCF per month at ---------- 0.642 per MCF
Next 700 MCF per month at----------0.500 per MCF
Next 4000 MCF per month at ----------0.452 per MCF

Minimum Bill: $2.97 per month, which includes 1 MCF

Tax Adjustment Clause:

The company may increase the bill for natural gas service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Cost of Purchased Gas Adjustment Clause:

Subject to the prior approval of the Montana Public Service Commission, the company may increase or decrease the bill for gas service for all customers by an amount equal to any increase or decrease in its cost of purchasing gas above the level of those costs prevailing on the effective date
hereof and arising from an increase or decrease in the cost of purchased gas delivered to its transmission system.

The commission will each month review the company's cost of purchased gas for the preceding twelve-month - period. Whenever the company's cost of purchased gas increases or decreases by 1/4 cent per MCF or more, the commission may order the company to submit a revision of this schedule or the billing for service hereunder to reflect such change in the cost of Purchasing gas delivered to its transmission system. Whenever the application of the foregoing shall produce an inequitable result, whether due to changes in the level of gas purchase price or in the characteristics of the gas supply being purchased by the company, change in form of the gas rate, or otherwise, the matter shall be determined on

its merits, giving effect to the conditions of service expected to exist in the year following the change rather than to those which existed in the year prior to the change.

This Cost of Purchased Gas Adjustment Clause will apply to all contract customers as well as those customers served under this schedule.

Special Terms and Conditions:

(1) Customers using or requiring in excess of 5000MCF per month may be served only after securing writ ten consent of the company. If such consent is given, service may be supplied under special contracts subject to the approval of the Montana Public Service Commission.

(2) Full-time permanent employees of the company shall obtain a 25% discount from the above rate for personal residential use.

(3) Where the same building contains multiple residential dwelling units, each building shall be separately metered, unless the building owner requests individual meters for each residential dwelling unit within the building. The term building is defined as a structure under one roof, or two or more connected structures under separate roofs throughout which there is general access by means of doors, elevators, stairways, enclosed passageways or continuous corridors; but sidewalks, driveways, breezeways, heating and utility tunnels, pipes or conduits are not considered enclosed passageways.
(4) The Natural Gas Service Regulations on file with the Public Service Commission are part of this schedule.

IT IS FURTHER ORDERED that upon the filing of a schedule of rates and charges by the company in conformity with the above and approval thereof by the commission, the said schedule of rates and charges shall be effective on all meter readings on and after October 17, 1972.

IT IS FURTHER ORDERED that henceforth any contract for natural gas service contain a clause that the con tract will be reopened as to price, upon the application of the company for a general increase in the rates and charges contained in its General Service rate schedule.

IT IS FURTHER ORDERED that any existing contract -for natural gas service, not a part of this docket, when reopened, shall be renegotiated at an increase in price of not less than 19 percent. Any new contracts for natural gas service shall contain a price of not less than 19 percent higher than the price that would have been negotiated before this docket was heard.

IT IS FURTHER ORDERED that in view of the above, all motions in this docket to the contrary are denied.

Part "B"
Rate Base

The company originally submitted the following valuation figures or the electric division of the utility for the test year 1972:

	1972
Reproduction Cost New (RCN)	$571,721,673
Reproduction Cost New Depreciated (RCND)	468,380,598
Original Cost (OC)	288,669,642
Original Cost Depreciated (OCD)	228,459,705
Fuel	333,477
Material and Supplies (MS)	1,891,853
Working Capital (WC)	1,933,397

During the hearing a revised exhibit was submitted containing the following valuation figures:

RCN	$571,721,673
RCND	468,383,368
OC	288,669,642
OCD	228,459,705
Fuel	333,477
MS	1,891,853
WC	1,861,730

Mr. George Hess, consulting engineer of Minneapolis, Minnesota, was of great assistance to the commission in arriving at its conclusions as to the valuations of the property of the electric division of the utility.

The commission, in determining property values of the utilities, as required by 70-106,

RCM 1947, has used present fair value since the directive issued by the supreme court of Montana in Tobacco River Power Co. v. Mont. Pub. Serv. Comm., supra. It has used present fair value in the instant docket.

In Tobacco River Power Co. v. Mont. Pub. Serv. Comm., 109 Mont. at 529, 53D, 33 PUR NS at 156, the court said:

It is observed from '3884, that considerable latitude is allowed the public service commission in determining value. Neither the public service commission nor the utility company is limited to or bound by any particular method in arriving at the solution of the question of value. It must be borne in mind always that the ultimate fact to be determined is value upon which rates are based,
which must of course be done under proper legal procedure and restrictions.

The cost of reproduction new, less depreciation, is usually regarded as one of the most important, if not the dominant factor, in the determination of value. (Citation) Under the section of the Montana codes cited, assessment rolls are likewise I admissible as evidence of value, but of course are not exclusive. When the state condemns property of a landowner, it frequently resorts to assessed valuations as evidence, but more often than not the jury will determine damages and valuation in excess of that set out in the assessment rolls. Original cost, assessment values, cost of reproduction new, prudent investment theory, public records mentioned in '3884, and opinions of value are all means to an end, namely, the determination of value.

"Since the above decision was issued, it has been affirmed three times by the Montana supreme court. Montana ex reel. Olsen v. Montana Pub. Serv. Comm., supra,
- (131 Mont. 111)

Montana ex ref. Olsen v. Montana Pub. Serv. Comm.,'supra,
(131 Mont. 272)

Cascade County Consumers Asso. v. Montana Pub. Serv. Comm.,
supra.

Evidence introduced by the company showed the last available assessed valuation for the electric properties of the utility to be $106,162,309.

The determination of the RCND valuations is governed by a further reference to the Tobacco River Power Co. decision. In that decision the Montana supreme court held that observed depreciation is the preferred method in determining RCND valuations when it said in 109 Mont. at 534, 33 PUR NS at 159:

"The accrued depreciation should be ascertained, where possible, by actual inspection or examinations of the property, especially where the age of various items of the property is different or the depreciation is wanting in uniformity, and such method of determination is always referable to calculations or estimates based merely on probabilities. . . .

" The commission has, as it has in various previous rate cases, used checks provided by Mr. Hess to determine the accuracy of the company's RCND valuations. While the difference in the percent condition of the OCD valuation and the percent condition of the RCND valuation in this case
is relatively small compared to other cases, the commission has narrowed the difference.

The commission has eliminated the Hardin-Colstrip 230 line, projected at $1,980,000, the Missoula-Hamilton 161 line projected at $2,013,700 and various smaller construction projects from consideration in all valuations submitted, RCN, RCND, OC and OCD.
The commission has also eliminated from consideration all expectations of future inflation.
The company requested allowances for working capital, materials and supplies, and fuel stock.
As fuel stock is provided for in the Uniform System of Accounts, it will be allowed.
As has been customary in previous cases, one-half the allowance for materials and supplies will be allowed.
The allowance for working capital will not be allowed as the commission is of the opinion that sufficient accruals and reserves are available for these purposes.
Yellowstone Park properties or Wyoming properties were not presented as part of the valuations in this case other than the Heart Mountain gas properties used exclusively by the electric division. The commission has considered only the Wyoming Heart Mountain properties in determining its valuations of the electric division.

In arriving at its fair value valuation of the company's electric division, the commission has considered what valuation evidence was presented by the protestants, the valuation evidence of the company and Mr. Hess' computations.

The commission has deleted from the company's figures all escalation of land values. After a careful review of all the above, including the deletions mentioned, the commission has determined that the present fair value of the company's electric division properties as of the end of the test year, December 31, 1972, will be $342,860,000.

Operating Results

The commission has made a thorough examination of the operating exhibit submitted by the company for its electric operations. The operating results were changed during the course of the hearing due to the anticipated closure of the Anaconda Company zinc operation. The revised exhibit showed earnings for the test year 1972 under. the existing rate schedules to be $18,995,228.

The commission found that the revenues of the company will be $319,000 greater than projected by the company for the test year under existing rates. Mr. Hess pointed out that because of the shift in the load, due to the classification of the additional customers, from which the additional revenues will come that there would be a reduction in production expense. This reduction in expense has been considered by the commission. The commission has also followed Mr. Hess' suggestion in regard to taxes capitalized.

The commission has removed institutional advertising; and all excessive advertising from the operating expenses submitted by the company.

The company's wage contract with the I.B.E.W. was approved by the Pay Board and all appearances in this docket were so notified. All major wage contracts were approved by the Pay Board. All contracts were within the guidelines set forth by the Price Commission.

The commission has determined that there are no expectations of future inflation in the operating expenses contained in the final computation of operating results by the

commission.

The commission has examined the productivity of the electric division and finds that it meets accepted standards of the Price Commission.

After the above mentioned adjustments, including computations for federal income tax and state corporation license tax, have been made, the commission has determined that the net earnings of the electric division of the utility for the test year 1972 will be $19,409,819 under the existing rates.

Rate of Return

Leon Keyserling, a consulting economist and attorney, testified for the company and recommended rates of return which he felt were proper for a company such as The Montana Power Company. Mr. Keyserling found needed rates of return of 7.33 - 7.83 percent for 1972 electric operations; 7.64 - 8.14 percent for 1972 gas operations; 7.42 - 7.94 - percent for 1972 combined operations. Mr. Keyserling further found that his needed rates of return be used only with a fair value rate base.

Edgar H. Bernstein, vice president of the firm of Van Scoyoc and Wiskup, Inc., Public Utility Consultants, Washington, D.C., testified for the protestants on a needed rate of return. Mr. Bernstein testified that the total cost of capital based on the capital structure for The Montana Power Company shown on his exhibits would be 6.26 percent to 6.47 percent. He also found a fair rate of return for the electric operations to be from 6.30 to 6.50 percent applied to a fair value rate base for the test year.

Mr. Bernstein found slightly more risk to the natural gas operations and that a fair rate of return for the natural gas operations would be some twenty basis points higher, or 6.50 to 6.70 percent

The commission is of the opinion that under Price Commission regulations, consideration in this docket can be given only to the increase in the imbedded cost of debt in determining a fair rate of return.

In Docket No. 5698, the last preceding docket for The Montana Power Company, the commission found a fair rate of return for the electric operations to be 6.125 percent and for the natural gas operations to be 6.5 per cent. The natural gas operations were given a higher rate of return due to the inherent higher risk associated with the natural gas operations.

In Docket No. 5698 the imbedded cost of debt was determined to be 4.85 percent for both the electric and natural gas operations. Debt was found to be 45 percent of the capital structure with the debt portion of the rate of return 2.1825 percent.

Giving consideration to the $25,000,000, 7-1/2% first mortgage bonds sold by the company in 1971 and the planned $25,000,000, 7-1/2% long term debt to be offered in the near future, the commission finds the imbedded cost of debt to be 5.64 percent and the debt portion of the capital
structure to be 45 percent at test year end, December 31, 1972. This results in the debt component of the rate of return being 2.5380.

The commission accordingly finds that the increase in the debt component of the capital structure at the test year end to be .3555 percent (2.5380 - 2.1825).

Accordingly the commission has added the increase in the imbedded cost of debt to the rates of return allowed in Docket No. 5698. This results in a rate of return of 6.4805 percent (6.125 + .3555) for the electric operations and a rate of return of 6.8555 percent (6.5 + .3555) for the natural gas operations.

However, in view of the purchased gas adjustment clause set forth hereinabove, the commission finds that the risk of the natural gas operations has been reduced.

The commission therefore finds that a rate of return of 6.48 percent for the electric division of the utility, and a rate of return of 6.6 percent for the natural gas division of the utility meets all the test required to determine a fair rate of return on a fair value rate base.

CONCLUSIONS

The commission has determined that the net annual earnings of the electric division, for the

test year 1972 under existing rates to be $19,409,819. The commission has established $342,860,000 as the present fair value of the electric properties for the end of the test year. Using the valuation and earnings figures set forth above results in a rate of return of 5.66 percent. This is lower than the rate of return allowed in the previous order and is clearly deficient. Rate relief is indicated to be needed by the company.

As the present fair value of the electric properties has been determined to be $342,860,000 and a fair rate of return to be 6.48 percent, required net annual earnings are determined to be $22,217,328. Net annual earnings for the test period under the existing rates have been determined to be $19,409,819.

This results in additional required earnings being $2,807,509. As federal income taxes and state corporation license taxes take 51.51 cents of each additional dollar of revenue, required additional revenues are determined to be $5,789,872. After deduction of additional industrial revenue covered by the application of $775,018, we find that additional rate schedule revenues of $5,014,854 are required. This would necessitate an 11 percent increase in revenues from the rate schedule customers. An 11 percent increase has been projected for industrial customers covered by the application. It is the opinion of the commission that all industrial contracts not a part of this docket, when reopened for price should have no less than an 11 percent increase.

After carefully considering all evidence presented in this docket and for the reasons stated above, the commission makes the following.

FINDINGS OF FACT

1. That The Montana Power Company is-a public utility furnishing electric, gas and water service in the State of Montana, and is subject to the jurisdiction and authority of this commission.

2. That the present fair value of the company's electric properties actually used and useful for the convenience of the public will be $342,860,000 at the test year end, December 31, 1972.

3. That the net annual earnings of the company's electric operations for the test year under the existing schedules of rates and charges will be $19,409,819.

4. That these net annual earnings under the present schedules of rates and charges will produce a rate of return of 5.66 percent on the present fair value of the company's electric properties for the test year and that such a return is neither fair nor reasonable.

5. That the existing schedules of rates and charges do not provide the company with a fair return upon the present fair value of the electric properties for the test year.

6. That the present schedules of rates and charges must be increased in order to provide the company with a fair return upon the present fair value of its electric properties for the test year.

7. That a rate of return of 6.48 percent would be an adequate, fair and reasonable rate of return.

8. That net annual earnings of $22,217,328 are required to provide a fair rate of return of 6.48 percent on the present fair value of the company's electric properties for the test year of $342,860,000.

9. That an increase in net annual earnings of $2,807,509 will provide the company with a fair and
reasonable return upon the present fair value, for the test year, of the company's electric properties.

10. That the company be authorized to file revised schedules of rates and charges that will provide additional net earnings of not more than $2,431,703, which, together with projected additional industrial contract net annual earnings of $375,806 will produce the required additional net annual earnings of $2,807,509.

11. That in the determination of the actual amount of required additional annual revenues to be produced under the revised schedules of rates and charges, a conversion factor of 48.49 percent be used to allow for federal income taxes and state corporation

license tax.

12. That the increase approved is cost justified and does not reflect future inflationary expectations.

13. That the increase approved is the minimum required to assure continued adequate and safe services or to provide for necessary expansion to meet future requirements.

14. That the increase approved will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the company.

15. That the increase approved does not reflect labor costs in excess of those allowed by policies of the Federal Price Commission.

16. That the increase approved takes into account expected and obtainable productivity gains.

17. That the commission has provided reasonable opportunity for participation by all interested parties or their representatives, in this proceedings.

18. That the schedules of rates and charges hereinafter set forth are fair, just, reasonable and non-discriminatory.

The commission concludes that the rate relief requested in the petition of The Montana Power Company for its electric division, in this docket, should be granted in part.

O R D E R

NOW, THEREFORE, at a session of the Public Service Commission of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana, on September 5, 1972, there being present Chairman Ernest C. Steel and Commissioners Louis G. Boedecker and Alfred C Langley, there regularly came before the commission for final action, the matters and things relating to the application of the Montana Power Company for authority to adopt

new rates and charges for electric service in Docket No. 6100, and the commission being fully advised in the premises;

IT IS ORDERED by the commission that The Montana Power Company be authorized to file revised schedules of rates and charges for electric service in conformity with the schedules of rates and charges set forth below:

General Electric Service

Available for: All electric service required when supplied through one meter at one point of delivery. Not available for standby, breakdown, resale or shared service.

Type of Service:

Sixty cycle alternating current at such phase and voltage as company may have available.

Rate: Net Monthly Bill:

First 20 kwh or less per month for $1.40
Next 80 kwh per month at 4.444 per kwh
Next 1700 kwh per month at 3.774 per kwh
Next 3200 kwh Per month at 2.224 per kwh
Next 15000 kwh per month at 1.224 per kwh
Next 200 kwh per kilowatt of demand
per month at 1.004 per kwh
All additional kwh at 0.67per kwh

Plus:

First 10 kilowatts -- no charge
Next 20 kilowatts -- $1.33 per kilowatt
All additional kilowatts -- $1.11 per kilowatt

Minimum Bill: $1.40 per month

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Determination of Kilowatts:

The average kilowatts supplied during the 15-minute period of maximum use during the month, as determined by permanently installed indicating type meter.

Special Terms and Conditions:

(1) Customer may be required to pay the cost of installing and removing all the facilities required to
supply seasonal and short-term service. Customer must pay the cost of installing and removing all the facilities required for rendering temporary service; and

(2) Supplementary service may be supplied by the company only under special contract specifying the rates, terms and conditions governing such service;

(3) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

General Electric Service Riders

Rider 1 - Commercial Water Heating:

Where a storage type water heater of design and size approved by the company is installed and in regular use, and where in any month the customer's consumption is more than 300 kwh and less than 5750 kwh, then the last 750 kwh of each such month's consumption shall be billed at 2.00 per kwh, except that, such part of the said 750 kwh which falls below 300 kwh or above 5000 kwh shall be billed at the price set out above under Rate Rider 2 - Athletic Fields:

Where publicly owned athletic fields supply all necessary transformers, company will waive the
application of the kilowatt charge under Schedule GS-72 Rider 3 - Direct-Current Elevators:

Where customer uses direct-current motors for opera ting elevators, the demand charge shall be $1.66 per month per horsepower of connected load. The energy charge shall be that set forth in the rate. This f' rider is applicable only to those customers receiving direct-current service as of August 14, 1957, and is I not applicable if ownership of premises changes or to any new customers.

Residential Electric Service

Available for: All domestic purposes in single private dwellings and individual family apartments Type of Service:

Single phase, 120 volts, 2 wire, or 120/240 volts, 3 wire, through one meter at one point of delivery.

Rate: Net Monthly Bill:

First 20 kwh or less per month for $1.40
Next 80 kwh per month at 4.44/ per kwh
Next 100 kwh per month at 3.114 per kwh
All additional kwh per month at 1.554 per kwh

Minimum Bill: $1.40 per month

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) When two or more apartments or residential dwelling units are wired to receive service through one meter, Schedule GS-72 is applicable. As an alternative, Schedule R72 may be applied by multiplying the kwh in each block of the rate and the initial charge of $1.40 by the number of apartments or residential dwelling units so served. Service to the halls, basement or other common use portions of an apartment building or multiple dwelling building will be supplied under Schedule GS-72.

(2) Where a portion of a residential dwelling unit is used for non-residential purposes, Schedule GS-72 will apply to all services used for non-residential purposes. When the wiring does not permit separate metering, Schedule GS-72 will apply to all service supplied.

(3) Incidental single phase motors of not larger than three horsepower may be served under Schedule R-72 when used for domestic purposes.

(4) Customers requiring larger than three horsepower motors for domestic purposes may be

served under Schedule R-72 with three phase power when such service is available. If an underground three phase extension or conversion is required, the additional cost over an overhead three phase extension or conversion shall be contributed as a non-refundable contribution by the customer(s).

(5) Full time permanent employees of the company shall obtain a 40%; discount from the above rate for personal residential use.

(6) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

Street Lighting Power Service

Available for: Lighting public streets, alleys, parks, public grounds, airports and airways where lights are operated from dusk to dawn throughout the year.
Application:

To overhead and ornamental post street lighting system.

Type of Service:

Sixty cycle, single phase, alternating current delivered at central distributing points in the form of 6.6 ampere constant current; 120 volts, 2 wire; or 120/240 volts, 3 wire; or other voltage, as may be available at company option.

Rate:

$5.72 per month per kilowatt of lamp and auxiliary rating.

Minimum-Bill:

As provided for in contract between customer and company.

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) An additional charge will be made to cover operation and maintenance services performed by company and rental of any facilities supplied and installed by company which may consist of conductors, underground conductor, conduit, cable, wood poles, ornamental metal poles, brackets, mast arms, luminaries, lamps; any or all but not limited thereto.

(2) Electric energy to operate traffic control signals, traffic blinkers and other lights operating for
periods other than dusk to dawn will be supplied as part of a street lighting system at a rate-corresponding to the above rate, but adjusted to reflect hours of burning and the additional wattage of the auxiliary equipment.

(3) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

Yard and Protective Lighting Service

Available in: Rural and urban areas

Applicable to: Company owned electric yard and protective lights.

Rate: Net Monthly Bill:

Lamp Rating	Wood Pole Mounting	
	Single Light	Dual Light
6,000 Lumen Incandescent	$3.88	$ 7.49 per unit per month
175 Watt Mercury Vapor	3.88	7.49 per unit per month
400 Watt Mercury Vapor	8.71	17.15 per unit per month
700 Watt Mercury Vapor	10.99	21.70 per unit per month
1,000 Watt Mercury Vapor	12.93	25.59 per unit per month

The unit charge includes energy and ownership and maintenance costs for unit, one wood pole and up to 200 feet of overhead line extension and shall be increased $1.39 per month for each metal post installed instead of a standard wood pole.

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) Company will install unit on new or existing pole. The unit will be controlled to operate from dusk to dawn.

(2) Company will maintain unit but has option of replacing lamp bulbs for customer upon notice of burnout or providing replacement lamp bulb and having customer replace. In latter case, company will install an adapter hanger to allow customer to drop fixture to simplify lamp replacements.

(3) Where more than one pole and 200 feet of extension are required, customer will make a non-refundable contribution for the overage at actual cost to company.

(4) Customer must agree to take and pay for this service for a minimum period of five years.

(5) Underground service to yard lights installed on steel poles is available when the customer pays a nonrefundable contribution representing the difference of underground installation costs over overhead installation costs.

(6) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

Post-Top Lighting Service

Available In: Rural and urban areas
Applicable to: Company owned electric post-top lighting units.

Rate:

Lamp Rating	8-Foot Ornamental Post Top Lighting Unit
100 Watt, Mercury Vapor	$3.88 per unit per month

Lamp Rating	17-Foot Ornamental Post Top Lighting Unit
175 Watt, Mercury Vapor	$5.27 per unit per month

The unit charge includes energy and ownership and maintenance costs for the lighting unit,

one ornamental pole, and up to 100 feet of electric cable extension.

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the I proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) Company will install unit on customer's premises. The unit will be controlled automatically to
operate from dusk to dawn.

(2) Where more than 100 feet of cable and two sidewalk tunnels are required for the extension from customer's meter, the customer will make a non-refundable payment for the excess cost based on the actual expense incurred by the company as a contribution in aid of construction.

(3) Customer shall agree to take and pay for this service for a minimum period of five (5) years.

(4) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

Irrigation Pumping and Sprinkling Service

Availability: Under seasonal contract to any customer using this service exclusively for irrigation pumping and sprinkling during the irrigation season, normally May through October, where service may be discontinued during the balance of the year and transformers removed at the discretion of the company.

Type of Service:

Sixty cycle, alternating current at such phase and voltage as company may have available.

Rate Per Season or Fraction Thereof:

KWH Per Horsepower

Connected Charge
1 to 500 kwh - $8.30 per horsepower connected
501 to 750 kwh - All kilowatt hours at 1.664 per kwh
751 to 1000 kwh - All kilowatt hours at 1. 334 per kwh
1001 to 1250 kwh - All kilowatt hours at 1.22/ per kwh
1251 to 1500 kwh - All kilowatt hours at 1.11/ per kwh
1501 to 2000 kwh - All kilowatt hours at 1.004 per kwh
2001 to 2500 kwh - All kilowatt hours at 0. 894 per kwh
Over 2500 kwh - All kilowatt hours at 0.834 per kwh

Minimum Seasonal Bill: $8.30 per horsepower connected.

Tax Adjustment Clause:

The company may increase the bill for electric service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) No bill shall be rendered wherein the customer will be charged more for his consumption at a higher rate level than he would pay for the minimum use at the next lower rate level.

(2) The minimum seasonal bill will be rendered at the start of the season. On or about October 30, the meter will be read and the total seasonal kwh use per horsepower connected will be determined. The applicable rate level will be applied to the total consumption to determine the total annual charge. The seasonal minimum bill, previously rendered, will be deducted from the total annual charge and the customer will be billed for the difference.

(3) Each point of delivery will be separately contracted for and billed at the above rate.

(4) Any kilowatt hours used after the October meter reading date will be billed at the average rate earned by the customer during the irrigation season.

(5) The Electric Service Regulations on file with the Public Service Commission are part of this schedule.

IT IS FURTHER ORDERED that upon the filing of schedules I of rates and charges by the

company in conformity with those set forth above and approval thereof by the commission, the said schedules of rates and charges shall be effective on all meter readings on and after October 17, 1972.

IT IS FURTHER ORDERED that henceforth any contract for electric service contain a clause that the contract will be reopened as to price, upon the application of the company for a general increase in rates and charges in the rate schedules set forth above.

IT IS FURTHER ORDERED that any existing contract for electric service, not a part of this docket, when reopened, shall be renegotiated at an increase in price of not less than 11 percent. Any new contracts for electric service shall contain a price not less than 11 percent higher than the price that would have been negotiated before this docket was heard.

IT IS FURTHER ORDERED that in view of the above, all motions in this docket to the contrary are denied.

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 Montana, with Chairman Steel and Commissioner Langley voting yea and Commissioner Boedecker voting nay.

DONE IN OPEN SESSION at Helena, Montana, this 5th day of September, 1972.

ERNEST C. STEEL, Chairman

ALFRED C. LANGLEY, Commissioner

ATTEST

PATRICIA SHEEHAN

Secretary

(SEAL)

DISSENT OF LOUIS G. BOEDECKER

I do not concur in the order of the majority of the commission and hereby dissent for the following reasons:

In my opinion, the record completely failed to support any increase in electric rates and the application at best should be considered as premature. I do not agree with the extent of increase granted for natural gas rates and the fair values used by the commission were substantially higher than what I considered to be fair. I believe the valuation given to reproduction cost new substantially overstates -- present day costs; for example, in the electric properties. the original cost of Holter dam on the books of the company is $5,084,056. The reproduction cost new valuation for this dam was stated to be $20,246,232 which is 398% escalation of the original cost value. Another example is Hauser dam, the original cost being $4,664,669 and the reproduction cost new value was $25,236,977 which is an escalation of original cost to reproduction cost new of 541%

It is also my position, which the other commissioners - would not accept, that The Montana Power Company be ordered to undertake cost of service studies for each of its industrial contract customers or that the commission undertake such studies, and that no action be taken by the commission with respect to increasing rates until such time as these studies are completed. The company stated for the record that they do not have cost of service studies to support their industrial contract rates, and neither does the Public Service Commission.

I suspect that the rates of most of the industrial contract customers are so low that they do not even cover out of pocket costs of serving them, let alone contributing anything toward relieving the fixed costs of The Montana Power Company.

This issue is of vital importance, for these industrial contract customers purchased 43% of the total gas sold by the company in 1970 which produced only 28% of the total natural gas revenues, and in 1971 they purchased 42% of the total amount sold producing only 27% of the total natural gas revenues.

In 1970 the industrial contract customers purchased 39% of the total amount of electricity sold producing only 17% of the revenues. In 1971 they purchased 35% of the - total amount

of electricity sold producing only 15% of the total revenues received for electricity. Therefore, it is not unreasonable to suggest that the rates of the industrial contract customers of the company are rankly discriminatory and that the residential and commercial type customers are picking up the tab for the industrials.

The Public Service Commission has absolutely no idea what the industrial contract customers' rates should be.

Having no concrete evidence upon which to base a judgment in establishing these industrial rates, the commission cannot possibly presume to have adopted reasonable rates for any of the company's customers, and not to have done so is unfair, unreasonable and makes a travesty of justice.

LOUIS G. BOEDECKER, Commissioner