Service Date: July 30, 1987

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

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IN THE MATTER of the Montana Public Service Commission's Investigation of Federal Tax Reform Impacts on GREAT FALLS GAS COMPANY.	))))	UTTLITY DIVISION DOCKET NO. 86.12.62 (5) INTERIM ORDER NO. 5281

FINDINGS OF FACT

1. On November 24, 1986, the Commission issued Order No. 5236 which indicated that Companies included in the Order were to file sufficient information to demonstrate that their current rates for public utility service remain just and reasonable taking into account the Tax Reform Act of 1986.

2. On December 4, 1986, the Montana Public Service Commission (Commission or PSC) received a Motion for Reconsideration from Great Falls Gas Company (GFG, Company or Applicant) requesting that it he allowed until June 1, 1987, to make its compliance filing under Order No. 5236. On December 15, 1986, at a regular scheduled agenda meeting held at the Commission offices, the Commission granted the Applicant's request.

3. On May 26, 1987, the Commission received a request for an extension of time from GEG requesting that it be allowed until July 1, 1987, to make its compliance filing. On May 26**,** 1987, at a worksession which followed a regularly scheduled agenda meeting held at the Commission offices, the Commission denied the Applicant's request.

4. On June 2, 1987, GFG made its compliance filing pursuant to Order No. 5236. The cost of service in the June 2nd filing showed a need for additional revenues of $204,624. Included in the June 2nd compliance filing was a stipulation between GFG

and the Montana Consumer Counsel (MCC) on the cost of capital . Both parties agree that the appropriate capital structure is a 50/50 debt equity ratio. The stipulation sets out the cost of debt as 9.16% and the cost of equity at 12.25%, which results in an overall cost of capital of 10.71%. The date of this stipulation is June 1, 1987. The Company used a test year ending March 31, 1987, adjusted for known and measurable changes. The major element in the request for increased revenues of $204,624 relates to a decrease in the base rate for the Montana Refining Company. That one adjustment represents an increase of $194,220.

5. On August 15, 1986, the Company filed an application to increase rates by $248,238 to reflect the loss of a significant portion of its load which was associated with the Malmstrom Air Force Base. This application was assigned Docket No. 86.8.38. In its original filing in that docket, the Company indicated that the new load level at Malmstrom would be 268,000 Mcf on an annual basis versus 519,496 Mcf which had been used to set rates in Docket No. 85.7.26. The loss of load was associated with the new coal fired heating plant coming on line at Malmstrom. On September 19, 1986, the Company filed an amended application for rate relief. The new volumes for Malmstrom were estimated to be 259,213 Mcf on an annual basis. The new revenue increase, was $259,557. On September 29, 1986, the Commission issued Interim Order No. 5228 which authorized GFG to increase rates on an interim basis by $259,557. In the Company's June 2nd compliance filing, the Company indicated that based on "a certain amount of operational information" the loss of load is now estimated to be 120,000 Mcf on an annual basis. As a result, the volume used for Malmstrom by the Company in its compliance filing were increased from 259,213 Mcf to 399,714 Mcf.

6. In a letter to the PSC staff dated July 2, 1987, John Allen indicated that two changes needed to be made to the compliance filing cost of service. First, the MCC and PSC taxes increased by $7,643. Secondly, an error was made in the calculation of revenues from the Commercial Market Retention rate in the amount of $9,547. These two changes in the cost of service result in a total revenue increase request of $221,548. Also in the July 2nd letter, the Company provided a one page interim cost of service which showed the need for a revenue decrease of $52 927. For interim purposes the Company reduced operating and maintenance expenses by $49,790. Revenues were increased by $22,835 to reflect a two-year amortization of interest income. Rate base was reduced by $44,337. And finally, as noted above in Finding of Fact No. 4, using thc present base rate

for the Montana Refining Company reduces the compliance revenue requirement by $194,220.

REVENUES

7. In the June 2nd compliance filing the pro forma revenues reflected by the Company $18,533,332. The Commission finds that there are several adjustments needed to revenues to determine the proper level or interim rates in this Docket. The first adjustment has to do with the amortization of interest income, in Docket No. 85.7.26 the Commission accepted a stipulation that found that interest income of $53,855 should be amortized over a two year period (Finding of Fact No. 23) . The date of that order was April 14 , 1986. Thus the two year amortization would end no sooner than April 14, 1988. In the interim cost of service provided by the Company on July 2nd, the amount of interest income included in revenues was $22,835. A two year amortization of $53,855 produces an interest income amount of $26,928. The Company used a more recent interest income amount in their calculation. Pursuant to Order No. 5153a in Docket No. 85.7.26, the Commission finds that the proper amount of interest income for this Docket is $26,928.

8. The next issue which gives rise to a revenue adjustment is the volume associated with the Montana Refining Company. In Docket No. 85.7.26 the Commission approved the SPI rate for this customer and volumes were set at the contract level of 200,000 Mcf on an annual basis. The contract with Montana Refining included provisions for further price incentives if their take was greater than the contract minimum of 200,000 Mcf. Since the inception of the $PI rate, Montana Refining has in fact taken in excess of the contract minimum. For example, in
the test year tinned March 31, 1987, actual sales to Montana Refining were 266,826 Mcf (Statement H). GFG indicated in a meeting with MCC and the staff that it was the Company's interpretation of the SPI rate that any revenues from volumes in excess of 200,000 Mcf should be credited to the shareholders. l3th MCC and the Commission staff expressed surprise at that interpretation. In response to the concerns expressed at that meeting, the Company increased the volumes from 200,000 Mcf to 237,038 Mcf in the compliance filing. However, the Commission finds that for interim purposes the volumes

for Montana Refining shall be set at 250,000 Mcf. This is a conservative adjustment in light of the actual sales volumes (266,826 Mcf) in the test year. The Commission finds it proper to use the existing base rate for sales to Montana Refining to calculate this Interim Order. Using the sales volumes of 250,000 Mcf and the existing base rate produces sales revenues for Montana Refining of $1,012,870. Two issues with respect to the SPI rate remain to he decided in this Docket: (1) What volumes should be used for Montana Refining to set rates and (2) what should the base rate be. Also, both the Company and MCC are requested to address treatment of amounts which have accumulated in the balancing account. The Commission wants to receive a full discussion on the SPI rate to avoid any question of how all revenues received from Montana Refining are to be reflected for ratemaking.

9. As noted above in Finding of Fact No. 5, the Company in the compliance filing shows volumes for Malmstrom Air Force Base of 399,714 Mcf. Statement H in the compliance filing shows that actual sales to Malmstrom during the test year were 450,378. The Commission observes that trying to get reliable data about the effect of the coal fired plant and the remaining Malmstrom load has been very difficult. For interim purposes the Commission will take the very conservative approach of using 425,000 Mcf for Malmstrom. The resulting sales revenues for Malmstrom are $1,730,048.

10. Based on the adjustments to revenues discussed above, the Commission finds that total revenues for this Interim Order are $18,890,30. The two changes to sales volumes noted above results in an increase to purchased gas expense. For this Order the Commission finds total purchased gas expense of $13,988,265. The Commission used the most recent 3 year average to determine the loss and unaccounted for gas percentage. For interim purposes the Commission finds that percentage to be 1 .27%.

COST OF CAPITAL STIPULATION

11. The parties have agreed to an overall cost of capital of 10.71%. That number is arrived at using a 50/50 debt equity ratio, a cost of debt of 9.16% and a cost of equity of 12.25%. Prior to this stipulation the approved cost equity for GFG was 14.5% which war set in Order No. 4914a, Docket No. 82.4.25. The Commission is aware that

interest rates have declined sharply in recent years. Certainly, a return on equity of 12.25% is a more accurate estimate of the cost of equity than 14.5% in present conditions. One aspect of the stipulation which gives the Commission pause s the equity ratio of 50%. In Order 5153a the Commission made it explicit that it did not intend to allow excessive equity ratios. The equity ratio approved in Order 5153a was 48..5%. Thus the increased equity ratio in the stipulation seems to he a move in the wrong direction. However, the result. of the stipulation taken as a whole is reasonable and will be used for the purpose of computing interim rates. Consideration of the stipulation in terms of final approval in this Docket will take place at a later date.

EXPENSES

12. In Order No. 5l53a the Commission set the amount of expense transferred to non-utility operations at $40,613. In an attempt to solve the question of how much expense to transfer the Commission directed GFG to keep detailed time records for time spent by all utility employees on non-utility business. During a discovery meeting on July 13, 1987, in the Company's offices, staff was informed that detailed time records are still not in use. In the compliance filing the amount of expenses transferred was $29,475. Since the Company has no detailed time records to support the amount of expense transferred, the Commission will use the amount of $40,613 used in the last case.

13. In the compliance filing, the Company included an adjustment of $618 to reflect expected fuel cost increases. This adjustment is removed for interim purposes as it is not known and measurable.

14. The Company included an adjustment of $3,600 for a customer survey which is done each year. This adjustment is removed for interim purposes as it is not known and measurable.

15. GFG included two expense adjustments fur rote case expense in the filing. The first adjustment of $18,000 is for expenses in this Docket. The second adjustment of $25,000 relates to GFG's participation in an upcoming MPC gas case. Out of $73,000, the Company proposed to include $24,333 in the interim cost of service. Both of these rate case expense items are based upon estimates. The Commission will allow a part of

the GFG case expenses in the amount of $10,000. As to the MPC expenses, none will be allowed for interim purposes. These expenses will be carefully evaluated for reasonableness during this Docket.

16. All of the above Commission expense adjustments result in a decrease to expenses of $35,356. Consistent with the last docket, the Commission finds that working capital should be reduced by 60% of claimed property taxes. That adjustment reduces working capital by $41,225. There is also a change to working capital as a result of the PSC expense adjustments. Total working capital for interim purposes is $409,575. Rate base approved on an interim basis is $7,538,890.

17. Based upon the above Findings of Fact, the Commission fines that an interim rate decrease of $116,677 is appropriate as shown in the following chart:

GREAT FALLS GAS
INTERIM COST OF SERVICE

	Present Rates 12 Months Ending 3/31/87 Normalized Pre Tax Reform Act	Adjustment for Tax Ref Act of 1986	Present Rates 12 Months Ending 3/31/87 normalized After Tax Reform Act	Adjustment	Proposed Rates Test Period
Operating Revenue	$18,890,310		$18,890,310	($116,677)	$18,773,633
Cost of Service:					
Gas Purchased	$13,988,265		$13,988,265		$13,988,265
Other Operations:					
Distribution	$524,798		$524,798		$524,798
Customer Accounts	$621,211		$621,211		$621,211
Customer Service	$201,217		$201,217		$201,217
Admin. & General	$1,381,073		$1,381,073		$1,381,073
Maintenance	$202,387		$202,387		$202,387
Depreciation	$455,960		$455,960		$455,960
Amortization IDR Bond					
Int. & Def. Income Tax Adj.					
Taxes					
Other than Income	$277,769		$277,769		$277,769
Federal Income-Current					
(Net-Inv cr.)	$281,364	($44,159)	$237,205	($36,992)	$200.213
Federal Income Tax Deferred	$87,989	($37,592)	$50,397		$50,397
State Income	$51,238	$1,566	$52,804	($7,876)	$44,928
Current Deferred-Fed. & State					
Total	$18,091,271	(80,185)	$18,011,086	(44,868)	$17,966,218
Utility Operating Income	$799,039	$80,185	$879,224	($71,809)	$807,415
Rate Base	$7,538,890		$7,538,890		$7,538,890
Rate of Return	10.60%		11.66%		10.71%

OTHER MATTERS

18. In Docket No. 86.11.62 the Commission requested utility address the proper ratemaking for pension expense in light of FASB 87. The Company indicated that since it now has a defined contribution plan, FASB 87 does not apply to GFG. However, the Company indicated that when the defined benefit plan was terminated, a surplus of funds was transferred into the new plan to older employees "whole", The Commission directs both Company and MCC to address the proper ratemaking for GFG's pension expenses. As an example, how should the surplus which existed at the termination of the defined benefit plan be treated for ratemaking purposes?

CONCLUSIONS OF LAW

1. Great Falls Gas Company is a public utility furnishing natural gas service to consumers in the State of Montana. As such, is subject to the supervision, regulation and control Commission, section 69-3-102,

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides in part... "The Commission may, in its discretion, temporarily approve increases or increases pending a hearing or final decision."

4. The rate levels and spread approved herein are a reasonable means of providing this interim annual revenue reduction for Great Falls Gas Company.

5. The Commission finds that the Company's filing in this Docket, as modified by his Order, complies with the Commission Interim rules, ARM 38.5.501 et seq.

ORDER

THEPEFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Great Falls Gas Company is hereby directed to decrease rates on an interim basis by $116,677 on an annual basis.

2. Great Falls Gas Company is to file revised rate schedules spreading the decreased revenues to the existing customer classes (excluding the SPI and CMR rate classes) on a uniform cents per Mcf basis.

3. The interim decrease in this Order is to be effective for natural gas service rendered on and after August 1, 1987.

DONE IN OPEN SESSION this 27th day of July, 1987, by 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SEPVICK COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DROSCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed with filed within ten (10) days. See 38.2.4806,ARM.