Service Date: December 21, 1979

FINDINGS AND ORDER NO. 4588
DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

In the Matter of the Application of)	
MONTANA-DAKOTA UTILITIES, INC.,)	DOCKET NO. 6733
for authority to establish)	ORDER NO. 4588
increased rates for gas service.)	

APPEARANCES

FOR THE APPLICANT:
Lester Loble, Attorney, 833 North Last Chance Gulch, Box 176, Helena, Montana 59601

FOR THE PROTESTANTS:
James C. Paine, Attorney, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59601

Frank Buckley, Utilities Analyst, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59601

C. W. Leaphart, Attorney, Great Western Sugar Company, 1 Last Chance Gulch, Helena, Montana 59601

Jerome Anderson, Attorney, Lovell Clay Products Company, Pierce Packing Company, Midland Packing Company and Midland Foods, 404 North 31st Street, Billings, Montana 59101

FOR THE COMMISSION STAFF:
Robert F. W. Smith, Attorney
Dan Elliott, Administrator, Utility Division

BEFORE:
GORDON E. BOLLINGER, Chairman
THOMAS J. SCHNEIDER, Commissioner
JAMES R. SHEA, Commissioner
GEORGE TURMAN, Commissioner

FINDINGS OF FACT

1. Montana-Dakota Utilities, Inc. (MDU or Applicant) is a public utility furnishing electric and gas service to consumers in the state of Montana .

2. Applicant's petition, filed October 1, 1979, requests this Commission's approval of an increase in rates for natural gas service of 35.0094 for industrial customers and 32.2244 for residential and commercial customers. This equates to approximately $5.7 annually using volumes approved in Docket No. 6567, MDU's last general rate case.

3. MDU's application was submitted in accordance with and pursuant to Rate 87-M, Procedure for Implementing Gas Cost Tracking Adjustment Procedure in Rate 88-M, which was approved by the Commission on May 30, `979, in Docket No. 6635, Order No. 4476a.

4. The application consists of two parts:

	Residential and Commercial	Industrial
1. Current Gas Cost Adjustment	31.8404	34.6254
2. Current Unreflected Gas Cost Adjustment	.3844	.3844
Total	32.2244	35.0094

5. The current gas cost adjustment is applied for under tariff schedules 88-M(1 j, (2) and (3), and the current unreflected gas cost adjustment is applied for under tariff schedule 88-M(1), (2), (4) and (5). Tariff schedule 88-M(2)(c) states: "No adjustment shall be made unless ordered by the Commission."

6. The current unreflected gas cost adjustment consists of gas costs incurred in June and July, 1979, which were not reflected by rates in effect at that time. It serves as a gauge from which the Commission can judge the magnitude of gas cost changes, thereby allowing a reasonable means of setting prospective rates. The Commission finds the increase

in gas costs during June and July reasonable due to the rising cost of gas to the Applicant under the Natural Gas Policy Act (NGPA) of 1978, and is accepted.

7. The Commission finds the current gas cost adjustment to be less convincing. The adjustment is based on gas volumes projected to the year ended July 31, 1980 and applied to October, 1979 NGPA prices. The October, 1979 prices constitute known and measurable changes; however, July 31, 1980 projected volumes do not, and further are not supported in the record.

The projected volumes constitute a dramatic swing in the mix of gas from that approved in Docket No. 6567, MDU's last general rate case:

	Approved in Docket No. 6567	Projected in this Docket for the Year Ended July 31, 1980
Purchased	45,676,776 Mcf	61,917,800 Mcf
Storage, Net	-0-	(16,866,882)
Produced	6,714,584	4,696,700
Total	52,391,360 Mcf	49,747,618 Mcf

MDU did not present policy witnesses or gas supply experts to justify such a change. Consumer Counsel pointed out the lack of testimony and evidence supporting the change in mix through cross-examination of MDU's only witness, Don Ball, a senior rate analyst.

Further, even if appropriate testimony had been presented, the Commission would require a compelling reason to modify its past position of requiring rates to be based upon historical and verifiable costs and volumes.

Finding No. 21 in Order No. 4476a, Docket No. 6636 specifies a reason the Commission has adopted this philosophy: "Use of estimates provides the opportunity, whether intentional or

unintentional, for overestimating gas costs. "
The order section describing the current gas cost adjustment mechanism in Order No. 4476a is consistent with the use of historical amounts: "The first part consists of a gas cost adjustment which recognizes the most cur rent gas costs available. This adjustment is made every six months on May 1st and November 1st and recognizes actual gas prices up to and including the adjustment date." (Finding 20, emphasis supplied). Tariff schedule 88-M (3)(c) and (d) filed pursuant to Order No. 4521a are also consistent with the use of historical amounts. The current gas cost adjustment applied 3 for in this docket, however, is not. It appears that MDU has interpreted language in tariff schedule 88-M(3)(d) to allow the use of projections in carte blanche fashion. The language referred to states:

Annual Volumes to be Utilized. The volume of gas to be utilized shall be the actual volume of purchased, storage and produced gas recorded for Seller's integrated system during the twelve-month period ending on the January 31 and July 31 next preceding the adjustment dates of June 1 and December 1 of each year, respectively; provided, however, that such volumes shall be subject to adjustment by Seller to reflect annualization of volumes required, including but not limited to, volumes of gas purchased under new contracts and significant changes in takes from existing suppliers, significant changes in storage withdrawals and injections, and significant changes ~n quantities of produced gas. (Emphasis supplied)

The Commission finds this language to mean, that for rate purposes, MDU may apply for changes in its gas mix from that approved in the last general rate proceeding (in this instance, Docket No. 6567) to another mix during

the twelve month period ending on the January 31st and July 31st next preceding the adjustment date to reflect volumes of gas purchased under new contracts not in existence at the time of the last general rate case, significant changes in takes from existing suppliers who may have more or less gas to offer than at the time of the last general case, etc. Use of the mix approved in the last general rate case as a starting point allows the Commission to set rates which are responsive to a gas mix reviewed by all concerned parties and in light of other adjustments which consider the overall operating characteristics of the utility; rather than the narrowly defined arena afforded in a gas tracking case.

8. The Commission, by such rejection of the dramatic change in the gas mix proposed in this tracking case, does not judge the merit or prudence of that operating plan. There is simply no substantive testimony on this fundamental issue in this case. Applicant is protected on this gas supply cost issue by the deferred accounting mechanism to the extent it demonstrates on a substantial record the appropriateness of its gas supply mix. The general rate case (Docket No. 6695) currently in process offers an opportunity for Applicant and intervenors to substantively address an appropriate gas supply mix for ratemaking purposes. As an alternative, this issue could be addressed in depth at the next deferred gas accounting case.

9. A final matter concerns language included in Finding No. 24, Order No. 4476a which states: "The Commission is firmly committed to thorough inquiry into the cost of gas during the course of any such hearing, and is convinced that the procedure herein adopted has the clear virtue of allowing all parties to focus on matters of genuine contention rather than engaging in prolonged, fruitless debate on the formula

itself. " This order should provide the clarification needed to prevent future prolonged, fruitless debate on the formula. In the alternative, the Commission will feel compelled to examine the faults of the formula in a hearing specifically designed for that purpose.

CONCLUSIONS OF LAW

1. This Commission has jurisdiction over the rates and charges for, and the conditions under which, utility service is rendered in Montana.

2. The rates approved herein are just and reasonable.

O R D E R

1. Applicant shall file rate schedules reflecting for all customer classes an increase in natural gas revenues of .3844 per thousand cubic feet at 14.73 p.s.i.a. The schedules shall be effective for service rendered on and after December 20, 1979.

2. All motions and objections not ruled upon at the hearing are denied .

DONE IN OPEN SESSION at a meeting of the Montana Public Service Commission held December 20, 1979, by a vote of 4-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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James R. Shea, Commissioner

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George Turman, Commissioner

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Thomas J. Schneider, Commissioner

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Clyde Jarvis Commissioner

ATTEST:
Madeline L. Cottrill
Secretary
(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38-2.2(64)-P2750, ARM.