

Service Date: February 24, 1992

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

IN THE MATTER of the Application)
of the LaCasa Grande Water Company) UTILITY DIVISION
for Authority to Increase Rates) DOCKET NO. 91.2.3
and Charges for Water Service to) ORDER NO. 5610
Customers Within its Service Area.)

INTERIM RATE ORDER

FINDINGS OF FACT

1. On February 26, 1991, LaCasa Grande Water Company (Applicant or LWC) filed an application with this Commission for authority to increase water rates for customers in its service area on a permanent basis by approximately 28.8%, which constitutes an annual revenue increase of approximately \$8,088.
2. Concurrent with this filing for a permanent increase in rates LWC filed an application for an interim increase in rates of 28.8%, equaling a revenue increase of approximately \$8,088 or 100% of the proposed permanent increase.
3. In the February 1991 application LWC requested that the Commission pre-approve proposed capital improvements to the facilities and proposed financing of the improvements. The staff by letter dated March 14, 1991, informed LWC that the Commission was constrained by statute from taking the actions proposed in the rate filing. Because of the statutory constraints staff informed LWC that it would recommend to the Commission that ruling on interim rate relief should be reserved, pending completion of the proposed improvements.
4. On January 17, 1992, LWC renewed its request for interim

rate relief and filed an affidavit in support of its petition. In the affidavit LWC itemizes costs totaling \$8,754 allegedly incurred for capital maintenance to the system. Further, the Applicant indicates that it will borrow \$9,000 at 13% interest, with a repayment period of 36 months. The petition requests that the Commission authorize an annual revenue increase of approximately \$3,640 to service the three-year, \$9,000 debt obligation.

5. The Commission insists on a clear showing that the petitioning utility is suffering an obvious income deficiency before the Commission will authorize interim rate relief. Generally, the Commission would find that reference to the adjustments approved in the most recent LWC general rate order would provide an appropriate means to measure financial performance. For reasons explained in this order the Commission will deviate from that standard of measuring financial performance.

6. The Commission issued Order No. 5527 in Docket No. 90.1.4, on December 18, 1990. This order denied LWC's request for increased rates. In the order the Commission found, based on the testimony received during the proceeding, that LWC's service and facilities were inadequate. In discussion on page 9 of the order, the Commission stated the following:

The Applicant needs to have an engineering assessment of its water system completed. As related in this order, in the Commission's view, LWC's customers are not receiving adequate service. The only way that utility management is going to be able to determine necessary corrective actions to remedy service deficiencies is by have (sic) an engineering study completed that quantifies the current facility deficiencies and provides reasonable corrective actions. The Commission is

willing to work with the Applicant in having such a review completed and is willing to accept an application from LWC for a rate increase to recover reasonable engineering costs associated with the study. Further, once it becomes clear that management is committed to taking necessary corrective actions to discharge its public utility obligation the Commission will aid the utility by authorizing rate relief (if the application is properly supported).

7. To the Commission's knowledge, as of this date, the Applicant has not complied with the Commission recommendation that an engineering assessment be completed. The preceding quote clearly indicates that the Commission had no intention of authorizing any further increase in rates for LWC until such time as the owners and/or managers of the company started acting responsibly and were discharging the public utility obligation. The application now pending before the Commission, however, presents the issue of authorizing an increase in rates to fund capital maintenance that permits the Applicant to continue providing a level of service that is inadequate. A decision to deny the proposed increase could potentially result in no service being provided LWC's subscribers. The Commission chooses to authorize an increase, rather than risk a total loss of service to LWC's subscribers. This increase, however, will be conditional upon the utility taking affirmative action to correct its provision of inadequate service.

8. LWC, in its request for interim rate relief, has proposed that it execute a loan in the amount of \$9,000 to be repaid over a three-year period. After reviewing the capital maintenance schedule it is the Commission's belief that the useful life of the capital items is greater than the three-year debt retirement period proposed by LWC. Therefore the

Commission finds, that for interim purposes, a more appropriate time frame for cost recovery is five years. For purposes of calculating interim rates the Applicant will use a five-year amortization of the debt obligation.

9. The Applicant failed to provide the Commission with a copy of the executed debt instrument as support for its interim rate increase. Before the Commission will approve increased rates for LWC a completed signed copy of the instrument should be provided.

10. The Commission's opinion that LWC is providing inadequate service to its subscribers is unchanged and an engineering assessment identifying system deficiencies and corrective actions still needs to be completed. It is estimated that the cost of an assessment will not exceed \$7,500, such cost being recoverable through rates. The Commission's grant of interim rate relief in this Docket is contingent upon the Applicant, through competitive bidding, engaging the services of a qualified engineer to do a system assessment and have the assessment completed by June 1, 1992. Upon completion of the engineering assessment the Applicant will provide copies to the Commission.

11. If the Applicant files to implement the interim rate increase authorized herein it will be assumed by the Commission that LWC commits to having the engineering assessment done. Failure to complete the assessment by June 1, 1992, will result in the Commission revoking the interim increase authorized in this order.

12. The Applicant shall generate the increased annual revenue authorized in this order by increasing all rates and charges on a uniform basis.

CONCLUSIONS OF LAW

1. LaCasa Grande Water Company is a public utility furnishing water service to customers in its East Helena, Montana, service area, and is subject to the supervision, regulation and control of this Commission pursuant to Section 693-102, MCA.

2. Section 69-3-304, MCA, provides, in part, that the Commission may in its discretion approve temporary increases pending a hearing or final decision.

3. The Commission concludes that the grant of an interim rate increase is just, reasonable and within the discretion granted by Section 69-3-304, MCA.

4. The increase granted herein is subject to rebate with interest at the rate of 10.0% per annum should the final order in this Docket determine that a lesser increase is warranted. 69-3-304, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. LaCasa Grande Water Company is hereby granted authority to implement, on an interim basis, increased rates for its East Helena, Montana, customers designed to generate additional annual revenues sufficient to service debt as provided herein.

2. LaCasa Grande Water Company is to file revised tariff schedules spreading the increased revenues as a uniform increase to all services.

3. The interim relief granted in this order is to be effective upon Commission approval of the revised tariff schedules.

DONE IN OPEN SESSION THIS 18th day of February, 1992, by a vote of 5- 0 at Helena, Montana.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Chairman

DANNY OBERG, Vice Chairman

BOB ANDERSON, Commissioner

JOHN B. DRISCOLL, Commissioner

WALLACE "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.