Service Date: December 14, 1992

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 COLSTRIP COMMUNITY SERVICES COMPANY for authority to Implement Rates and Service Rules for Water Service.	))))	UTILITY DIVISION DOCKET NO. 92.4.16 ORDER NO. 5621a

* * * * *

APPEARANCES

FOR THE APPLICANT:

Wayne Harper, Attorney at Law, Colstrip Community Services Company, 40 East Broadway, Butte, Montana 59802.

FOR THE INTERVENORS:

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

FOR THE COMMISSION:

Denise Peterson, Staff Attorney, 1701 Prospect Avenue, Helena, Montana 59620.

Ronald Woods, Utility Division, 1701 Prospect Avenue, Helena, Montana 50620.

BEFORE:

Wally Mercer, Commissioner
Ted Macy, Commissioner
Danny Oberg, Chairman

BACKGROUND

1. On April 10, 1992, Colstrip Community Services Company (CCSC or Applicant) filed an application with the Montana Public Service Commission for authority to implement water rates and charges in its Colstrip, Montana service area. The Applicant

proposed the implementation of rates and charges that would generate annual revenues of approximately $660,577.

2. On October 6, 1992, after proper notice, the Commission held a public hearing in the Moose Lodge, Colstrip, Montana. For the convenience of the public two public comment sessions were scheduled at the same location at 7:00 p.m., October 6, 1992 and 1:00 p.m., October 7, 1992.

FINDINGS OF FACT

3. During the public hearing the Applicant presented the testimony and exhibits of:

George Thorson, Vice President CCSC
Thomas Matosich, Director - Utility Costs, Montana Power Co.
Patrick Corcoran, Director of Rates, Montana Power Co.

The Montana Consumer Counsel (MCC) presented the testimony and exhibits of its rate analyst, Frank Buckley. The MCC also sponsored the testimony of nine public witnesses who are water service customers of the Applicant.

4. CCSC is a service corporation providing contract management and maintenance service to various clients. CCSC has four clients: Rosebud County, Colstrip 1 & 2 partners, Colstrip 3 & 4 partners and Western Energy Company. CCSC provides property management services to the private corporations and essential services to the Town of Colstrip for Rosebud County. CCSC manages residential and commercial properties in Colstrip, which are owned by the nearby mining operations and the partners in the Colstrip electric generating units. The property management

services provided by CCSC include sales and rental of property and general maintenance of rental property.

5. CCSC provides the following essential Town services in the unincorporated Town of Colstrip: street maintenance, street lighting, visitor center, water service and sewer service. CCSC is the operator of the water system owned by Rosebud County. The service contract between the County and CCSC provides that all responsibility for operating and maintaining the water facilities rests with CCSC. The contract also provides that all revenues received and expenses incurred in operating the public utility belong to CCSC.

6. The physical plant of the water system owned by Rosebud County and operated by CCSC was financed through special improvement district (SID) assessments that were/are paid by owners of properties in CCSC's service area. Rosebud County and CCSC as its operator have no qualifying investment in utility plant or facilities on which they may earn a rate of return. Therefore, the Commission finds that it cannot afford CCSC the generally accepted rate base treatment in determining reasonable rates.

7. The parties to this Docket identified and presented testimony on the following contested issues:

1) the appropriate basis for allocating mechanic shop and warehouse expense as well as indirect administrative and general costs to the water utility;
2) the interest cost component of the raw water billing formula;
3) the adjustment by CCSC of certain expenses by a capacity factor; and

4) the inclusion in rates of an operating margin.

8. During the hearing public witnesses provided testimony that identified the following issues or concerns:

1) the citizens committee took exception to CCSC's proposed cost-of-service and rate design;
2) public witnesses wanted the Commission to address the issue of metering the water system;
3) a public witness indicated that CCSC's cost-of-service for metered customers did not include an amount for lost and unaccounted for water; and
4) public witnesses were concerned that the raw water transportation agreement caused water consumers to pay costs associated with evaporation and leakage from the Castle Rock reservoir.

COST ALLOCATION

9. Because CCSC has multiple service contracts and service functions, it incurs indirect (common) costs that require allocation to the various service functions. Properly allocating indirect costs to the water operation is necessary to develop a meaningful financial statement. In its filing CCSC indicated that during the test year it would incur total indirect costs in the amount of $601,648.47.

10. CCSC proposed using a single factor allocation procedure to assign indirect operating costs to the water utility operation. To calculate its single allocation factor CCSC developed the percentage of total direct water utility costs to total direct costs of all CCSC operations. This proposed method of cost allocation would assign 31.741% of the indirect costs to the water utility. Use of this allocation percentage results in a total indirect expense of $190,969.24 for the water utility operation.

11. MCC's witness challenged the validity of the single cost allocation factor chosen by CCSC. Mr. Buckley stated that the costs allocated by CCSC were support costs. Therefore, no correlative relationship existed between some of the direct expenses used to allocate costs and the functions performed in the indirect cost areas. To illustrate his position on non-correlation between allocator and indirect expense, he pointed out that the $130,000 cost of raw water has little, if any, correlation to the work done in the mechanic (shop), warehouse or administrative and general areas. (Prefiled testimony, Frank Buckley, page 5)

12. MCC proposed use of an alternative single factor allocation procedure to assign indirect operating costs to the water utility operation, calculated using the percentage relationship between total direct water utility labor costs to total direct labor costs of all CCSC operations. This proposed method of cost allocation assigns 19.58% of the indirect costs to the water utility. Use of this allocation percentage develops a total indirect expense of $117,802.77 for the water utility operation.

13. In general, an allocation procedure does not rely upon a single factor to assign all indirect costs incurred. A single factor does not commonly have a correlative relationship to all indirect cost categories assigned. Because each of the parties prefiling testimony in this Docket proposed use of a single factor allocation, the Commission asked numerous questions on the

topic to determine the reasonableness of the proposed allocation procedures.

14. As requested, CCSC submitted a late-filed exhibit showing the total square footage of the warehouse and yard used in its operations. Included in this exhibit was the square footage of these facilities dedicated to the water and sewer utility operation, and the square footage of these facilities dedicated to the other service operations. In the Commission's view, a reasonable correlation exists between "Rent Warehouse" and "Utilities Warehouse" and the square footage dedicated to each of CCSC's service functions, as these two expenses are dependent upon area.

15. Comparing the warehouse-yard square footage information to the allocation percentages developed by the parties provides a test of reasonableness for the allocations of "Rent Warehouse" and "Utilities Warehouse." Calculated from the late-filed exhibit, on a combined water-sewer utility basis, 20.1% of the total square footage of the warehouse (including common area) is dedicated to the utility operations. On a combined square footage basis, the water and sewer operation utilizes 7.35% of the total square footage of the combined yard-warehouse area.

16. CCSC provided combined water and sewer information in its late-filed exhibit. Therefore, the Commission will equally distribute the square footage percentages calculated in the preceding finding between the water and sewer utility operations. One-half of the warehouse percentage from the preceding finding

is 10.05%, and one-half of the yard-warehouse percentage is 3.675%. The factors calculated both by the MCC (19.58%) and CCSC (31.741%) exceed the preceding percentage calculations.

17. The Commission finds that the Applicant and the MCC have overstated the cost of "Rent Warehouse" and "Utilities Warehouse" that should be allocated to this operation. Applying the allocator of 3.675% (preceding finding) produces a "Rent Warehouse" expense of $564.68 and reduces the Applicant's proposed expense by $4,312.47. Using the 10.05% allocator (preceding finding), "Utilities Warehouse" expense is $1,076.78, a reduction of $2,324.05 from that proposed by the Applicant. The Commission finds that CCSC's proposed operating expenses should be reduced by $6,636.52.

18. In its operating statement CCSC indicated that it would incur a company total of $38,593 for "Salaries Warehouse" expense. CCSC indicated that this was an indirect expense assignable to the water utility operation by allocation.

19. The Commission examined CCSC's witness, Tom Matosich, on how salaries were charged to this indirect expense account. As requested, Mr. Matosich reviewed a daily and weekly time sheet of a CCSC employee. Entries showed that this employee worked two hours at the warehouse; two hours on maintenance of Colstrip 1 and 2 properties; and 4 hours on maintenance of Colstrip 3 & 4 properties on one particular day. Mr. Matosich testified that the two hours shown as warehouse would be charged to the "Salaries Warehouse" account. Mr. Matosich also testified that

the daily time sheet discussed was representative of entries made by other employees indicating that the expense should be charged to the "Salaries Warehouse" account. When asked if the employee time sheets which charged 2 hours to the warehouse gave any indication that the employee had performed any duties associated with water utility operations, the witness responded that it did not.

20. The time card indicates that the employee worked 6 hours on the maintenance of properties owned by the Colstrip Partners. It would be reasonable to assume that the time spent at the warehouse was associated with fulfilling duties relating to those maintenance projects. Mr. Matosich's explanation of the time sheet entries indicates that the company has chosen to charge all warehouse salaries to a common expense account, ignoring its ability to directly assign these costs. A utility wishing to recover a cost of providing service has an obligation to demonstrate that the cost is attributable to the utility operation. The Commission recognizes that some warehouse salaries are attributable to the utility operation, but it would be poor regulatory policy to allow a direct cost to be recovered through an indirect assignment.

21. The Commission finds that the Applicant's request for recovery of "Salaries Warehouse" should be denied. Denying recovery of these salary expenses reduces the Applicant's allocated water utility operating expenses by $12,249.80.

22. In the water utility operating statement CCSC has charged the utility with $8,152.06 of warehouse materials or 31.741% of the total cost. On cross-examination on these allocated costs, Mr. Matosich responded that it would be fair to characterize warehouse materials as consumable items in the warehouse not otherwise identified. Since CCSC proposes to allocate this item of expense, the cost of these materials are not tracked and assigned directly to a service function.

23. To ascertain where these materials would be reported when used, Commission staff asked Mr. Matosich about "Maintenance Request Reports" (MRs). Mr. Matosich indicated that it was "possible or probable" that consumable items would be reported on the MRs. He further indicated that, subject to check, approximately 15% of MRs in 1990 and 1991 were for the water and sewer.

24. Although not as closely correlative to the function as square footage is to warehouse rent, the MRs give a better indication of materials requirements for water and sewer than the allocation factors of the parties. At least the MRs give some indication of the maintenance activity level and the need for materials in operating and maintaining the water and sewer system.

25. The calculated MRs percentage of 15% is for both water and sewer service functions. Therefore, the Commission will distribute the calculated amount equally between water and sewer, for an allocator of 7.5% for each. Substituting the Commission's

7.5% allocator for that of the Applicant produces a "Materials Warehouse" expense of $1,926.22 and reduces the Applicant's test year expenses by $6,225.53. The Commission finds this expense reduction appropriate.

26. Based on the record, the previous adjustments to indirect expense are all that can be made using correlative allocators. The Commission must now decide an appropriate allocation procedure for assignment of the balance of indirect costs.

27. More than sixty-five percent of the remaining indirect costs are salary related items. The Applicant's total direct cost allocator does not appear to have as close a correlation to the salary related items to be allocated as that of the MCC. The MCC's proposed allocator is predicated on a direct salary relationship that appears to have some correlation to the salary costs yet to be assigned. The Commission will use the MCC's allocator for purposes of allocating the remaining salary costs.

28. The MCC's proposed allocation factor is acceptable for the salary related items. However, the Commission will not apply it to the remaining non-salary related expenses.

29. In previous findings the Commission has found that the proposed allocation factors of the Applicant and MCC are excessive or have no correlative relationship to the item being allocated. Where the Commission has substituted a reasonable allocator, the costs assigned by the Applicant and MCC have exceeded the amounts calculated by the Commission. For many of

the non-salary related expenses still unassigned, the Applicant's and the MCC's proposed allocators do not appear to have any significant correlation. To avoid excessive allocations of non-salary related expenses to the utility, the Commission will develop a substitute allocation factor for the remaining indirect costs that are not salary related.

30. The record does not provide the Commission with sufficient information to develop reasonably correlative allocation factors for each of the remaining indirect expenses. To develop its alternative allocation method the Commission will rely, in part, on information in previous Findings that used correlative factors to allocate three indirect expense accounts. Where the Commission substituted a correlative factor for that of the Applicant, the Applicant's proposed allocated expense diverged from that calculated by the Commission. Comparing the allocated costs found reasonable by the Commission to the Applicant's proposed costs provides an indicator of the degree of error between using correlative expense allocators and the single factor of the Applicant. The Commission will develop an allocation percentage using the degree of error between Commission accepted expenses and those proposed by the Applicant.

31. The Applicant's allocator produces a cost of $16,430.04 for the expense accounts "Rent Warehouse, Utilities Warehouse, and Warehouse Materials." The Commission's correlative allocation factors for "Rent Warehouse, Utilities Warehouse, and Warehouse Materials" produced a cost of $3,567.68. Dividing the

costs allocated by the Applicant ($16,430.04) into the costs found appropriate by the Commission ($3,567.68) reveals that the Commission's correlative allocators produced an expense level equal to 21.714% of the proposed expense. If we multiply the Commission's accepted expense level percentage by the Applicant's allocation percentage 31.741%, we obtain an allocation factor that gives consideration to the percent of error between the Commission's correlative factors and the single factor of the Applicant. This procedure develops an allocation factor of 6.892%. The Commission developed allocation percentage will be used for the remaining unassigned non-salary related indirect costs. The Commission purposely omitted warehouse salaries from this calculation since it is a cost that can be directly assigned.

VARIABLE EXPENSES - CAPACITY FACTOR

32. CCSC adjusted its 1991 variable operating expenses to reflect normalized operating levels. The Applicant calculated its capacity factor by comparing actual 1991 treated water to the four year average of treated water discharged from the plant. This comparison showed that to normalize variable operating expenses the Applicant needed to increase 1991 expenses by 1.667%.

33. MCC did not challenge the use of the capacity factor for normalizing. However, the MCC alleged that the Applicant had inappropriately applied the factor to two fixed expense items, tank painting expense and fees to the Montana Department of

Health and Environmental Sciences which are not capacity related costs. (Prefiled Testimony, Frank Buckley, Pages 6-7) CCSC's witness Matosich agreed with Mr. Buckley that the capacity factor had been improperly applied to these expense accounts. (Rebuttal Testimony, Tom Matosich, Page 6) This adjustment reduces the Applicant's proposed operating expenses by $448.

RAW WATER BILLING COSTS

34. MCC witness Mr. Buckley noted that the monthly amount payable to CCSC's water supplier for raw water in part depends upon the current month's short-term interest rate. Because interest rates in 1992 were lower than those in 1991, Mr. Buckley proposed an adjustment reducing the Applicant's proposed raw water billing costs by $14,555. Mr. Buckley calculated his reduction in raw water billing costs using a 3 month average of 1992 short-term interest rates. This average interest rate would represent a proxy for the monthly interest rates applied to this calculation for the period rates would be in effect. (Prefiled Testimony, Frank Buckley, Page 6)

35. On cross-examination Mr. Buckley stated that he would probably change his proposal to use a 3 month average of the short term interest rate to the most recent 1992 nine month average of the short-term rate. (Tr. Pg. 146) The original calculation supporting a reduction in raw water costs assumed a short-term interest rate of 4.273%. The nine month average put forth at the hearing would produce a short-term interest rate of

4.187% and result in a further reduction in the cost of raw water.

36. In response to data request MCC No. W1-43, CCSC's witness Matosich stated the following:

> The revenue requirement based on the CCSC rebuttal testimony recommendation of the average interest calculation for the years 1993 through 1995 is a decrease to the original filing of $7,287.50. The interest rates and calculation are attached. Also, to expand on this response, CCSC used the actual 1991 interest rates in the original filing as a normal expense. CCSC has offered the alternative interest rates of 1993 to 1995 projected average in rebuttal to MCC's proposal of March, April and May 1992 average, should it be decided to move away from 1991 actual.

The average short-term interest rate for 1991, per the Applicant's response to the above referenced data request, was 6.207%. The average short-term 1993 to 1995 interest rate presented by the Applicant and used to calculate raw water billing costs in its rebuttal testimony was 5.26%.

37. The issue of the appropriate short-term interest rate to use in calculating test year raw water billings is difficult to resolve because of subjectivity in estimating the prospective movement, upward or downward, of this financial indicator. The recent trend as evidenced by the 9 month average of short-term interest rates as testified to by the MCC's witness is downward. Some experts predict that the downward trend will continue in the near term while other experts predict that the trend will turn upward in the near term.

38. Because of the billing impacts associated with implementing rates, CCSC proposes to phase-in rates over a three

year period. Therefore, unless something unforeseen happens, the rates approved by the Commission in this Docket will remain in effect for three years. Since the rates will likely be in place for three years and the short-term interest rates are at a 30-year low, the Commission chooses to accept the Applicant's proposed short-term interest rate of 5.26%. This interest rate represents a middle ground between the Applicant's original proposal of 6.207% and the MCC proposal of 4.187%. The Commission finds that the Applicant's proposed expense for raw water billings in the test year should be reduced by $7,287.50.

OPERATING MARGIN

39. CCSC has proposed that it be allowed an operating margin. The Commission finds that CCSC has no investment at risk in providing service to its subscribers. Therefore, pursuant to generally accepted regulatory practices and prior Commission denials of an operating margin when there is no rate base, the Commission finds that CCSC should not be allowed a net income. The Commission finds that the Applicant's revenue request in this Docket should be reduced by $35,979.00.

40. Between now and the next rate filing with the Commission CCSC should meet with the staff of the PSC and MCC to discuss alternatives to a net income proposal.

REVENUE REQUIREMENT

41. Based on the preceding findings, the Commission finds that the Applicant is entitled to generate annual revenues of $510,495.70 from its Colstrip, Montana water utility.

42. Applicant's accepted test year proforma operating and maintenance expenses are summarized on the following schedules. Schedule 1 presents the direct costs associated with operating and maintaining the water utility and Schedule 2 presents the indirect costs.

COLSTRIP COMMUNITY SERVICES COMPANY
WATER UTILITY

SCHEDULE 2

(A) DESCRIPTION	(B) 1991 ACTUAL	(F) TEST YEAR	(G) PERCENTAGE FOR WATER RATES	(H) ACCEPTED BY COMMISSION
MECHANICS SHOP & WAREHOUSE ACCOUNT 60012				
01 SALARIES MECHANIC SHOP	$15,521.67	$16,701.31	19.580%	$3,270.12
04 SALARIES WAREHOUSE	$35,867.10	$38,593.00	0.000%	$0.00
07 SALARIES TOWN CREW VEHICLES	$7,531.00	$8,103.36	19.580%	$1,586.64
SUBTOTAL	$58,919.77	$63,397.67		$4,856.75
10 MECHANIC SHOP MATERIALS	$7,003.75	$7,003.75	6.892%	$482.70
12 WAREHOUSE MATERIALS	$25,683.05	$25,683.05	7.500%	$1,926.23
16 SUPPLIES MECHANICS SHOP	$1,752.93	$1,752.93	6.892%	$120.81
18 SUPPLIES WAREHOUSE	$705.56	$705.56	6.892%	$48.63
20 RENT MECHANICS SHOP	$10,852.27	$10,852.27	6.892%	$747.94
22 RENT WAREHOUSE	$15,365.46	$15,365.46	3.675%	$564.68
24 UTILITIES MECHANICS SHOP	$9,207.63	$9,207.63	6.892%	$634.59
26 UTILITIES WAREHOUSE	$10,714.31	$10,714.31	10.050%	$1,076.79
32 VEHICLE REPAIR EXPENSE TOWN CREW	$3,980.44	$3,980.44	6.892%	$274.33
34 TOWN CREW VEHICLE EXPENSE	$6,629.64	$6,629.64	6.892%	$456.91
WORK ORDER TOTAL	$150,814.81	$155,292.71		$11,190.36
INDIRECT COSTS ACCOUNT 60011				
01 SALARIES ADMINISTRATIVE	$105,086.87	$113,073.47	19.580%	$22,139.79
02 SALARIES OFFICE REPAIRS	$448.29	$482.36	19.580%	$94.45
03 LEGAL EXPENSES	$12,508.83	$12,508.83	6.892%	$862.11
04 SALARIES ACCTG, SEC, CLERICAL	$69,253.99	$74,517.29	19.580%	$14,590.49
05 SALARIES OFFICE VEHICLES	$1,529.75	$1,646.01	19.580%	$322.29
07 RENT EXPENSE OFFICE	$9,463.24	$9,463.24	6.892%	$652.21
08 COMPUTER EXPENSE	$16,107.38	$16,107.38	6.892%	$1,110.12
09 MAINT & REPAIR OFFICE	$2,479.23	$2,479.23	6.892%	$170.87
10 OFFICE SUPPLIES & EXPENSES	$43,386.96	$43,386.96	6.892%	$2,990.23
11 TRAVEL & LIVING	$2,190.39	$2,190.39	6.892%	$150.96
13 OUTSIDE SERVICES	$19,666.92	$19,666.92	6.892%	$1,355.44
14 VEHICLE REPAIR EXPENSE	$2,004.38	$2,004.38	6.892%	$138.14
15 OFFICE VEHICLE OPERATING EXPENSE	$461.68	$461.68	6.892%	$31.82
26 UTILITIES	$5,472.73	$5,472.73	6.892%	$377.18
30 SALARIES SICK PAY	$18,637.46	$20,053.91	19.580%	$3,926.56
31 SALARIES VACATION PAY	$67,064.19	$72,161.07	19.580%	$14,129.14
32 SALARIES HOLIDAY PAY	$34,011.96	$36,596.87	19.580%	$7,165.67
33 SALARIES MEETINGS & MISC	$12,127.07	$13,048.73	19.580%	$2,554.94
34 SALARIES WORKERS COMP PAY	$0.00	$0.00	19.580%	$0.00
35 WORKER'S COMP STATE FEE	$1,034.31	$1,034.31	19.580%	$202.52
WORK ORDER TOTAL	$422,935.63	$446,355.76		$72,964.91
TOTAL ALL WORK ORDERS	$1,103,067.29	$1,181,447.75		$510,495.70

COLSTRIP COMMUNITY SERVICES COMPANY
WATER UTILITY

SCHEDULE 1

(A) DESCRIPTION	(B) 1991 ACTUAL	(F) TEST YEAR	(G) PERCENTAGE FOR WATER RATES	(H) ACCEPTED BY COMMISSION
WATER TREATMENT ACCOUNT 60004				
01 SALARIES SUPERVISORY	$5,792.54	$6,232.77	100.00%	$6,232.77
04 SALARIES PLANT OPERATION	$100,969.57	$108,643.26	100.00%	$108,643.26
07 SALARIES WATER MAINS	$7,199.36	$7,746.51	100.00%	$7,746.51
08 SALARIES VEHICLE MAINTENANCE	$1,250.26	$1,345.28	100.00%	$1,345.28
SUBTOTAL	$115,211.73	$123,967.82		$123,967.82
10 SUPPLIES WATER PLANT	$52,540.87	$53,416.73	100.00%	$53,416.73
13 OUTSIDE SERVICES	$124,561.35	$149,428.97	100.00%	$142,596.49
16 EQUIPMENT/VEHICLE EXPENSES	$1,441.64	$6,284.80	100.00%	$6,284.80
19 MAINTENANCE & REPAIRS-PLANT & MAINS	$10,063.23	$10,063.23	100.00%	$10,063.23
25 TRAVEL & LIVING	$735.54	$735.54	100.00%	$735.54
28 UTILITIES	$80,141.06	$81,477.01	100.00%	$81,477.01
30 UTILITY RATE CASE	$13,698.95	$6,849.47	100.00%	$6,849.47
UNCOLLECTABLE ACCOUNTS	$0.00	$949.34	100.00%	$949.34
WORK ORDER TOTAL	$398,394.37	$433,172.90		$426,340.43

LEAKAGE AND EVAPORATION

43. During the hearing consumers asserted that based on the terms and conditions of the "Raw Water Transportation Agreement" consumers connected to CCSC's water system are charged for costs associated with leakage and evaporation from the Castle Rock Reservoir. The Commission does not find that CCSC's consumers are paying a portion of the variable expenses associated with transporting this water under the Agreement and raw water calculation.

44. CCSC's variable cost of raw water is, in part, based on the actual gallons of metered water received and distributed from the water treatment plant. The meter used to determine the monthly volumes of water received by CCSC is located between the reservoir and the water treatment facility, and therefore the volumes received by CCSC would not include leakage and evaporation.

METERING

45. At the hearing consumers commented on the need and benefits of having a fully metered water system. These consumers indicated that metering all connections would promote rate equity, provide a conservation incentive, promote efficient resource management and delay any potential need to expand plant capacities. The Commission agrees with all of the reasons given by consumers for having all fully metered system and supports metering programs for the same reasons.

46. CCSC in its testimony indicated that it was cognizant of the potential benefits of a fully metered water system and that it was evaluating a metering program. CCSC was just beginning its investigation of metering, however, and needed to resolve numerous issues before proceeding with the program. According to CCSC, some outstanding issues include the need to complete economic analysis to insure that the costs do not exceed the benefits; the need to find a funding source for the metering program; and the need to resolve any cost recovery equity issues. Further, CCSC indicated that it wanted to involve the County and CCSC subscribers in the decision to meter.

47. CCSC has cited valid outstanding issues which preclude a Commission determination at this time that CCSC should fully meter its water facility. The Commission, however, determines that CCSC shall meter all non-residential connections having a meter size of 1 inch or more. CCSC has a number of non-residential subscribers which may place high demands on the water system. These customers should be metered to insure that they are contributing their fair share to the costs of operating the utility.

48. Metering the non-residential connections on the system will also provide CCSC with the statistical consumption information to develop an equitable distribution of costs between residential and non-residential consumers in future rate filings. It will also provide information to more equitably distribute costs within the non-residential customer class. Metering these

connections will ensure that no cross-subsidization of customers is occurring.

49. The Commission finds that the Applicant should within six months of the service date of this order have all non-residential connections with a service line of 1 inch or greater metered.

COST-OF-SERVICE/RATE DESIGN

50. The "Consensus Citizens Committee" objected to CCSC's proposed cost-of-service and rate design. The committee representative testified that it was the opinion of the committee that CCSC's rate proposal placed an excessive cost burden on small users. The Committee presented an alternative cost-of-service and rate design for CCSC.

51. The Commission lauds the efforts of the committee in presenting an alternative cost-of-service/rate design proposal but finds that its proposal should be rejected. Under the committee's proposal, the cost-of-service/rate design does not segregate costs into "fixed" (costs that are not dependent on usage) and "capacity" (costs that vary with water usage). The committee's proposal assigns costs to customer connections based purely on capacity determined by the potential flows of a particular line size. The failure to segregate the costs into fixed and variable cost components skews the rate design, shifting a disproportionate share of the fixed cost obligation to the larger capacity customers.

52. In its cost-of-service information CCSC failed to include a calculation for lost an unaccounted for water volumes for its metered customers. In omitting this component of cost-of-service in calculating metered costs, CCSC shifts all cost responsibility for this component of service to the flat rate consumers. The bulk of CCSC's water subscribers receive service on an unmetered basis. There is no available information on the percentage of lost and unaccounted for water on the system. Therefore, the Commission must rely on its experience and knowledge of other water utility operations related to loss percentages in order to correct this omission. Water systems have a lost and unaccounted for percentage in the range of 20%. The Applicant is directed to recalculate its cost-of-service for metered customers and include the 20% loss factor in that calculation.

53. Except as otherwise provided in this order, the Commission accepts the Applicant's proposed cost-of-service and rate design.

RULES OF SERVICE

54. As part of its rate application CCSC included its proposed rules of service for the water utility operation. A review of those rules reveals that some conflicts exist between those filed by the Applicant and the Commission's "General Rules For Privately-Owned Water Utilities." CCSC has agreed to meet with staff of the Commission and MCC to resolve those conflicts.

CONCLUSIONS OF LAW

1. The Applicant, Colstrip Community Services Corporation, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over 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. Colstrip Community Services Corporation shall file rate schedules which produce an annual revenue of $510,495.70 for its Colstrip, Montana service area. The revenues shall be generated by implementing rates and charges to all customer classifications as provided herein.

2. The rates approved herein shall not become effective until approved by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 10th day of December, 1992, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DANNY OBERG, Chairman

WALLACE W. "WALLY" MERCER, Vice Chairman

TED C. MACY, Commissioner

ATTEST:

Kathlene M. Anderson
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.