

Service Date: January 29, 1979

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

\* \* \* \*

IN THE MATTER of the Application )  
of THE COMBINED HUNGRY HORSE WATER )  
COMPANY, INC. for authority to es- )  
tablish increased rates for water )  
service. )  
\_\_\_\_\_ )

DOCKET NO. 6562

ORDER NO. 4453a

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FINAL ORDER

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APPEARANCES

FOR THE APPLICANT:

MARSHALL MURRAY, Attorney at Law, 240 First Avenue West, Kalispell, Montana, 59901, appearing on behalf of the Applicant.

FOR THE PROTESTANT:

JOHN C. DOUBEK, Attorney at Law, 34 West Sixth Avenue Helena, Montana 59601, appearing on behalf of the Montana Consumer Counsel.

FOR THE COMMISSION:

ROBERT F. W. SMITH, Staff Attorney

BEFORE:

GEORGE TURMAN, Commissioner and Hearing Examiner

ORAL ARGUMENT BEFORE:

The Commission, having taken evidence, had oral argument, and being fully advised in the premises, makes the following findings, conclusions and order:

## FINDINGS OF FACT

### GENERAL

1. On December 27, 1977, the Combined Hungry Horse Water Company filed with this Commission its application for authority to increase rates for water service supplied residents of Hungry Horse, Montana. The proposed rate increases would generate \$26,337 of added yearly revenue. In addition, the utility sought approval of rates for customers not previously served.

2. Following legal notice, hearings were held in this Docket on April 20 and 21, 1978 in Hungry Horse. Mr. Hacker, president of the utility, and a number of public witnesses testified at the hearing. Rather than being closed in April, the hearing was continued to allow time for Applicant to respond to data requests from the Consumer Counsel and the Commission staff. By July 1978 the utility had responded to the requests.

3. Commissioner Turman having been the sole commissioner to hear the testimony in this matter issued Proposed Order No. 4453 with a service date of September 20, 1978. Both parties took exceptions to the order and oral argument was had before the full Commission on December 18, 1978.

### NEED FOR INCREASED REVENUES

4. The water rates currently in effect for Combined Hungry Horse Water were approved in 1948. According to the utility's application and testimony, these rates are no longer adequate to cover operation and maintenance expenses, the cost of Farmers Home Administration (FHA) loans and outlays for needed system improvements.

5. The testimony of those protesting the proposed increases suggested that the utility had not used past revenues to benefit ratepayers who supplied the funds. In particular, public witnesses complained that the expenditure of monies from the FHA loans had done little to upgrade the in-town water system: residents alleged that they were, nonetheless, being asked to shoulder the financial burden resulting from the loans.

6. Statements of financial condition submitted with the utility's application confirm its present inability to meet all expenses with revenues generated under current rate schedules. According to Exhibit 13, Combined Hungry Horse lost \$9,512.62 during the year ended May 31,

1977 on a cash basis. When accrual accounting was used to include depreciation expenses, the loss rose to \$16,186.66 for the same time period (exhibit 17). The largest expense item was interest, the majority of which was paid to the Farmers Home Administration.

7. With the exception of fiscal year 1973, the utility has experienced a net deficit every year since its founding:

		<u>Net Income (Deficit)</u>
Year Ending	5-31-77	\$(16,186.66)
	5-31-76	(10,724.55)
	5-31-75	( 6,531.36)
	5-31-74	( 7,742.67)
	5-31-73	583.81
	5-31-72	( 2,126.00)
	5-31-71	( 3,141.00)

Increasing operating expenses and interest payments have resulted in the expanding deficit.

8. Net operating deficits occurred in all but one of the years with net deficits:

		<u>Net Operating Income (Deficit)</u>
Year Ending	5-31-77	\$( 7,328.97)
	5-31-76	( 6,829.98)
	5-31-75	( 3,614.69)
	5-31-74	( 6,923.92)
	5-31-73	2,147.52
	5-31-72	( 777.00)
	5-31-71	204.00

9. The Combined Hungry Horse Water Company should be granted rate relief to cover the operating deficit which would otherwise be anticipated to occur. If fiscal year 1977 were not atypical, an operating deficit of \$7,328.97 can be expected.

10. In addition, the water company requires additional revenue to meet interest payments on its long-term debt. The utility has received loans from two sources: Hacker, its president, and the Farmers Home Administration. The personal loan from Hacker was used largely to cover operating expenses (see Exhibit 20). In contrast, proceeds from the FHA loan

were used for expansion and improvement of the system. Because the associated benefits are systemwide, the costs of the two loans should be borne by all ratepayers.

11. Continued operation of the Combined Hungry Horse Water Company requires a revenue increase of \$7,329 for the projected operating deficit, \$900 for interest on the 82 percent loan from Hacker and \$6,372 for payment of principal and interest on the FHA loan or a total of \$14,601.

#### QUALITY OF SERVICE

12. In the course of hearings at Hungry Horse, many citizens voiced dissatisfaction with the quality of service provided by the utility. Complaints concerned the quality of water supplied, low pressure and the recurring unavailability of water for period of time.

13. The Commission shares the residents' concern with quality of service. Consequently, a revenue increase beyond that determined a necessary minimum in Finding 10 is found appropriate to finance system improvements.

14. Through his letter of July 13, 1978, Marshall Murray, attorney for the Applicant, supplied a late-filed exhibit listing proposed capital improvements with the cost of each. Estimated cost for the nine projects was approximately \$70,000. To permit system improvements, a revenue increase of \$11,736 above that allowed in Finding 10 is found reasonable.

15. During each year, it is appropriate that the Combined Hungry Horse Water Company deposit at least \$11,736 in a fund to be used for improvements to the system. The utility should report semi-annually to this Commission:

- (a). annual additions to the improvements fund
- (b). the fund's cumulative balance
- (c). a list of projects to be undertaken with projected expenses and estimated completion dates for each
- (d). improvements in progress
- (e). completed projects with expenses actually incurred

RATE STRUCTURE

16. The rate increases proposed by the Applicant are found just and reasonable as a means to obtain the additional revenues allowed herein.

17. In its application, the water company requested approval of rates for businesses who had not previously been served by the utility. The proposed rates are proper.

CONCLUSIONS OF LAW

1. The Combined Hungry Horse Water Co., Inc. is a public utility supplying water to customers in the State of Montana.

2. This Commission has jurisdiction over the rates and charges for, and the conditions under which utility service is rendered in Montana and may order any reports it finds necessary for the proper performance of its duties.

3. The rates approved herein are just, reasonable and not unjustly discriminatory.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Combined Hungry Horse Water Co., Inc. shall file rate schedules designed to yield a revenue increase of \$26,337. The rates shall be those requested by the utility in its application and become effective upon Commission approval.

2. A minimum of \$11,736 shall be deposited annually by the Combined Hungry Horse Water Company in a fund to be used for system improvements.

3. IT IS FURTHER ORDERED that The Combined Hungry Horse Water Company shall report semi-annually to this Commission;

- (a). annual additions to the improvement fund
- (b). the fund's cumulative balance
- (c). a list of projects to be undertaken with projected expenses and estimated completion dates for each
- (d). improvements in progress

(e). completed projects with expenses actually incurred

4. The semi-annual reports mandated in the previous Order Paragraph shall be reviewed by the Commission to insure that reasonable progress is being made in the program of system improvements. In the absence of reasonable progress, the Commission may order the utility to show cause why the rate increases approved herein should not be suspended.

5. The rates proposed by the Applicant for service to previously unserved businesses are approved in their entirety.

6. A condition of the FmHA loans was that no dividends be distributed to shareholders until the loans were repaid. Nothing in this order is intended to contradict that condition.

7. All motions and objections not ruled upon at the hearing are denied.

DONE IN OPEN SESSION, at Helena, Montana 59601, on January 29, 1979 by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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Gordon E. Bollinger, Chairman

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Clyde T. Jarvis, Commissioner

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Thomas J. Schneider, Commissioner

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James R. Shea, Commissioner

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George Turman, Commissioner

ATTEST:

Madeline L. Cottrill  
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of the final decision in this matter. If no Motion For Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this Order. If a Motion For Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. The Montana Administrative Procedure Act, esp. Sec 82-4216, RCM 1947; and Commission Rules of Practice and Procedure, esp. 38-2.2(64)-P2750, ARM.