

72 FERC ¶ 61,164

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Elizabeth Anne Moler, Chair;  
Vicky A. Bailey, James J. Hoecker,  
William L. Massey, and Donald F. Santa, Jr.

Montana Power Company ) Docket No. PR93-3-000

ORDER ESTABLISHING RATES AFTER STAFF PANEL PROCEEDING

(Issued August 3, 1995)

On October 30, 1992, Montana Power Company (MPC) filed a petition for rate approval to justify rates for its firm and interruptible transportation services under section 311 of the Natural Gas Policy Act of 1978 (NGPA) pursuant to section 284.224 of the Commission's regulations. Because a settlement of all rate issues in Docket No. PR93-3-000 could not be reached, a Staff Panel was convened to develop a record upon which the Commission could base its decision on the issues presented by the rate filing. <sup>1/</sup> The Staff Panel was held on August 31, 1994. This order addresses the contested issues in this proceeding.

I. Background

The MPC system, initially constructed in 1931, consists of approximately 1,912 miles of transmission lines located entirely in the State of Montana. The system includes several storage fields, notably the Cobb and Deer Creek storage fields. MPC is an integrated Hinshaw pipeline which receives gas from Canadian and U.S. pipelines and local Montana production. MPC receives the majority of its gas at its Carway receipt point at the Canadian border and makes most of its section 311 deliveries at an interconnection with Colorado Interstate Gas Company (CIG) south of Billings, Montana near the Wyoming border. MPC began offering service under section 311 in 1991.

In Docket No. CP91-312-000, the Commission authorized MPC to offer interruptible section 311 transportation service at \$0.7377 per MMBtu. <sup>2/</sup> This rate was calculated based on state-approved rates in accordance with § 284.224(e)(2) of the Commission's regulations. <sup>3/</sup> By its filing in this proceeding, MPC requests

<sup>1/</sup> Staff panel hearings are advisory, non-evidentiary proceedings to allow interested parties an opportunity for written comments and for oral presentation of views, data, and arguments in accordance with section 502(b) of the NGPA. See 18 C.F.R. § 284.124(b)(2)(ii) (1995).

<sup>2/</sup> 53 FERC ¶ 62,237 (1990).

<sup>3/</sup> 18 CFR § 284.224(e)(2) (1995).

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the Commission to approve a reduced 100 percent load factor interruptible rate of \$0.5515. MPC adds that it is prepared to offer 10,000 MMBtu per day of firm service for all but 14 days per year (for operational purposes). MPC titles this service off-peak firm transportation (OPT) service. MPC proposes rates based on the straight fixed variable (SFV) methodology, adjusted for the interruptibility of the service, consisting of a reservation fee of \$13.1648 per MMBtu and a usage charge of \$0.1015 per MMBtu. MPC proposes to retain up to 3.15 percent of the gas received as an allowance for compressor fuel and lost and unaccounted-for gas.

As of July 1, 1993, MPC began offering interruptible storage (IS) service under its blanket certificate. MPC elected to use its city-gate storage rate for this service.

The Commission issued notice of MPC's petition for rate approval on November 13, 1992. Motions to intervene and protests were due by November 30, 1992. Paladin Associates and Paladin Associates, Inc. (collectively "Paladin"), the holder of 4,760 MMBtu per day of the 10,000 MMBtu per day of available OPT service, 4/ and Williston Basin Interstate Pipeline Company (Williston Basin) filed motions for leave to intervene.

After holding publicly-noticed settlement conferences on February 23, 1994 and March 21, 1994, the Commission determined that a settlement among the parties was not forthcoming and, on March 22, 1994, issued notice of a Staff Panel proceeding. The date of the panel proceeding was rescheduled to convene on August 31, 1994, by a notice issued June 6, 1994.

As part of the Panel proceeding, MPC and all interested intervenors were granted the opportunity to file written presentations in support of their respective positions on MPC's proposed section 311 rates. MPC and Paladin filed direct and responsive testimony that was incorporated as part of the record at the Panel proceeding, and their witnesses were examined on the testimony filed. MPC filed briefs, and a transcript was taken of the proceeding. Williston Basin did not participate in the Panel proceeding.

## II. Discussion

At the staff panel proceeding, MPC and Paladin presented their positions through witnesses on what the appropriate transportation rates for the MPC system should be. In the panel proceeding, MPC supported the same transportation rates as those

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4/ Canadian Hydrocarbons Marketing Inc. holds the remaining 5,240 MMBtu/d of OPT capacity (Paladin response to MPC data request no. 15).

it initially filed. These rates are based on a state-approved 1989 test year cost of service, allocated on an average miles of haul basis between interstate and intrastate service. Paladin presented rates based on system-wide transmission costs for a 1992 test year. MPC's and Paladin's proposed rates are as follows:

<u>Rates per MMBtu</u>	<u>MPC</u>	<u>Paladin</u>
OPT - Reservation	\$13.1648	\$4.6065
OPT - Usage	\$0.1015	\$0.0184
IT	\$0.5515	\$0.1674

Despite having firm and interruptible transportation rates on file with the MPSC, MPC chose to pursue Commission approval of its new OPT and IT transportation rates, electing to do so under § 284.123(b)(2) of the Commission's regulations. By so doing, MPC has subjected its rates to full Commission review.

This order will address each of the cost of service and rate design issues, and will determine the fair and equitable rates for section 311 transportation on the MPC system. <sup>5/</sup> The issues in dispute are whether to use the test year data for 1989 or 1992 in developing MPC's cost of service; the appropriate cost allocations for transmission, storage, and compression; billing determinants to be used in rate design; the appropriate interruptible transportation rate design; the appropriate allowance for fuel and gas lost and unaccounted-for; and refund liability of MPC.

A. Cost of Service - 1989 or 1992

MPC developed its OPT and IT rates using 1989 test year data, stating that, at the time it filed its petition, this was MPC's most recently state-approved allocated cost of service. Its \$17,579,552 transmission cost of service includes an approximately 50 percent/50 percent debt/equity capitalization with a debt cost of 9.21 percent and a return on equity of 12.10 percent. MPC adds that this cost of service was the basis for its only state-approved transportation rates in Montana Power Company, Docket No. 90.1.1, before the Montana Public Service Commission (MPSC). MPC supports the use of this cost of service (the rates became effective November 1, 1992) by stating that since that filing, in Docket No. 93.6.24, the MPSC approved a revenue requirement increase of 7.52 percent over its 1989 test year revenue requirement. MPC notes that this increase provided for a uniform increase to all non-gas rates, but that the MPSC

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<sup>5/</sup> Attached is Appendix A which shows a derivation of the rates proposed by MPC, Paladin, and the rates approved by the Commission.

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did not approve an updated allocated cost of service. MPC adds that even with updated billing determinants, the resulting rates are higher than those based on the 1989 cost of service.

Paladin believes that MPC's 1989 cost of service is "outdated and fails to reflect changes resulting in lower costs," such as debt refinancing and accumulated depreciation. 6/ Instead, Paladin advocates the use of an updated 1992 cost of service that was provided by MPC. 7/ Paladin notes that this transmission cost of service of \$16,688,518 is \$891,004 less than the filed amount in Docket No. 93.6.24. The 1992 transmission cost of service includes an approximately 47 percent/53 percent debt/equity capitalization with a debt cost of 8.51 percent and a return on equity of 11.00 percent.

The parties do not contest the particular elements of either proposed transmission costs of service. Therefore, the cost components contained in either period's cost of service (actual operating costs, and reasonable capital structures and rates of return) would be acceptable. Thus, the Commission need only decide which period to use, 1989 or 1992.

The Commission can see no justification for using a 1989 cost of service study for rates that will be in effect from November 1, 1992, through October 31, 1995, particularly when a 1992 cost of service is available. The Commission has typically required section 311 rates to be based on a current cost of service. Moreover, MPC offers no reason why it would be inappropriate to use the 1992 cost of service. It merely argues that its 1989 cost of service is appropriate because the MPSC approved a 7.52 percent increase to MPC's overall cost of service. We note, however, that by seeking Commission approval of its rates, MPC has subjected itself to our ratemaking procedures. If MPC wished to use the MPSC-approved rates, it was free to do so. Nevertheless, the 7.52 percent increase applied to all of MPC's costs; it did not necessarily indicate any increase in MPC's transmission cost of service, which is the focus of this proceeding. Moreover, in response to a Paladin data request, MPC provided a functionalized cost of service for 1992 which reflects a transmission cost decrease. It is that cost of service Paladin used to develop its proposed rates. Accordingly, the 1992 test year transmission cost of service of \$16,688,518 proposed by Paladin is accepted as the basis for MPC's section 311 rates.

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6/ Exhibit MGO-1, pp. 9-10.

7/ Exhibit No. MGO-2. This exhibit was supplied to Paladin by MPC in response to Paladin data request no. PA B1-5.

## B. Cost Allocation

### 1. Transmission Costs

MPC allocates its proposed transmission reservation cost of service based on average day usage and distance of haul. MPC first allocates between core (bundled sales customers) and non-core [on-system (intrastate) and off-system (section 311) transportation] customers by total system peak usage. It then allocates costs to section 311 service based on that services' weighted mileage. Of its 1,912-mile system, MPC uses 470 miles as the average distance of haul for section 311 service, versus 232 miles for all intrastate services. MPC allocates storage costs to section 311 service based on its percentage of total system peak usage. However, usage costs (transmission and storage) were not specifically allocated to MPC's various services. Instead, the usage charge was determined by dividing MPC's total variable transmission and storage costs by total throughput.

MPC asserts that its intrastate and interstate transmission services differ both by the amount of available capacity and the cost of providing the service. MPC states that it used a mileage allocation to account for differences in the length of haul for intrastate and interstate service, consistent with the Rate Design Policy Statement. MPC states that interstate transportation from MPC's interconnection with NOVA Corporation of Alberta (NOVA) at Carway to CIG requires twice the length of haul as the average interstate transmission service.

In addition, MPC argues that interstate transportation requires additional compression. MPC explains that all gas received at Carway is compressed at the Mainline #1 compressor facility at Cut Bank, Montana. This compression is "sufficient for the majority of [interstate] markets during most system conditions." <sup>8/</sup> However, interstate deliveries to the south end of the MPC system need additional compression at Butte and Absarokee and/or Dry Creek. MPC asserts that interstate service has resulted in "greatly increased usage" of those facilities. <sup>9/</sup> Thus, section 311 service should be allocated costs commensurate with the incremental costs incurred by the system.

Conversely, Paladin argues that the Commission's traditional approach to section 311 ratemaking is to compute a total company transmission cost of service and design rates to recover that

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<sup>8/</sup> Testimony of Terry Wisner, page 11, lines 10-11.

<sup>9/</sup> See Exhibits No. TOW-5 and TOW-6 to the Affidavit of Terry Wisner.

cost. Paladin cites Transok, Inc., where the Commission stated that:

when the Commission designs rates for section 311(a)(2) transportation, it generally does so on a system-wide basis, i.e., it divides the pipeline's total transmission cost of service by the total system throughput. Unlike interstate pipeline ratemaking, there is no allocation of costs and volumes between the pipeline's jurisdictional and nonjurisdictional businesses. 10/

Paladin interprets this statement as the Commission's attempt to insure that interstate shippers are not discriminated against in their use of intrastate pipeline services. It notes that MPC derived separate cost allocations for its transmission and storage functions, then used different factors to allocate these costs to OPT service. In addition, MPC proposes to isolate and charge section 311 shippers the costs associated with running the Butte compressor. Paladin finds this to be unacceptable, given that MPC offers interstate service using "exactly the same facilities as it uses for its intrastate services." 11/

Further, Paladin objects to MPC's mileage cost allocation because MPC does not use length of haul to set its intrastate rates, even though the intrastate rates apply to the same facilities and types of services. Paladin also claims that the mileage MPC uses for OPT service does not reflect actual operations. Paladin argues that: (1) MPC fails to consider that gas must travel twice on the transmission system when storage is used; (2) interstate customers use the entire system when gas is withdrawn from storage (and MPC cannot specifically identify where a particular molecule of gas is received then delivered); and (3) OPT service does not necessarily involve a total system forward haul. Paladin argues that rather than simply making long hauls for OPT service, the evidence shows that MPC makes deliveries to CIG for the account of OPT shippers not only from receipts at Carway, but also from local production in the Dry Creek area, receipts from Williston Basin, and Dry Creek storage volumes. 12/ Finally, interstate throughput, which is

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10/ 52 FERC ¶ 61,083 at 61,309 (1990).

11/ Staff Panel Exhibit No. MGO-1, p. 8. Here Paladin notes that MPC testified in a state proceeding that "[a]ll transportation volumes which contributed revenue to the GTAC [MPC's crediting mechanism] are incremental volumes which make use of otherwise underutilized transmission facilities." MPC confirms this as true in the Rebuttal Testimony of Terry Wisner, p. 14.

12/ See Exhibit No. MGO-3.

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increasingly performed via displacement, has increased system efficiency. <sup>13/</sup> This data shows that MPC is an integrated system with varying sources of supply and varying markets, making a system-wide rate for section 311 service, similar to the intrastate rates, appropriate.

In sum, Paladin concludes that MPC's methodology does not comport with Transok, Inc. and instead MPC's "selective, incremental approach results in rate discrimination, because [section 311] shippers are charged significantly more than intrastate shippers for the same service." <sup>14/</sup>

MPC responds that it now has experience in providing transportation service and it intends to address allocation of costs to intrastate customer classes based on miles of haul in its next state rate filing. MPC adds that its Mcf-mile study properly reflects the use of storage on its system. Since it is a "stop-in-time" service and MPC's storage fields are located on the three main supply ends of the transmission system, receipts are able to stop in storage as part of a continuous haul. Further, MPC asserts that any use of displacement to provide interstate service is only temporary and is made possible only by the use of storage; interstate deliveries from Carway to CIG\Grizzly ultimately require a full length haul. Finally, local production at Dry Creek serves local markets, volumes received from Williston Basin are delivered to markets in the Billings area, and use of Dry Creek storage withdrawals are temporary since the volumes must be replenished via a forward haul.

The Commission will reject MPC's transmission cost allocation. As Paladin argues, the Commission's general practice for ratemaking under section 311 is to design rates on a systemwide basis, basing the rate on total cost of service and total throughput. The Commission has not allocated costs between jurisdictional and non-jurisdictional customers. To persuade the Commission to change its general policy and make such a distinction between interstate and intrastate service now, MPC would have to offer a compelling reason based on the record. MPC argues that the type of service offered to interstate shippers is so drastically different than intrastate service that separate, and much costlier rates are warranted for section 311 service. We believe, based on the discussion below, that the record contains no factual basis for an allocation of costs between interstate and intrastate customers. Instead, it appears that,

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<sup>13/</sup> Paladin argues that over time, MPC has reduced compressor use per Mcf as a result of displacement (Exhibit No. RKS-1, p. 9).

<sup>14/</sup> Exhibit MGO-1, p. 12, l. 15-18.

by its rate proposal, MPC is trying to set higher rates for section 311 shippers than would apply to intrastate shippers in similar transactions.

A compelling reason for separately allocating costs may be that service to a particular class of customers is provided on a discrete portion of the system where other classes do not (or cannot) receive service. <sup>15/</sup> MPC attempts to characterize its system as being made up of two distinct groups of customers and services, intrastate (on-system) and interstate (off-system), based on what it defines as typical hauls originating and ending at particular points. However, the facts belie that description. According to MPC,

MPC's system is not a point-to-point pipeline, but rather a complex, integrated system which receives gas at diverse points of supply and delivers it to equally diverse markets. <sup>16/</sup>

Further, the record clearly shows that MPC's interstate and intrastate customers receive gas from MPC at points all over its system. <sup>17/</sup> Both intrastate and interstate shippers can transport gas to northern (shorter haul) delivery points and southern (longer haul) delivery points. Thus, this is not a case where the system can appropriately have two rates, since this would result in service involving the same length of haul at very different rates. Consequently, MPC's rate design results in

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<sup>15/</sup> See Louisiana Intrastate Gas Corporation, 47 FERC ¶ 61, 336 (1989).

<sup>16/</sup> MPC's response to staff data request D.

<sup>17/</sup> At the Staff Panel proceeding, MPC stated that its core and non-core customers are spread across the entire transmission system (Tr. at p. 30). Further, MPC noted that while most of the section 311 gas flows 481 miles from Carway to CIG (versus an average intrastate haul of 238 miles), some section 311 gas enters the system near CIG for delivery in that area (Tr. at p. 30). Moreover, MPC has an interconnection with Northern Natural Gas Company in the northern part of the system (Tr. at pp. 30-31). MPC noted that both interstate and intrastate shippers have increasingly used this point to receive gas into the system (Tr. at p. 81). Further, MPC noted that it has added two intrastate shippers, Conoco and CENEX, which will move gas only 50 miles from CIG/Grizzly, the portion of the system MPC assumes is used only for section 311 transportation, but will together represent nearly 20 percent of its current interstate load (Tr. at p. 43). Finally, MPC admitted that it has performed backhaul service (Tr at p.79).

interstate and intrastate shippers paying very different rates for, on some occasions, the same hauls. 18/ To MPC, length of haul becomes merely a means of allocating fixed costs away from intrastate customers to section 311 shippers. This cross-subsidization, which the Commission has previously disallowed, 19/ is illustrated by a comparison of MPC's proposed intrastate rates 20/ before the MPSC (which apply to system-wide deliveries) and its section 311 rates proposed herein:

<u>MPC Rates per MMBtu</u>	<u>Intrastate</u>	<u>Section 311</u>	<u>Difference</u>
Reservation	\$3.8365	\$13.1648	+ \$9.3283
Usage	\$0.0540	\$0.1015	+ \$0.0475
IT	\$0.1802	\$0.5515	+ \$0.3713

This rate disparity is especially troubling because "firm" OPT service can be interrupted 14 times a year to allow delivery of firm intrastate volumes moving at what would be a substantially lower reservation charge.

Finally, section 311 service provides a substantial system benefit to MPC's intrastate customers by allowing MPC a higher utilization of facilities that were substantially underutilized until the section 311 service commenced. For instance, despite the fact that MPC's rate design methodology treats the facilities that it claims are used solely to provide OPT service as if they were constructed for that purpose, the 12"-line extending downstream from Butte was actually constructed in 1950 for the purpose of serving local markets and to provide for service reliability associated with two-way gas flow. 21/ Section 311 service did not begin until 1991, some 41 years later. 22/ In

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18/ Because intrastate and interstate shippers can both have similar hauls (despite the fact that OPT service is typically a long haul), MPC's distance of haul proposal argues more for zoned rates than separate classes of service. This would insure that no discrimination or subsidization would occur, while rates would be distance-sensitive. However, no party advocated that position in this proceeding.

19/ Michigan Consolidated Gas Company, 68 FERC ¶ 61,090 (1994).

20/ Exhibit No. MGO-1, p. 22, l. 2-9.

21/ MPC response to Paladin Data Request PA & PAI No. 22.

22/ MPC admits that the line was used sparingly prior to section 311 service, it was used to move gas towards the center of the system, and it had been "years and years and years"

(continued...)

addition, MPC made no additional investments to support interstate service. 23/ Accordingly, it would be neither fair nor equitable for the Commission to allow MPC to effectively price the section 311 service on an incremental basis (relative to intrastate service) when the interstate transmission service allows for a more efficient use of the system.

The Commission concludes that there is no clear distinction between the service rights, or even system usage, of intrastate and interstate service on MPC's system, particularly for cost allocation purposes. Thus, to set different rates for what is generally the same service is unduly discriminatory. Because MPC's rate design appears to be unduly discriminatory and this Commission generally designs section 311 rates based on a system-wide cost of service, MPC's rates must be designed on a system-wide basis. This will prevent undue discrimination and allow the interstate shippers to share in the benefit of a more fully utilized MPC system.

## 2. Storage Costs

MPC asserts that it relies heavily on its storage facilities to support off-system transmission service. The Dry Creek storage area is at the delivery end, or southern end, of the MPC system near the points of interconnect with Williston Basin and Colorado Interstate Gas Company systems. MPC characterizes deliveries to these systems as its off-system deliveries. Over 80 percent of MPC's on-system load is concentrated north of the Butte Compressor Station. 24/

MPC proposes to allocate 3.981 percent of its total fixed storage costs (\$6,480,335) to the section 311 transportation services based on OPT's percentage of peak day use of the transmission system. It allocates variable storage costs (\$1,173,730) based on system throughput. MPC argues that the Commission's precedent supports the allocation of storage costs to transmission service to the extent storage is used to provide or to benefit transmission service. This could be as a supplement to transmission capacity or for load balancing. Specifically, MPC asserts that Dry Creek storage is necessary to provide OPT service and that absent the use of storage OPT would

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22/ (...continued)

since the interconnections with Williston Basin and CIG near the downstream end of the system had been used for receipt of system supply (Tr. at 78).

23/ MPC response to Paladin data request PA & PAI No. 21.

24/ MPC witness Wisner testimony, dated January 10, 1994, p. 4.

have been interrupted on several occasions. <sup>25/</sup> MPC also asserts that it could not have agreed to offer OPT service without committing 10,000 Mcf/d of storage deliverability from Dry Creek to OPT service. MPC does not support the use of any other storage field to provide section 311 service.

Paladin notes that MPC's several storage fields are used for four purposes: intrastate firm contract storage, interstate IS storage, system supply, and transportation support including balancing for interruptible customers. However, MPC has not identified the costs associated with these various services. Paladin also asserts that MPC has not provided the basis for determining how much storage costs should be allocated to OPT. Paladin argues that peak day allocation is inappropriate, particularly since OPT is an off-peak service and because only Dry Creek (to some extent) is used to make OPT deliveries. Further, the actual use of Dry Creek for interstate purposes (less than 5 percent) was minor, especially prior to July 1993 when MPC instituted its IS service. <sup>26/</sup> Also, MPC has not allocated costs to IS service. Instead, the amount of storage costs allocable to the transmission cost of service must match the actual use of storage for transmission purposes. <sup>27/</sup> Paladin argues that since MPC failed to meet its burden in this case, no MPC storage costs should be charged to the OPT service. However, should the Commission insist on allocating costs based on the current record, no more than \$122,996 should be allocated to the section 311 rates. To arrive at this figure, Paladin reduces the total 1989 storage costs of \$7,654,065 by an amount for intrastate working gas capacity (\$2,995,069, based on a percentage of capacity) and interruptible storage service (\$4,536,000, based on an estimated cost of providing interruptible storage service), leaving \$122,996 that, by default, must relate to the cost of storage used to support transportation services.

The Commission agrees with the parties' premise that storage is used to support transportation service on this system. However, MPC's proposal is flawed. MPC allocates storage costs to section 311 service based on costs associated with all storage facilities, despite the fact that MPC's storage costs to be included in its transportation rates include the cost of providing sales and contract storage services. Moreover, it acknowledges that only the Dry Creek storage field is used to support its transportation services. Finally, MPC uses its 1989

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<sup>25/</sup> Testimony of Terry Wisner, pp. 4 and 8.

<sup>26/</sup> See Exhibit Nos. MGO-3 and MGO-4.

<sup>27/</sup> United Gas Pipeline Company, 64 FERC ¶ 61,015 at 61,111 (1993).

storage costs rather than its 1992 costs. In sum, MPC has not justified the amount it claims for storage costs to be included in its section 311 rates. For these reasons, MPC's storage cost allocation is rejected.

We also reject both of Paladin's storage cost allocation proposals. Paladin clearly recognizes that storage, to some degree, is necessary to facilitate section 311 transportation service on MPC's system. Thus, some storage costs must be allocated to transportation. However, like MPC, Paladin's alternate proposal to allocate \$122,996 of storage costs is flawed. Paladin allocated costs associated with non-transportation storage based solely on capacity; it does not consider the proportions of deliverability. In addition, Paladin's calculation of the cost to provide IS service is not supported by information on the record. Finally, while using 1992 transmission costs, Paladin resorts to using 1989 storage costs.

MPC does not provide a direct measure of the level of costs associated with the storage necessary to support its transmission function. However, it does provide a breakdown of deliverability and capacity necessary to provide sales service, contract storage, and interruptible storage, and to support transportation service. 28/ MPC does not distinguish the amount of storage deliverability or capacity used for system balancing. Thus, only the amount of storage associated with transportation services should be considered. MPC indicates that 10 MMcf/d of 175.6 MMcf/d (5.7 percent) of total storage deliverability, but no working gas capacity (out of a total of 11.5 Bcf), is used to support transportation service. The remainder is associated with sales service and contract storage. Based on the Equitable method, 29/ 50 percent of fixed storage costs are associated with deliverability and 50 percent with capacity. Therefore, in this case, 2.85 percent of MPC's total storage costs are related to transportation. 30/ Accordingly, the Commission approves an allocation of \$320,586 of storage costs to MPC's transportation services. 31/ Because MPC does not provide a fixed/variable classification of its total updated 1992 storage costs, these costs shall be classified based on the fixed/variable ratio of MPC's 1989 costs.

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28/ Staff Panel Exhibit No. F (MPC response to staff data request no. 3-5).

29/ Equitable Gas Company, et al., 36 FERC ¶ 61,147 (1986).

30/  $(5.7\% * 50\%) + (0\% * 50\%) = 2.85\%$ .

31/  $2.85\% * \text{total 1992 storage costs of } \$11,248,620 = \$320,586.$

### 3. Butte Electric Compression Costs

MPC proposes to separately state the average variable electric energy costs associated with the Butte compressor station and assign all of these costs to its proposed section 311 rates. It argues that the fact that its system operates as an integrated system does not require system-wide allocation of all costs where certain costs are caused by one customer under one service. <sup>32/</sup> It adds that in this case, and others, the Commission adopted an incremental allocation of costs in part based on the lack of need by system customers of the facilities or service at issue. MPC contends that the Butte compressor facility is used specifically for the transportation of interstate gas and, as such, the electricity costs of running the compressor should be fully allocated to section 311 rates. MPC asserts that these expenses have risen from a range of \$18,491-\$29,251 in 1987-89 to \$187,569 for the 12-month period ending April 1992, primarily as a result of interstate transportation. <sup>33/</sup> The allocation of these costs to the section 311 rates results in a 3.37¢ per MMBtu add-on to the OPT and IT usage rates.

Paladin argues that the costs of running the Butte compressor station should be allocated equally to intrastate and interstate shippers. As above, Paladin views MPC's incremental and selective ratemaking as improper. In addition, Paladin does not believe there is convincing evidence that the Butte compressor serves only interstate needs. In fact, Paladin asserts that the kilowatt-hours of electric energy used by the electric compressors more closely track total system throughput and intrastate throughput, and present an inverse relationship to interstate throughput. <sup>34/</sup> Further, as MPC uses the Butte facilities more, it uses other compressors less. <sup>35/</sup> MPC's cost of service includes \$228,480 of transmission fuel and power costs; thus, adding Butte compressor costs represents a double recovery. Finally, Paladin asserts that the availability of interstate gas provides offsetting savings for MPC by reducing costs MPC would otherwise incur in its main market area.

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<sup>32/</sup> Great Lakes Gas Transmission LP, 57 FERC ¶ 61,140 at 61,520-525 (1991).

<sup>33/</sup> Exhibit No. CAO-3 and Exhibit 4 of MPC's petition for rate approval.

<sup>34/</sup> See Exhibit No. KWS-6.

<sup>35/</sup> See Exhibit No. KWS-4.

MPC responds that Paladin's claim that interstate service provides a decreased need to use compression in Northern Montana is not supported by any evidence and is incorrect.

In the Staff Panel proceeding, MPC admitted that the Butte compressor costs used to design the usage charge add-on are already included in the O&M expenses used to derive the usage charge. 36/ Thus, a double recovery would occur unless either the costs were removed from O&M or the add-on was removed.

The Butte compressor cost add-on of 3.37¢ per MMBtu must be eliminated. These costs are more appropriately included in the system-wide transmission cost of service, on which rates should be designed for OPT and IT service, to reflect the integrated nature of the MPC system. MPC's arguments based on Great Lakes are not supported by the facts. MPC relies on an increased use of the Butte compressor as reason to assign all variable costs to the section 311 shippers; however, it fails to establish a direct nexus to the addition of section 311 OPT service. Specifically, MPC compares Butte usage in 1987-89 to 12 months ended April 1992. While Butte usage was lower prior to section 311 service (677,400 kwh in 1989 to 2,148,600 in 1993), total throughput was also much lower (26,720,755 Mcf in 1989 to 42,163,842 Mcf in 1993). 37/ Thus, all that can be established by this evidence is that MPC's system requires more compression to move more volumes. Further, MPC states that no volumes were delivered to CIG/Grizzly, the full OPT haul, until December 1991. 38/ Thus, for section 311 service to be responsible for additional variable Butte compressor costs, Butte compressor usage must be shown to be greater for periods after 1991 than before. However, the evidence again suggests that Butte usage is not directly related to OPT throughput. The Butte compressor used 2.8 percent more kwh in 1993 than 1991; however, overall throughput increased 14.3 percent during that period. In addition, other compression actually decreased during that period. Despite the fact that throughput was rising, the ratio of hours of compressor use to

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36/ Tr. at pp. 87, 91-92.

37/ We compare 1989 to 1993 rather than 1992 because Butte was inexplicably used at an uncharacteristic rate in 1992. Specifically, in 1991, usage was 2,090,400 kwh and in 1993 it was 2,148,600 kwh. However, in 1992, usage was 5,194,800 kwh. Thus, comparing 1989 with 1992 would produce anomalous results.

38/ MPC response to Paladin December 23, 1992 data request no. G, part 1.

throughput was falling. <sup>39/</sup> This suggests first an integrated and efficient system usage of compression and second a benefit to intrastate ratepayers (i.e., reduced compression costs) as a result of OPT service. Accordingly, the Butte compressor costs can be included in the transmission cost of service only and the usage charge add-on must be eliminated.

### C. Cost Classification

Both MPC and Paladin classify costs using the straight fixed variable (SFV) methodology. As the parties agree to this methodology and it is consistent with Commission-approved rates for interstate pipelines and some intrastate pipelines, the Commission will accept MPC's SFV cost classification.

### D. Rate Design

#### 1. Mileaging or Postage Stamp Rates

While MPC proposed to allocate costs to section 311 service based on the length of haul, it designs rates for interstate service on a system-wide basis. Paladin also proposes postage stamp rates for section 311 service. The Commission approves postage stamp rates for this system.

#### 2. Billing Determinants

Consistent with its use of a 1989 cost of service, MPC proposes to use actual 1989 test year maximum daily quantities (MDQ) and throughput to allocate costs and design its rates. To account for the fact that it did not offer OPT service in 1989, MPC proposes to add 10,000 MMBtu/d and 3,510,000 MMBtu of projected OPT throughput to its actual 1989 volumes to develop its proposed rates. This results in proposed reservation determinants of 251,197 MMBtu per day and usage determinants of 30,230,755 MMBtu.

Paladin proposes to base its determinants on 1992 actual throughput, adjusted for certain volume additions. This corresponds with Paladin's use of a 1992 test year cost of service. Paladin proposes reservation determinants of 282,360 MMBtu/d and 1992 actual usage determinants of 38,932,966 MMBtu. <sup>40/</sup> Paladin's reservation determinants equal a five-year average core firm peak design day of 194,267 Mcf/d plus current

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<sup>39/</sup> Compressor hours per Mmcf of total throughput was 2.29 for 1991, 2.04 for 1992, and 1.58 for 1993. Exhibit Nos. RKS-4 and MGO-2.

<sup>40/</sup> See Exhibit No. MGO-2, MPC response to Paladin data request TOW-9.

firm intrastate transportation MDQ of 69,392 Mcf/d plus 9,681 Mcf/d (10,000 MMBtu/d) of OPT service. 41/

The rate design determinants should be consistent with the cost of service which, in this case, we have found should be based on 1992 data. Therefore, the Commission rejects MPC's billing determinants as outdated. Similarly, the Commission rejects Paladin's reservation determinants proposal. Paladin's reservation volumes rely on projected peak day data and post-test period volumes for Conoco and CENEX, volumes for which plant investment was required but is not included in the 1992 cost of service. Instead, the Commission shall require that MPC use 1992 actual MDQs and throughput, adjusted to reflect a full year of the new OPT service (MDQ of 10,000 MMBtu/d and throughput of 3,510,000 MMBtu), which was not available for all of 1992. This results in reservation billing determinants of 279,124 MMBtu and usage volumes of 36,609,391 MMBtu. 42/ These reservation determinants include imputed interruptible determinants to insure that an appropriate share of MPC's fixed costs are allocated to interruptible service, a measure MPC and Paladin failed to take.

### 3. OPT Rate Design

MPC does not propose a traditional firm service, but instead an off-peak firm service which can be interrupted no more than 14 days annually. MPC states that in order to protect existing system obligations, it cannot guarantee firm service 365 days a year. Accordingly it bases its reservation fee on 351 days of service rather than 365 days. 43/ Paladin proposes the same OPT rate design. The Commission has approved a similar service

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41/ Staff Panel Exhibit No. MGO-5. The MMBtu/Mcf ratio is 1.033 MMBtu/Mcf.

42/ The usage volumes are composed of 35,520,800 Mcf (36,414,076 MMBtu) total 1992 throughput (Exhibit No. TR-A), plus 3,510,000 MMBtu of projected OPT service, less actual 1992 Premium IT volumes (the precursor to OPT) and OPT volumes (2,714,685 MMBtu and 600,000 MMBtu, respectively (Section 284.224 annual report filed April 30, 1993)).

The reservation determinants equal 241,197 Mcf (249,157 MMBtu), plus 10,000 MMBtu of OPT service and 19,967 MMBtu of imputed interruptible service (7,287,962 MMBtu/365 days).

43/ MPC designs a traditional firm reservation fee and reduces it by the ratio of 351 days of service / 365 days in a year.

and rate design in Columbia Gas Transmission Corporation. 44/  
Accordingly, the Commission approves MPC's OPT rate design.

4. Interruptible Rate Design

Both parties use a 100 percent load factor derivative of the firm rates to establish interruptible rates. However, the parties disagree on how to properly calculate that rate. MPC bases its IT rate on 1/351 of the annual OPT reservation fee, while Paladin's rate is based on 1/365 of the annual OPT reservation fee.

To calculate the IT rate at 100 percent load factor of the firm rate, the monthly firm reservation fee must be converted to a daily rate. To do so, in the usual case, the monthly reservation fee is multiplied by 12 months, and that sum is divided by 365 days. However, in this instance, the firm rate is not based on 365 days, but instead 351 days. Accordingly, to convert the OPT reservation fee to a daily, 100 percent load factor rate (as is necessary for the IT rate), the denominator must be 351 days. The IT rate, therefore, must be based on 351 days, consistent with MPC's proposal. The IT rate reflected in Appendix A under the heading Commission Rates is adopted by the Commission.

5. Rates

The above cost of service elements and rate design yields the following section 311 transportation rates (derived on Appendix A):

Firm OPT: Reservation	\$4.6637 per MMBtu
Usage	\$0.0209 per MMBtu
Interruptible:	\$0.1803 per MMBtu

These rates are adopted by the Commission as the fair and equitable rates for MPC.

E. Fuel, Gas Lost and Unaccounted-For

MPC proposes an allowance for fuel and lost and unaccounted-for gas of 3.15 percent. MPC supports this claimed level by arguing that this level was accepted by the Commission in its previous rate filing. MPC notes that this percentage is also the fuel and loss percentage approved by the MPSC for comparable city-gate service. Further, MPC argues that any change would be prospective only because it does not propose a change in the existing level. MPC asserts that because no change has been

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44/ 55 FERC ¶ 61,366 (1991); modified on other grounds, 56 FERC ¶ 61,182; reh'g, 56 FERC ¶ 61,449; reh'g, 57 FERC ¶ 61,250.

proposed in the fuel and loss percentage that was approved in the 1990 certificate, the percentage "is thus presumptively fair and equitable" <sup>45/</sup> and, therefore, MPC does not bear the burden of proof to justify the continued rate.

Paladin advocates a fuel allowance of 0.6 percent based on its studies of actual fuel consumption by transmission services on the MPC system. Paladin isolated those compressors used for transmission service, totalled the fuel consumption for those compressors, and calculated a fuel percentage by dividing the fuel consumption by annual throughput. <sup>46/</sup> Paladin would add to that 0.25 percent for gas lost and unaccounted-for on the transmission system. Paladin argues that because MPC has not presented any evidentiary support for its allowance of 3.15 percent, MPC's allowance should be rejected and the Commission should accept Paladin's 0.85 percent fuel and gas lost allowance.

MPC responds by asserting that its 3.15 percent fuel used and gas lost and unaccounted-for is supported by data submitted to staff in response to staff data request no. 3-6. Further, MPC asserts that Paladin (1) wrongly limited its study to interstate service only (rather than transmission service in general) and (2) did not include all of the compressors used to provide interstate transmission service. In particular, MPC notes the absence of Dry Creek compression from the study. MPC adds that the study is flawed by Paladin's inclusion of company use gas as throughput to be charged fuel and gas lost.

The burden of proof arguments offered by MPC are misplaced in this proceeding. This is not a Natural Gas Act (NGA) Section 4 or 5 proceeding. As such, the Commission must address MPC's filing and, as filed, MPC's proposal includes a fuel percentage of 3.15 percent. The Commission's responsibility is to assure that the rates for section 311 service be cost-based, and that they be fair and equitable. Thus, if the percentage proposed by MPC is no longer cost-based, the Commission must adjust it to a cost-based rate.

We agree with Paladin that MPC has not supported its rate of 3.15 percent for lost and unaccounted-for gas. However, MPC has provided for the record actual transmission fuel and lost gas for 1992. Examining MPC's response to staff data request 3-6, we find 633,240 Mcf of fuel used for transmission system compression and 381,724 Mcf of transmission system unaccounted-for gas. Summing the two figures and dividing by the 1992 annual

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<sup>45/</sup> Initial Brief of MPC, dated April 29, 1994, at p. 9.

<sup>46/</sup> See Exhibit Nos. RKS-2 and RKS-3.

throughput (35,250,800 Mcf) 47/ produces a fuel used and lost figure of 2.88 percent. We believe that this is a more appropriate fuel and gas lost percentage than that offered by MPC because it is updated to reflect conditions on the system during the test period. Further, we believe Paladin's figure should be rejected due to the flaws pointed out by MPC, particularly since Paladin attempted to create an "interstate only" percentage, rather than a system-wide transmission percentage. Therefore, a percentage of 2.88 percent is adopted, based on the data provided by MPC. We add that this percentage should not merely be prospective; rather, we believe the fuel percentage must be viewed as part of the filed rates, which are subject to refund as of the date of the filing. Accordingly the fuel retention percentage of 2.88 percent is to become effective November 1, 1992, the effective date of rates in this proceeding.

#### F. Refunds

MPC acknowledges that if the Commission determines that the fair and equitable OPT rates are less than those it proposed, MPC is responsible for refunding the difference in rates back to November 1, 1992. However, MPC argues it has no refund liability for the reduction in the IT rate. MPC claims that since the initial rate was approved in a certificate order, the Commission can only change it on a prospective basis. 48/ MPC claims that the Commission could only change an "improper" rate under section 5 of the NGA, arguing that the court in Mustang established the proposition that NGA standards are used in determining the Commission's jurisdiction to order refunds in NGPA section 311 proceedings. 49/ Further, MPC argues that since the change in the IT rate was a reduction, the Commission cannot order refunds in the new IT rate being charged. 50/

MPC claims that its IT rate level of \$.7377 constitutes a refund floor, and that the Commission may not order refunds of any rate found to be fair and equitable, even though such rate is below the \$.5515 rate it has been collecting since November 1,

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47/ Staff Panel Exhibit No. TR-A.

48/ *FPC v. Hunt*, 375 U.S. 515, 521 (1964).

49/ MPC Initial Brief, p. 48, fn. 16, citing *Mustang Fuel Co. v. FERC*, 859 F.2d 1447, 1462 (10th Cir. 1988).

50/ Second Brief of Montana Power at 9:

Accordingly, Montana Power's prefiled rates [\$.7377] serve as a refund floor, and since Montana Power's proposed IT rate constitutes a rate reduction, no IT refunds are proper or should be ordered in this case.

1992. It bases its claim on the fact that, as a Hinshaw pipeline, 51/ it sought and received a NGA section 7(c) blanket authorization for NGPA section 311 transportation, and that since its rates were established in a section 7 proceeding, the rate there approved (\$.7377) is a floor below which it cannot be required to refund. Rather, it claims that the only remedy for excessive rates (\$.5515) the Commission has is a prospective reduction in rates. It cites to various cases decided under the NGA for this proposition.

None of the cases relied upon by MPC is on point. All such cases deal with normal section 7(c) proceedings involving the Commission's ability to order refunds after proposed rate changes below the initial rate certificated by the Commission. None of these cases is even remotely connected with the Commission's rate authority under the NGPA.

MPC is situated entirely differently from the applicants in the cases cited by MPC. MPC is a Hinshaw pipeline, whose activities are exempt from Commission authority under the NGA by virtue of section 1(c) of the NGA. Under section 284.224 of the Commission's regulations, MPC obtained a blanket NGA section 7(c) certificate, authorizing it to transport gas as though it were an intrastate pipeline. 52/ As such, it subjected itself to the rules governing intrastate pipelines, especially those rules contained in section 284.123 of the regulations. Section 284.224 specifically provides, in section 284.224(b)(3), that a blanket certificate issued to a Hinshaw pipeline shall authorize the sale and transportation of gas that is subject to the Commission's jurisdiction "to the same extent and in the same manner that intrastate pipelines are authorized to engage in such activities by subparts C, D, and E of this part...." (Emphasis added) Subpart C contains the rate setting methodology for intrastate pipelines engaged in section 311 transportation. Such methodology includes the requirement for refunds. 53/ In its Initial Brief, MPC states, "This case involves a rate petition filed under Sections 284.224 and 284.123(b)(2)...of the Commission's regulations." (Init. Br. at 1) Since MPC chose to treat its interstate Hinshaw line as an intrastate pipeline for purposes of engaging in section 311 transportation in its certificate application in 1990, the rate consequences of its

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51/ A "Hinshaw pipeline" is a pipeline that is exempt from Commission jurisdiction by virtue of section 1(c) of the NGA.

52/ 53 FERC ¶ 62,237 (1990).

53/ See § 284.123(b)(2)(ii).

election, including refund obligations under the appropriate regulations pertaining to such intrastate pipelines, are applicable to it.

We agree with MPC that its initial rate of \$.7377 is not subject to refund. As to the new IT rate, however, MPC is confusing the Commission's authority to order refunds where there has been a decrease in the last approved rate under section 4 of the NGA and the rate-making methodology under section 311 of the NGPA. MPC asserts that the court in Mustang determined that NGA standards are used in determining the Commission's jurisdiction to order refunds in NGPA section 311 proceedings. The court in Mustang found NGPA statutory authority to require refunds, reasoning that such authority is implicit in the broad discretion to fashion "fair and equitable" rates, and more explicitly in the authority to "prescribe, issue, amend, and rescind such rules and orders as it may find necessary or appropriate to carry out its functions under this chapter," citing 15 U.S.C. § 3411(a). The court then notes that similar authority in the NGA has been interpreted to fashion equitable remedies, including refunds. <sup>54/</sup> This, however, is not the same as MPC's attempt to circumscribe the Commission's authority under the NGPA by linking its NGPA section 311 rate authority to the rate-changing provisions of the NGA.

As the Commission explained in Louisiana Intrastate Gas Corporation, <sup>55/</sup> the Commission does not apply the identical standards to NGPA section 311 rates that it applies to NGA section 4 interstate pipeline rate proceedings. In rate proceedings under the NGA, the Commission is authorized to order refunds of any increase in rates under section 4(e) of the NGA. No such stricture is contained in the NGPA. <sup>56/</sup> As discussed above, the fact that MPC has obtained a blanket NGA section 7(c) certificate is not a distinguishing factor from those instances where the 311 service is performed by wholly-intrastate pipelines insofar as the Commission's rate authority under section 311 is concerned.

MPC voluntarily subjected its IT rate to review by filing a petition for rate approval in Docket No. PR93-3-000, by proposing a new class of service (the OPT service) which led to a redesign

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<sup>54/</sup> Mustang at 1462.

<sup>55/</sup> 47 FERC ¶ 61,336 at 62,155-56 (1989).

<sup>56/</sup> See, e.g., Mustang, *supra*; Lear Petroleum Corp., 42 FERC ¶ 61,015 (1988); Louisiana Intrastate Gas Corp., 47 FERC ¶ 61,042 (1989). Moreover, the Court in Mustang rejected the argument that section 311 requires identical treatment of interstate and intrastate pipelines.

of the IT rate. Thus, the Commission has a responsibility to examine that rate and establish a rate that is fair and equitable. We agree with the statement of the presiding judge in Lear Petroleum Corporation, 57/ in describing the Commission's authority to order refunds under the NGPA. The presiding judge stated:

... [T]he intrastate pipeline has an affirmative duty under §311 to charge no more than a "fair and equitable" rate, and the Commission is obligated to see to it that the pipeline's rates do not exceed that level. Once the Commission approves a rate as fair and equitable, of course, changes in it can only be ordered on a prospective basis. But where, as here, the pipeline has filed a changed rate, any portion of that rate exceeding a fair and equitable level is an overcharge. Basic principles of restitution and equity decree that the appropriate remedy for an overcharge is a refund.

MPC's previous interruptible transportation rate of \$.7377 was an initial rate. It proposed a changed rate, effective November 1, 1992, which it made effective pursuant to § 284.123(b)(2)(i) of the Commission's regulations. Under § 284.123(b)(2)(ii), the Commission has explicit authority to require refunds of any overcharges. Accordingly, since the Commission finds that the IT rate being collected by MPC is not fair and equitable, MPC shall be ordered to reduce its IT rate in accordance with this order and to fully refund its IT rate from and after November 1, 1992, based on the IT rate approved in this proceeding.

The Commission orders:

(A) The firm and interruptible rates for section 311 transportation on MPC's system will be those specified under the column Commission in Appendix A to this order.

(B) Within 30 days of the date of this order or the date of an order on rehearing, MPC must refund all amounts collected in excess of the rates listed in the column Commission in Appendix A effective November 1, 1992, together with interest calculated in accordance with 18 C.F.R. § 154.67 of the Commission's regulations.

(C) Within 60 days of the date of this order or the date of an order on rehearing, MPC must file a report showing the amount of refunds to each customer and the amount of interest paid.

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57/ 35 FERC ¶ 63,042 at p. 65,123 (1986).

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(D) MPC must file a petition for rate approval pursuant to 18 C.F.R. § 284.123(b)(2) of the Commission's regulations on or before November 1, 1995 to justify the system-wide rates approved in this proceeding, or changed rates. All rates collected on or after the filing of this new petition should be collected subject to refund until new maximum rates becomes effective.

By the Commission.

( S E A L )

  
Linwood A. Watson, Jr.,  
Acting Secretary.

**Section 311 Rate Derivation**

Appendix A

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**Cost of Service**

	<u>MPC</u>	<u>Paladin</u>	<u>Commission</u>
Transmission (Systemwide)			
Return	\$6,371,170	\$5,521,035	\$5,521,035
O&M - Fixed	1,288,883	2,369,034	2,369,034
O&M - Variable	753,995	715,911	715,911
Administrative & General	2,194,727	1,543,202	1,543,202
Depreciation Expense	1,789,851	867,965	867,965
Amortization	1,009,253	1,009,253	1,009,253
Non-Income Taxes	3,211,861	3,237,302	3,237,302
Income Taxes	959,812	1,514,327	1,514,327
Other Revenue Credits	0	(89,510)	(89,510)
Total Transmission Costs	\$17,579,552	\$16,688,519	\$16,688,519
Reservation	\$16,825,557	\$15,972,608	\$15,972,608
Usage	\$753,995	\$715,911	\$715,911

**Allocated Transmission Costs**

Reservation	\$1,384,802	\$15,972,608	\$15,972,608
Usage	<u>753,995</u>	<u>715,911</u>	<u>715,911</u>
Total Allocated Transmission	\$2,138,797	\$16,688,519	\$16,688,519

**Allocated Storage Costs**

Reservation	\$257,982	\$0	\$271,425
Usage	<u>1,173,730</u>	<u>0</u>	<u>\$49,161</u>
Total Allocated Storage	\$1,431,712	\$0	\$320,586

**Electric Compression Cost**

	\$0.0377	\$0.0000	\$0.0000
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**Rate Design Cost of Service**

Reservation	\$1,642,784	\$15,972,608	\$16,244,033
Usage	<u>1,927,725</u>	<u>715,911</u>	<u>765,072</u>
Total Rate Design Costs	\$3,570,509	\$16,688,519	\$17,009,105

**Rate Determinants (MMBtu)**

Reservation	10,000	282,360	279,124
Usage	30,230,755	38,932,996	36,609,391

**Transportation Rates**

OPT Reservation	\$13.1648	\$4.5332	\$4.6637
OPT Usage	\$0.1015	\$0.0184	\$0.0209
IT (100% Load Factor)	\$0.5515	\$0.1674	\$0.1803

**Fuel, Gas Lost Percentage**

	3.15%	0.85%	2.88%
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**Rate Base and Return**

Appendix A  
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<u>Rate Base</u>	<u>MPC</u>	<u>Paladin</u>	<u>Commission</u>
Gross Plant	\$99,541,896	\$101,238,417	\$101,238,417
Accum. Depreciation	(34,790,561)	(35,620,517)	(35,620,517)
Property Tax Settlement	1,212,598	627,620	627,620
Customer Contributions	(342,579)	(302,663)	(302,663)
Accum. Def. Income Taxes	(4,400,666)	(11,635,084)	(11,635,084)
Working Capital	(18,287)	(339,326)	(339,326)
Other	0	<u>4,208,948</u>	<u>4,208,948</u>
Total Rate Base	\$61,202,401	\$58,177,395	\$58,177,395

**Rate of Return**

<u>MPC</u>	<u>Ratio</u>	<u>Cost of Capital</u>	<u>% Return</u>	<u>Return</u>
Debt	50.49%	9.21%	4.65%	\$2,845,912
Preferred Equity	4.73%	7.29%	0.34%	208,088
Common Equity	<u>44.78%</u>	12.10%	<u>5.42%</u>	<u>3,317,170</u>
Total	100.00%		10.41%	\$6,371,170

<u>Paladin</u>	<u>Ratio</u>	<u>Cost of Capital</u>	<u>% Return</u>	<u>Return</u>
Debt	47.25%	8.51%	4.02%	\$2,338,731
Preferred Equity	8.63%	7.13%	0.62%	360,700
Common Equity	<u>44.12%</u>	11.00%	<u>4.85%</u>	<u>2,821,604</u>
Total	100.00%		9.49%	\$5,521,035

<u>Commission</u>	<u>Ratio</u>	<u>Cost of Capital</u>	<u>% Return</u>	<u>Return</u>
Debt	47.25%	8.51%	4.02%	\$2,338,731
Preferred Equity	8.63%	7.13%	0.62%	360,700
Common Equity	<u>44.12%</u>	11.00%	<u>4.85%</u>	<u>2,821,604</u>
Total	100.00%		9.49%	\$5,521,035