Service Date: November 20, 1991

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

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IN THE MATTER of the Application of the City of Great Falls for Authority to Increase Rates and Charges for Water Service to its Great Falls, Montana, Customers.	)))))	UTILITY DIVISION DOCKET NO. 90.10.67 ORDER NO. 5523g

FINAL ORDER ON COST-OF-SERVICE/RATE DESIGN

APPEARANCES

FOR THE APPLICANT:

David Gliko, City Attorney, City of Great Falls, P.O. Box 5021, Great Falls, Montana 59403-5021.

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel, 34 West 6th Avenue, Helena, Montana 59620.

Lt Col Bruce Barnard, Attorney-at-Law, Federal Executive Agencies, HQ USAF/ULT, Stop 21, Tyndall AFB, Florida 32403-6001.

Robert Goff, Attorney-at-Law, Montana Refining Company, Third Floor, Norwest Bank Building, P.O. Box 1645, Great Falls, Montana 59401.

Patrick Flaherty, Attorney-at-Law, Montana Peoples Action, 625 Central Avenue West, Great Falls, Montana.

FOR THE COMMISSION:

Tim Sweeney, Staff Attorney, 1701 Prospect Avenue, Helena, Montana 59620.

Ron Woods, Rate Analyst, 1701 Prospect Avenue, Helena, Montana.

BEFORE:

BOB ANDERSON, Commissioner and Presiding Officer
JOHN DRISCOLL, Commissioner
WALLY MERCER, Commissioner

BACKGROUND

1. In its Order No. 5523f the Commission stated "The Commission by separate order will discuss the issue of cost-of-service (COS) and rate design in this Docket. The rate design order will be issued by the Commission no later than November 18, 1991." The following is the Commission's Order on COS and rate design.

COST-OF-SERVICE

2. In its application, the City has proposed the implementation of a rate structure that includes a monthly customer charge and a commodity rate per hundred cubic feet (ccf) of consumption. The monthly customer charge is determined by the meter size at the customer's location. The City also proposes the continuation of a fire hydrant rental fee to recover the cost of providing fire protection.

3. The Applicant presented a traditional COS study using the base-extra capacity method of cost allocation. In the base-extra capacity method all costs are separated into components of base cost, extra capacity costs, customer costs and direct fire protection costs.

4. This method allocates the costs of service (capital costs and operating costs) between the utility's base or average day and the extra capacity required to meet maximum day and peak hour system requirements. The base costs include those costs that tend to vary with the amount of water produced. The base costs are allocated to customer classifications in relation to the water consumed by each class. The extra capacity costs include the those incurred as a result of changes in system load conditions and the need to meet demands in excess of average day demands. The extra capacity costs are allocated in relation to the excess capacity required by each class of customers for maximum day and peak hour requirements.

5. Customer costs and fire protection costs are directly

assignable and include such items as meter reading, billing, collecting, accounting, fire hydrant maintenance and capital-related expenditures for fire protection.

6. No party to this proceeding challenged the use of the base-extra capacity allocation procedure for determining class COS. However, FEA challenged the City's initial cost functionalization for costs to be assigned the various classes through the allocation procedure. FEA asserted that the City had inappropriately allocated certain cost components in determining class COS for Malmstrom and Black Eagle. FEA recommended modifications to the City's study which it believed would more accurately reflect the costs of providing service to all customer classes.

7. FEA prepared its own COS study using the base-extra capacity method of cost allocation and sponsored it as an exhibit during the proceeding. In the prefiled testimony supporting its COS study, FEA witnesses stated that the City's study was faulty in its initial determination of costs to be allocated to the various customer classes. FEA, through its testimony and exhibits, attempted to demonstrate that the City had overstated the cost of providing service to Malmstrom and Black Eagle and understated the COS to the other customer classes. FEA specifically maintains that the City's study assigns local distribution system operation and maintenance expenses, local distribution system capital costs, and lost and unaccounted for water in a manner inconsistent with the character of service received by the Malmstrom and Black Eagle connections.

8. The FEA presentation points out that Malmstrom is connected to the City's water system by 20- and 12-inch interconnects and that Malmstrom receives delivery of water through these two connections as a master meter customer. FEA asserts that because its connections with the city water supply are 20 and 12 inches in diameter, it receives no significant benefit from water distribution mains having a diameter of 8-inches or less. FEA, in its cost presentation, removes

operation, maintenance and capital costs associated with 8-inch and smaller mains from the cost of providing service to Malmstrom and Black Eagle. FEA contends that 8-inch and smaller mains constitute the local water distribution network of the utility and are constructed to deliver water to small individual customers, not high demand customers such as Malmstrom and Black Eagle.

9. Because it challenged the City's COS study, the burden of disproving the reasonableness of the City's COS study rested with FEA. FEA's dispute with the City's COS study is related to the operational ability of the water utility to provide service to Malmstrom and Black Eagle through the local distribution system. The City's water system is an integrated pressurized system that is capable of delivering water in sundry configurations to all subscribers if system failures, scheduled maintenance or other circumstances warrant. In support of its allegation that it receives no substantial benefit from the local distribution system, FEA provided unsubstantiated statements from its consultants. FEA presented no documented operating evidence in support of its position.

10. It would be arbitrary for this Commission to adopt FEA's COS assertions without substantial credible evidence, such as hydraulic analysis of the distribution system. Therefore, the Commission rejects FEA's proposal to modify the Applicant's COS assumptions.

11. Demand criteria (average annual consumption, maximum day demand, maximum hour) are used to determine allocated customer class COS. These demand criteria describe the type of loads that each customer class imposes on the system. If a customer class has relatively high average annual usage, it is responsible for relatively more base costs. If a customer class has relatively high maximum day and maximum hour demands, it is responsible for more extra-capacity costs. The Commission in this docket accepts the Applicant's COS methodology with the reservation that the formula tends to weight costs heavily toward the system's extra-

capacity costs, especially in determining overall COS for the residential class.

RATE DESIGN

12. The City developed its proposed rate design based on the information contained in its COS study. The information contained in the COS study indicated that two customer classes, "Standpipe and Private Fire Protection," should receive a reduction in rates.

13. Information elicited during the course of this proceeding indicates that the City will be increasing rates biennially in order to complete its proposed capital improvement program. The Applicant's proposal to decrease rates for these consumers would provide these customer classes with a false price signal when it is known that subsequent rate filings may result in increased rates for them. The Commission finds that the City's proposal to decrease rates for "Standpipe and Private Fire Protection" should be denied.

14. The Commission finds that the Applicant should flow excess revenues generated from its COS calculation to the remainder of the customer classes. The City should distribute the excess revenues to the customer classes based on the calculated cost of providing service to them. By flowing the excess revenue to the other classes of service, the City lessens the rate shock that customers will currently experience and will continue to experience.

15. As previously noted, the base-extra capacity cost allocation method relies heavily on cost assignments associated with extra-capacity. Using this assignment method for the residential class, which as a customer class has relatively high peak demand requirements, in conjunction with proposing a single block usage rate, discriminates against lower volume residential consumers connected to the water utility. Further, the proposed residential rate design provides no incentive for conservation.

16. Because extra-capacity costs are a prominent component of the proposed residential commodity rate, the Commission finds that the City's proposed residential rate design should be modified. The City's rate design should incorporate a rate that reflects pricing of service to low volume consumers that do not contribute significantly to the need for plant capacities to meet peak requirements. In the Commission's opinion it cannot be argued that residential consumers using 300 cubic feet of water, or less, (the present minimum consumption) are contributing significantly to the need for plant capacity necessary to provide peak delivery.

17. Since the City's present rate design includes minimum consumption of 300 cubic feet of water, its consumers should be sensitive to pricing proposals in that consumption block. Because 300 cubic feet of water consumption is the present breakpoint on pricing for water the Commission finds it reasonable to establish a commodity rate for consumption at or below that level that excludes fixed costs associated with peak requirements.

18. All subscribers connected to the water system should have a rate that recovers the variable costs of providing service and makes a contribution to the fixed costs of the utility. For low volume residential consumers to meet this rate criteria, the City should develop a rate that recovers all operation and maintenance costs as well as debt service costs associated with the base plant capacities (debt service costs represent the fixed costs of a municipal utility). To avoid sending an inappropriate price signal to low volume subscribers the rate developed for consumption of less than 3 ccf of water should be no less than the commodity rate that was in effect prior to November 28, 1990.

19. Implementing a rate design that more accurately reflects the cost of providing service to low volume consumers results in the City having a residential rate design that includes a monthly customer charge and a two step inverted block commodity charge.

All costs not recovered in the initial rate block should be recovered in the tail block.

20. At the evening hearing Mr. Thomas Schneider, a consultant and witness for the Department of Social and Rehabilitation Services (SRS) in Montana Power Company's pending rate increase application (Commission Docket No. 90.6.39), appeared and offered testimony as a public witness in this docket. Mr. Schneider suggested that the Commission take administrative notice of a proposal in the Montana Power docket to provide a 10 percent discount in rates for low-income subscribers. Mr. Schneider further recommended that the Commission implement such a discounting proposal for low-income subscribers receiving service from the City's utility operation.

21. Mr. Schneider provided testimony regarding the living conditions of Low Income Energy Assistance Program (LIEAP) customers. LIEAP customers are the target group of consumers that Mr. Schneider asserts should be provided a discount. Mr. Schneider indicated that recent trends reveal that this customer group is experiencing increasing utility bills, declining benefits and static income levels. The witness also indicated that this customer group is experiencing increased economic distress.

22. As previously stated, the City has indicated that it will be increasing rates on a biennial basis to fund its capital improvement program and recover increased costs of operation. By the year 2000 rates in the City's service territory will increase by approximately 100 percent. These increases in rates will have a significant economic impact on LIEAP-qualifying customers and will affect their ability to pay. Implementation of a discount provision for the LIEAP-qualifying consumers should have the effect of reducing the frequency and cost of disconnections, collections and bad debt because of nonpayment. Discounting will improve the affordability, making it possible for many customers to meet the payment rather than causing the utility to provide service without receiving any compensation. The

Commission believes witness Schneider's proposal to provide for discounted rates to LIEAP-qualifying customers should be adopted.

23. Since the Commission has found it appropriate to provide a discount to LIEAP-qualified consumers connected to the City's system, it is incumbent on the Commission to provide the City with the parameters for developing and administering the proposal. No statistical information regarding LIEAP-qualifying consumers in the City's service territory was provided. Therefore, the Commission and the City must take administrative notice of public records for purposes of developing the proposal and calculating the financial impacts of discounting on the utility and its subscribers.

24. For purposes of qualifying for this discount consumers should be prequalified as households that have an income level no greater than 150 percent of the poverty level. The easiest way for the City to determine that a consumer is qualified for the 10 percent across-the-board discount is to accept Opportunities Inc. qualification of a consumer as LIEAP-qualified. Any consumer desiring the discount approved herein should be required to have verification from Opportunities Inc. of their LIEAP qualification.

25. Information obtained from SRS indicates that Cascade County had 2,020 customers qualified for LIEAP by Opportunities Inc. during 1990. Since the service area of the City's utility does not encompass the entire county it will be necessary for the City to calculate the number of LIEAP-qualified customers residing within the City's service area. To calculate LIEAP-qualified customers the City will use population information contained in the 1990 census for the City of Great Falls service area and Cascade County. The ratio of service area population to total county population multiplied by total county LIEAP-qualified consumers will provide the City with a reasonable estimate of qualifying customers in the service territory.

26. To calculate the financial/rate design consequences of

implementing this program the City will use the following formula: total LIEAP-qualifying consumers in the service area multiplied by average annual domestic consumption of 96 hundred cubic feet (per City's Exhibit No. 12, Docket No. 90.10.66) times the residential rate calculated per COS. The City shall discount this amount, including the annual customer charge, by 10 percent and recover the discount amount by increasing costs in the tail block by the calculated amount of the discount.

27. Except as noted above, the Commission accepts the rate design proposals of the Applicant.

CONCLUSIONS OF LAW

1. The Applicant, the City of Great Falls, 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. Title 69, Chapter 7, 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

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The City of Great Falls shall file rates consistent with the Findings of Fact contained herein.

2. The rates approved herein shall not become effective until the tariffs, revenue bond ordinance(s), and necessary calculations relating to debt costs and cost-of-service have been submitted for review by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 18th day of November, 1991, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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BOB ANDERSON, Commissioner

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JOHN B. DRISCOLL, Commissioner

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WALLACE W. "WALLY" MERCER, Commissioner

ATTEST:

Ann Peck
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.