Service Date: April 26, 1988

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

* * * * *

IN THE MATTER Of The Application Of Big Mountain Water Company To Increase Rates And Charges For Water Service In Its Big Mountain, Montana Service Area.	)	UTILITY DIVISION DOCKET NO. 87.7.35 ORDER NO. 5342

APPEARANCES

FOR THE APPLICANT:

Gene Phillips, Attorney at Law, Murphy, Heckathorn, Robinson & Phillips, P.O. Box 759, Kalispell, Montana 59903.

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Robin McHugh, Staff Attorney, 2701 Prospect Avenue, Helena, Montana 59620.

Ron Woods, Rate Analyst, 2701 Prospect Avenue, Helena, Montana 59620.

BEFORE:

Howard Ellis, Commissioner and Hearing Examiner

BACKGROUND

1. On July 23, 1987, the Big Mountain Water Company (BMW or Applicant) filed an application with this Commission for authorization to increase rates and charges for water service in its Big Mountain water service area. The Applicant requested anincrease in rates which would result in an annual revenue increase of approximately 16,000.

2. On September 16, 1987, this Commission issued a Notice of Opportunity for Public Hearing. This notice was mailed to the Montana Consumer Counsel (MCC) and all of the Applicant's customers. The notice gave affected parties until October 15, 1987, to protest and request a public hearing on this matter.

3. On October 14, 1987, the Commission received a protest and request for public hearing from Jeff Fisher, one of the Applicant's customer's. In his letter Mr. Fisher alleged that, in his opinion, the proposed increase would cause consumers "...to pay for the cost of Winter Sports, Inc.'s property development" and "generate significantly more than the $16,000.00 sought." (Winter Sports is BMW's parent company)

4. On February 23, 1988, pursuant to notice of public hearing, a hearing was held in the City Hall, Whitefish, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment. At the close of the public hearing the parties stipulated to allow the Commission to issue a Final Order in this Docket.

FINDINGS OF FACT

5. At the public hearing the Applicant presented the testimony and exhibits of:

Norm Kurtz, President BMW
John Heinecke, Consulting Engineer
Donna Jones, Financial Officer, Winter Sports Inc.

No public testimony was received during the course of the hearing.

Rate Base

6. In this filing the Applicant is attempting to establish a rate base upon which a rate of return could be earned. The application submitted by BMW proposes an average original cost depreciated rate base of $396,940. This amount reflects only the depreciated value of utility plant in service.

7. Prior to the filing of this rate case, preliminary discussions were held between the Applicant and Commission staff. During those discussions the staff posed questions to BMW regarding full utilization of its utility plant in the provision of service to its subscribers. The initial indications were that the Applicant was not fully utilizing its facilities. Due, in part, to the staff's questions concerning full utilization, the Applicant determined that it would be appropriate to engage the services of a consulting engineer for the purposes of determining facility utilization and rate analysis.

8. For purposes of establishing reasonable rates a utility must show that the utility plant in service is used and useful in the provision of service to its subscribers. The used and useful concept of ratemaking ensures that current subscribers to utility

service are not bearing the cost of excess plant capacity that is not necessary for provision of reasonably adequate service to existing subscribers.

The Applicant's consulting engineer determined that BMW was not using system components (source, distribution, and storage) at capacity levels sufficient to meet the used and useful requirements of ratemaking. The consultant indicated that for purposes of the used and useful test, applicable to utility property, the Applicant was utilizing the following percentages of its plant:

Source	87.68%
Storage	73.68
Distribution	72.22

9. Application of a weighted system utilization factor, calculated to be 78.14%, to the depreciated value of plant in service ($396,940), results in a plant in service value of $310,169 that is used and useful in providing service. Based upon the engineer's analysis of plant utilization, the Applicant is proposing that it be allowed to earn a return on a rate base of $310,169.

10. The engineering analysis presented by the Applicant, for purposes of determining plant utilization, uses accepted engineering principles as a basis for calculating the various system

utilization factors. The Commission finds, based upon the evidence presented, that the Applicant should be allowed to earn a return on the calculated used and useful plant in service amount of $310,169.

RATE OF RETURN

11. The Applicant, in its application, has requested that the Commission allow an overall rate of return of 3.0%. When compared to the overall rate of return recently authorized other utilities under this Commission's jurisdiction, BMW's request is substantially below the norm. BMW has made a voluntary decision that, in its opinion, a 3.0% overall rate of return on its utility plant in service is reasonable. Given the fact that BMW's requested overall rate of return is substantially below rates of return recently authorized by the Commission, the Commission finds the Applicant's request justified and warrants no further discussion.

OPERATING REVENUES

12. The test period operating revenues are not a contested issue in this case. The Applicant's average annual revenue is calculated as $15,050 and is accepted by the Commission.

OPERATION AND MAINTENANCE EXPENSE

13. The Applicant proposed proforma adjustments reducing operation and maintenance expense by $5,888. The proposed reduc-

tion in operation and maintenance expense arises from Winter Sports, Inc.'s, willingness to waive an annual $6,000 management fee that it had charged BMW in previous years. Winter Sports (BMW's parent company) has chosen to waive the fee because the proposed rates under consideration in this docket include a 3% return. The Commission accepts the proforma adjustment decreasing expenses and finds the Applicant's proposed test period operation and maintenance expenses totalling $1,500, to be reasonable.

14. The test period depreciation expense is not a contested issue in this docket. The Applicant proposed depreciation expense of $19,624, which is accepted by the Commission.

15. The Applicant proposed an expense for "Taxes" of $600. This expense was not challenged by any party participating in this proceeding and is, therefore, accepted by the Commission.

16. Based upon the preceding Findings of Fact, the Commission finds BMW's utility operation generated a test period operating loss of $6,674, calculated as follows:

Operating Revenue	$15,050
Operating Deductions	$21,724
Operating Income	($6,674)

REVENUE REQUIREMENT

Rate Base	$310,169

Rate of Return		3.00%
Return Requirement		$ 9,305
Adjusted Balance Available for Return	$ (6,674)	
Return Deficiency		$ 15,979
Revenue Deficiency	$ 16,038	
MCC-PSC Tax at .0037%		$ 59
Income Available for Return		$ 15,979

17. In order to produce a return of 3.0% on the Applicants recognized average original cost depreciated rate base, the Applicant will require additional annual revenues in the amount of $16,038 from its water utility operation.

RATE DESIGN

18. The Applicant's proposed rate structure is designed to generate total annual revenues of $31,055 and represents an annual revenue increase totalling approximately $16,000. The proposed rate structure for the commercial/residential includes a minimum monthly charge and a single usage rate on monthly consumption in excess of 1,750 gallons. The Applicant is also proposing the implementation of a commercial fire service charge that recovers the cost of providing fire protection to these connections.

19. As noted earlier in this order Mr. Fisher, the protestant in this docket, contends that the rates proposed by the Applicant would generate significantly more than the $16,000 revenue increase

requested in BMW's application. In response to Mr. Fisher's allegation, the Commission required the submission of a late-filed exhibit detailing the monthly water consumption, by connection, for the fiscal years 1985-1987.

20. On March 7, 1988, this Commission received the late-filed exhibit detailing monthly consumption. If the "Summit House", which is not connected to the Applicant's system, is excluded from the metered consumption information provided by the Applicant, BMW rendered billings on the following annual consumption:

1985 -- 7,800,768 gallons
1986 -- 7,701,540 gallons
1987 -- 8,515,900 gallons
Three year average -- 8,006,069

In the Applicant's Exhibit 1, at page 7, the Applicant indicates that it used an annual production (actually consumption) of 8,000,000 gallons to develop the proposed commercial/residential usage charge in its rate structure. The late-file exhibit submitted by the Applicant supports the use of this consumption level in developing the appropriate rates. Applying the consumption rate of $3.34/thousand, developed by the Applicant in its submittal, to the 8,006,069 gallons calculated above, reveals that the Applicant would generate, on average, annual revenue of $26,740 from residential/commercial connections. Subtracting the

commercial/residential revenue from the total revenue requirement recognized, of 31,088, leaves $4,348 to be generated from the fire protection charge.

21. On page 7 of Exhibit 1, the Applicant outlines the development of its proposed commercial fire protection charge. The development of this assessment was not challenged by any party and the information indicates that this assessment will generate approximately $4,309 in annual revenue.

22. The Applicant prepared a very basic cost of service study for this proceeding and, based upon the information contained in that study, developed its proposed rate design. The study segregates cost of service information in to two categories: fire protection and residential/commercial cost of service. The Applicant's cost of service study, while simplistic, does appear to equitably distribute the cost of providing service to the various customer classifications and is therefore accepted by the Commission. The Commission finds the rates and rate structure proposed by the Applicant to be reasonable and further finds they should be approved as filed.

CONCLUSIONS OF LAW

1. The Applicant, Big Mountain Water Company, is a public utility as defined in Section 69-3-101, MCA. The Montana Public

Service Commission properly exercises jurisdiction over the Applicant's rates and service pursuant to Section 69-3-102, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Big Mountain Water Company shall file rate schedules which reflect an increase in annual revenues of $16,000 for its service area. The increased revenues shall be generated by increasing rates and charges as provided herein.

2. The rates approved herein shall become effective upon Commission approval.

DONE IN OPEN SESSION at Helena, Montana this 25th day of April, 1988, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

_____
CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

_____
TOM MONAHAN, Commissioner

_____
DANNY OBERG, Commissioner

_____
JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol A. Frasier
Commission Secretary

{SEAL)

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