

SERVICE DATE: October 26, 1983

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

IN THE MATTER of the Application) UTILITY DIVISION
of RED GATE, Inc. To Increase Rates) DOCKET NO. 83.4.22
and Charges For Water Service in its) ORDER NO. 5023
(Woods Bay) Bigfork, Montana Service)
Area)

APPEARANCES

FOR THE APPLICANT:

Charles L. Hash, Attorney at Law, Hash, Jellison, O'Brien and
Bartlett, P.O. Box 1178, Kalispell, Montana 59901.

FOR THE COMMISSION:

Opal Winebrenner, Staff Attorney, 1227 11th Avenue, Helena,
Montana 59620

BEFORE:

Howard Ellis, Commissioner and Hearing Examiner

BACKGROUND

1. On April 6, 1983, Red Gate, Inc. (Applicant or Company)
filed an application with this Commission for authority to
increase rates and charges for water service to its
customers in its (Woods Bay) Bigfork, Montana service
area. The Applicant requested an average increase of
approximately \$1,600. The Applicant last increased rates
to consumers in its service area during 1979.
2. On August 9, 1983, pursuant to notice of public hearing, a
hearing was held in the Community Room, Flathead Bank of
Bigfork, Bigfork, Montana. The purpose of the public
hearing was to consider the merits of the Applicant's
proposed rate adjustment. At the close of the public

hearing, the Applicant waived its rights to a proposed order and stipulated to authorize the Commission to issue a final order in this Docket. Section 2-4-622, MCA.

ANALYSIS AND FINDINGS OF FACT

3. At the public hearing, the Applicant presented the testimony of:

Everett Slider, Certified Public Accountant
Bonnie Culbert, Corporate Secretary

These witnesses testified relative to: the financial condition of the utility, allocation of general corporate expenses to the various operating divisions, and proposed rate structure modifications.

4. Before the Commission could make a fully informed decision, regarding the need for increased rates, it was necessary to request the submission of "late filed exhibits." The following information was submitted subsequent to the close of the public hearing:

1. An explanation of expense items included under the heading "Licenses, Fees and Permits.
2. An explanation of expense items included under the heading "Maintenance" and why no expense was reflected in this account for the year 1981.
3. An explanation of how the company differentiates between "repair expense" and "maintenance expense" with an explanation of expense items included under the

heading "Repairs."

4. An explanation of how the "blanket" insurance policy's premium is allocated to the water utility.

5. The Applicant submitted a breakdown of the number of vacant lots in Grandview, Red Gate Vista and Red Gate, Inc. development, (the water utility service area) that would be subject to the proposed idle line charge.

6. The Applicant informed the Commission that the laundromat in its service area had a 1 1/2 inch service line.

5. Red Gate, Inc. is a "family owned" corporation apparently having four operating divisions, one being Red Gate Water. Therefore certain general expense items must be allocated to the various divisions to fairly represent each division's proportionate share of those general expenses. Based upon the testimony in this docket and the information contained in the late filed exhibits, the Commission finds that the Applicant has attempted to fairly allocate general expense items to the water utility.

FINANCIAL DATA

6. The Applicant submitted financial statements reflecting water utility revenue and expense for the last three years (1980, 1981, 1982).

7. The Applicant operates a water utility system that is

totally unmetered, with the exception of the laundromat which was metered in March, 1983. The system, therefore, experiences minimal fluctuation in revenue due to factors affecting consumer consumption patterns. In the area of operating expenses, the opposite is true as consumer consumption patterns will cause annual fluctuations in operating expense. Factors affecting consumer consumption patterns include, but are not limited to, the number of persons per household, temperature and precipitation.

In an effort to minimize the effect of consumer consumption factors on a utility's operating revenue and expense, it is the Commission's general policy to use at least a three year average to determine the adequacy of rates. Using this procedure, the Applicant's average revenue generation and operating expenses for the years 1980 through 1982 are as follows:

<u>Year</u>	<u>Revenue Generation</u>	<u>Operating Expenses</u>	<u>Loss</u>
1980	\$3,715	\$11,346	(\$7,631)
1981	3,779	10,051	(\$6,272)
1982	<u>4,998*</u>	<u>10,579</u>	<u>(\$5,581)</u>
Average	\$4,164	\$10,659	(\$6,495)

*Increase in revenue for the year 1982 results from an increase in the number of customers and \$726 in non-recurring revenue for installation of a water line.

The preceding table indicates that on an average basis, the Applicant is incurring an annual operating loss of \$6,495.

8. Based upon the preceding Finding of Fact, the Commission finds that the rates presently approved and in effect for the water utility are causing the Applicant to sustain operating losses and represents an obvious income

deficiency. The Commission further finds that the Applicant is therefore, entitled to increase rates and charges.

RATE STRUCTURE

9. In its application, the Applicant proposes to perpetuate an unmetered rate structure (monthly flat rate) for all customer classifications, with the exception of a "Commercial Metered Rate" for the Laundromat. The Applicant also proposes to continue the assessment of a "Residential Minimum Annual Rate" and to institute the assessment of an "Idle Line Charge" against vacant lots having water mains adjacent to the property.

10. No consumers connected to the Applicant's water system appeared at the public hearing to present objections to the Applicant's proposed rate structure. During cross-examination of Company witnesses, the Commission developed concerns relative to the amount of revenue that would be generated if the "Commercial Metered Rate" was implemented. Specifically, the Commission found a lack of clarity in defining which consumers would be responsible for paying a "Residential Minimum Annual Rate" or "Idle Line Charge" and when billing of the "Residential Minimum Annual Rate" and "Idle Line Charge" would occur.

11. Applicant, in exhibits submitted with its application, indicated that the proposed meter rate for the laundromat would generate annual revenues of \$420 on a estimated total annual consumption of 126,000 gallons. At the public hearing, witness Bonnie Culbert indicated that a meter had been installed at the laundromat during March, 1983. Ms. Culbert's consumption information for the laundromat indicated that the

laundromat consumed 19,800 gallons during the period March 24 to April 24, 1983 and consumer 67,700 gallons during the period June 24 to July 24, 1983. The consumption for the two month period totals 87,500 gallons which equals approximately 70% of the total consumption estimated by the Applicant for this connection ($87,500 \div 126,000 = 70\%$). This would indicate that the Applicant may have under estimated the consumption, and if this has occurred, then the Applicant would generate revenues above that indicated in the exhibits submitted with the application.

The Commission realizes that the consumption patterns of the laundromat will fluctuate due to the seasonal nature of its business, i.e. consumption will be high during the tourist season and lower during the off season. The Commission is, however, unwilling to establish a metered rate for this connection based upon the Applicant's, estimate in view of the actual consumptions provided at the hearing. The Commission finds that the Applicant, before implementing a metered rate for the laundromat should have at least one year's actual metered consumption and then an appropriate metered rate can be determined.

12. The Commission, based upon the preceding Finding of Fact, finds that the implementation of a "Commercial Metered Rate" should be denied. The Commission further finds that the Applicant should be allowed to implement a flat monthly rate of \$35 which will generate annual revenue of \$420, the amount proposed by the Applicant for this connection in its application.

13. The Applicant presently has in effect a "Residential Minimum Annual Rate" which it proposes to continue. The Commission supports, the continuation of this rate because

equity would dictate that year long customers should not carry the revenue burden for maintaining service availability for recreational dwellings or seasonal consumers. Testimony received during cross-examination indicates that the Applicant needs to clearly define which consumers would be responsible for payment of this minimum rate, and needs to establish a billing date.

The Applicant proposed a minimum annual rate of \$61 and indicated that consumers who do not anticipate receiving water service for a period in excess of 4 months a year should pay the minimum annual rate. The Applicant also proposes to establish a June 1 annual billing date for this charge.

The Commission finds that the Applicant's proposed definition of "Residential Minimum Annual Rate" consumers should be expanded to insure that the utility and the consumer can fully understand which consumers fall under this tariff provision. The Commission finds the Applicant should define consumers who will be responsible for payment of a "Residential Minimum Annual Rate" as follows:

Residential Minimum Annual Rate - This schedule is based on continuing service at each service location. Those consumers receiving water service for a period of 4 months or less shall be obligated to pay the applicable residential Minimum Annual Rate as set forth in this tariff.

Disconnect and reconnect transactions shall not operate to relieve the same customer from payment of this minimum annual rate.

The Commission accepts the Applicant's proposal to issue billings for "Residential Minimum Annual Rate" consumers on June 1 of each year.

14. In its application, the Company has requested that the Commission authorize the implementation of an "Idle Line Charge" of \$25 annually. This charge would be assessed against all vacant lots within the water utility's service area having water mains adjacent to the property.

The same rationale used for the implementation of a minimum annual residential charge can be used here. Those consumers presently connected to the system and receiving service should not be obligated to carry the revenue burden of fixed costs and capital costs for maintaining service availability to undeveloped lots. The Commission finds that the Applicant should be authorized to implement an "Idle Line Charge" and assess said charge against all lots within its service area that have water mains adjacent to the property, but no service connection.

15. The Commission finds the Applicant's proposed billing date of June 1 of each year for the "Idle Line Charge" acceptable.

16. The Commission finds that the rate structure as modified in this order is reasonable, and the Commission finds the rates, as contained in the application, should be approved.

MISCELLANEOUS

17. The Company, in its application, requested that it be allowed to implement a \$150 meter deposit when the utility chooses to require a meter be installed on a commercial connection. In its May 17, 1983, data response the Applicant outlined the rationale behind its desire to implement a meter

deposit, and the Commission will not reiterate those reasons here,

The Commission has always held that the installation of capital items is the responsibility of the public utility, and a water meter falls under the category of a capital item, as it has a relatively long useful life. Further the Commission's "General Rules For Privately Owned Water Utilities" require the utility to provide and install meters at its own expense. Absent convincing and compelling reasons, the Commission finds it inadvisable to contradict its own general rules. The Commission finds therefore, that the Applicant should not be allowed to implement a meter deposit as requested in the application.

18. The Applicant at the present time operates the water utility in accordance with the service rules contained in this Commission's "General Rules for Privately Owned Water Utilities." The Applicant has indicated a desire to implement "special service rules" which would reflect local operating conditions but, as yet the Applicant has not submitted "special service rules" for Commission review and approval. The Commission would caution the Applicant that no "special rules" may be implemented without Commission approval.

19. During the hearing the subject of East Shore Construction tapping into Red Gate's water main was discussed. It was agreed by all parties present at the hearing that the Company would submit, to the Commission, a copy of an agreement that was to be entered into between Red Gate, Inc. and East Shore Construction resolving the conflict between the two parties. This agreement was received by the Commission on September 6, 1983.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapter 3, MCA.
2. The Commission afforded all interested parties notice and an opportunity to participate in this proceeding. Section 69-3-303, MCA.
3. The rates approved herein are reasonable and just. Title 69, Chapter 3, MCA.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Red Gate, Inc. shall file tariff schedules consistent with the Findings of Fact for Docket No. 83.4.22 contained herein.
2. Red Gate Inc. is denied authorization to implement a \$150 meter deposit on commercial connections.
2. The rates approved herein shall be effective for services rendered on and after October 24, 1983.
3. A full, true and correct copy of this Order will be sent to the Applicant and other interested parties.

DONE IN OPEN SESSION this 24th day of October, 1983 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

CLYDE JARVIS, Commissioner

HOWARD L. ELLIS, Commissioner

JOHN B. DRISCOLL, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 23.2.4806, ARM.