



October 13, 2017

Rate Analyst
Regulatory Division
Montana Public Service Commission
1701 Prospect Ave
P.O. Box 202601
Helena, Montana 59620-2601

**RE: PETITION OF THE MONTANA CONSUMER COUNSEL TO AMEND
ARM 38.5.2527 THROUGH 38.5.2528
N2017.9.76**

Dear Madam or Sir:

Alpine Pacific Utilities, LLC (APU) has prepared this the following comments related to the Petition to Admen ARM 38.5.2527 through 38.5.2528. Thank you for providing us with the opportunity to submit our comments. We owe a great deal of gratitude to the Montana Consumer Counsel (MCC) and the Montana Public Service Commission (PSC) on their continual efforts in refining the ratemaking process.

Firstly, it is difficult to provide a set of full-bodied comments claiming to achieve a goal of the lowest reasonable rates for ratepayers when we don't have the exact method to review. We would respectfully suggest that you offer a comment period before implementation to interested persons when the proposed method is complete. Nevertheless, this comment period appears to address three issues at hand:

The Standard Rate Rules do not necessarily serve their stated purpose

If the stated purpose pertains to what is listed with ARM 38.5.101, then that stated purpose is "simplify the regulatory burden on smaller utilities". This is detailed within the title and within ARM 38.5.101(1). Our suspicion is the stated purpose is to provide more than one rate case alternative. With the added intent to have one of the alternatives to be abbreviated. This appears to be satisfied. Otherwise, please detail how it does not necessarily serve their stated purpose.

Cause perverse incentive for utilities

We are unaware of direct rate cases that may qualify as perverse incentives. We believe that all of us should rebuke anyone that attempts this as it discredits the entire industry. Regardless of systems size or incentives a few matters affect all of us:

- The Safe Drinking Water Act (water) and the Clean Water Act (sewer) have items that are required to be maintained. Sadly, these federal laws are not the easiest or most intuitive requirements to digest yet they pose a grave seriousness to public safety and risk to our environment. The Montana Department of Environmental Quality (DEQ) attempts to implement requirements to assure these laws are followed. Typically, violations are discovered too late within water quality monitoring or with inspections. Proper utility management recognize the gains that can be made in forward thinking capital improvement plans, redundancy, and operating with an educated staff. Proper management also recognize the potential losses and threats in minimalistic operating structure. A few examples are the paramount health risks, increased operation cost, and jeopardizing the public's faith.
- According to the U.S. Department of Energy (DOE), about 4% of total annual U.S. electricity consumption is used for water and wastewater supply and treatment (1). The level of automation

and the willingness to upgrade to more efficient equipment could reduce this strain on our electrical system. Creating an inhospitable market for utility entrepreneurs could create collateral damage on other resources.

Respectfully, we would like to suggest a bid of caution in the effects of discouraging a knowledgeable work force who is responsible for the safety of our public water supply. Reducing incentives for owners to solve complex issues is not necessary the best cost cutting strategy.

Small systems to have unique hurdles, especially with economies of scale. The ability to distribute resources over a larger group usually present higher rates and is forced to rely heavily on outsourcing much of its technical operation. Yet, the issues that larger systems face outlined above still need to be maintained. The cost per user in public utilities is more expensive than larger ones as shown in the table below:

Table 1: Summary of 2016 Water and Wastewater Survey Results

Population	Monthly Water Average (\$)	Water Average (% of MHI)	Monthly Wastewater Average (\$)	Wastewater Average (% of MHI)
> 7,500	\$34.59	1.0%	\$29.92	0.8%
500-7,500	\$41.46	1.4%	\$39.31	1.3%
< 500	\$49.98	1.5%	\$26.27	0.9%
Overall Average:	\$45.90	1.5%	\$33.05	1.1%

Source: <http://dnrc.mt.gov/divisions/cadd/news/2016-statewide-water-and-wastewater-rate-study>

- a. Systems serving less than 500 people have a water rate of \$49.98.
- b. It is likely that communities with populations between 500-7,500 have the resident density that require advance sewer treatment. The sewer rate is likely higher per customer as they probably don't have the advantage of distributing the cost of the advanced treatment over a larger customer base. Advance treatment is required at Fox Hill Estates, phase 3 and 4.
- c. Many of these communities have notable impact fees. These impact fees are not accounted for within the table above. An average of 2013 impacts for Bozeman, Whitefish, Kalispell, Polson, and Livingston are listed in table 2. Since 2013 many of the fees have increased (e.g. Kalispell water is now \$2,567 (\$2,213 in 2013) and sewer is now \$5,757 (\$2,499 in 2013)).
Source: http://www.kalispell.com/public_works/impact_fees.php
- d. The Montana Department of Commerce sets a target rate for communities before grants can be applied awarded (e.g. Treasure State Endowment Program (TSEP)). We believe these rates are determined by market conditions. Predominantly median household incomes and populations being served. In Flathead County, the target rate are:

Table 2: Flathead County 2010 Target Rates

Water & Waste Water	\$89.25
Water Only	\$52.50
Wastewater Only	\$33.75

Source: <http://comdev.mt.gov/Resources/Financial/TargetRate2010>

Public Utilities

In many cases self-regulated HOA's and municipalities can be efficient and be well ordered. Sadly, our experience would indicate these systems collect just enough money to service the largest pump and pay electricity. The DEQ has verbally provided us with a testimony that HOAs are the least successful in

operating a public system. These entities have limited exposure to life cycle analysis, capital improvement planning, and are typically intertest in keeping the rates as low as possible. This strategy does not consider the industry's complexity and risk. Many of our customers hold us accountable to provide clean, pressurized water at an affordable price. In many cases they don't want the burden of the complex details. They have full time jobs and are not interested in collecting water money from their neighbors. They are unaware of what things need to be addressed before they become a problem. Administratively, they allocate of responsibly to someone who is not qualified or said responsibility is not addressed. We are aware of a HOAs that has had the same rate since 1978. In this case, they are fully aware their system is ageing while electricity and testing have increase. When inspecting this, we were shocked and disheartened that the community drinks from such a filthy system, let alone the risks they have assumed. When rates are set by a HOA or neighbor then preventive maintenance is typically considered foolish and falls to the wayside.

Municipality's typically cover large maintenance expenses under the impact fee umbrella. Private utilities do not have this luxury. Municipalities that have no growth are sadly subject to the whims of the state grants and lending sources. These sources have large transaction cost and often required matching funds. We could be happy to author case studies on these occasions. Inadvertently, these programs have placed an over-reaching burdens on communities that are already struggling.

Conflict with substantive and procedural statues.

This is likely a component that is beyond our naive understanding of ratemaking. We may not be the only party that understands how a conflict has arisen, it would be helpful if you detailed this conflict further.

Conclusion

As the goal outlined within this Petition is to achieve the lowest reasonable rate, we would like to highlight the nuances between lowest price and cost efficient. Typically, the cheapest option upfront is not usually favorable later. This is undoubtedly the case with pumps and electrical equipment. We would like to suggest that consistent rates with consistent growth is more favorable to the ratepayer than the lowest rates, service interruptions, and catastrophic failures.

Given the information presented in docket N2017.9.76 and without further information of new method or details with the exact conflicts, this letter attempts to highlight the potential impacts and associated risk when targeting incentives.

Thank you for providing the opportunity to submit our comments. If you have any questions, please contact the undersigned at (406) 393-2127.

Sincerely,

Alpine Pacific Utilities, LLC



Justin D. Ahmann, P.E.
Vice President

References

- 1). Driving Energy Efficiency in the US Water and Wastewater Industry. Hamilton. 2009. http://aceee.org/files/proceedings/2009/data/papers/6_83.pdf