

Service Date: December 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 Lone Mountain Springs for)	UTILITY DIVISION
Authority to Increase Rates and)	DOCKET NO. 92.9.55
Charges for Water Service to its)	ORDER NO. 5660a
Big Sky, Montana Customers.)	

INTERIM RATE ORDER

FINDINGS OF FACT

1. On September 30, 1992, Lone Mountain Springs (Applicant or LMS) filed an application with this Commission for authority to permanently increase water rates for its Big Sky, Montana customers by approximately 250% which constitutes an annual revenue increase of approximately \$283,825.

2. Concurrent with this filing for a permanent increase in rates, LMS filed an application for interim rate relief. LMS requested an interim increase in rates of 250%, equaling a revenue increase of approximately \$283,825 or 100% of the proposed permanent increase.

3. On October 29, 1992, the Commission, having considered the testimony and exhibits submitted by the Applicant in support of its interim rate application issued Order No. 5660 granting LMS interim relief in the amount of \$75,180.

4. On November 9, 1992, LMS filed a request for reconsideration by the Commission of its Order No. 5660 or in the alternative schedule a public hearing on the matter. The Applicant alleged in this request that it had demonstrated by

documentation the need for the full amount requested.

5. General regulatory practice provides that a regulated public utility is entitled to earn a return on its investment in plant dedicated to providing service. The Commission in Order No. 5660 found that it "should be conservative in granting interim rate relief, given the current favorable capital markets, the Applicant's unsubstantiated rate base value and the significant increase in proforma operation and maintenance expense." The Commission disallowed a return allowance in the previous order because of the time elapsed between rate reviews and the unsubstantiated rate base value. The Commission's position on allowing the Applicant to earn a return on rate base (plant-in-service) has now changed.

6. During the week of November 16 to 20, 1992, staff from the Commission and the Montana Consumer Counsel's office conducted an on-site examination of LMS's books and records. One of the reasons for conducting this examination was to determine the validity of the plant values presented by the Applicant in its rate Application. This examination determined that for regulatory purposes the Applicant had overstated the value of its plant-in-service.

7. During the examination the staff determined that LMS had included in its plant values assets that were not used and useful in Providing service to consumers. Including this plant in the regulatory valuation is contrary to statute and for rate making purposes will be excluded. The Applicant also included in its plant values assets that had been contributed by others. Including the value of these assets is contrary to generally accepted regulatory practice and therefore, will be excluded from consideration.

8. Making the previous adjustments to the Applicant's filed original cost depreciated plant values results in the Applicant having a plant value of \$807,850.21. For interim rate purposes this is the plant value on which the Commission will allow a return to be earned.

9. In the filing the Applicant proposed that the Commission accept a capital structure of approximately 60% equity and 40% debt. The capital structure of the Applicant, because it is equity rich, will be a contested issue in this Docket. For interim purposes the Commission will use a capital structure that has been found acceptable for other water utility operations, 50% debt and 50% equity.

10. The Applicant has requested that the Commission authorize a return on equity of 12.0%. While the current capital markets make this return appear high the Commission will accept it for interim purposes.

11. Allowing the Applicant to earn a return on the original cost depreciated value of plant-in-service will increase the Applicant's already authorized interim rate increase by \$48,741. This increase is in addition to, not in lieu of, the interim increase authorized in Order No. 5660. The revenue increase authorized herein is calculated as follows $.50 \times .12 \times 807,850 = \$48,751$.

12. The Commission finds that LMS is entitled to interim additional interim rate relief of \$48,751 on an annual basis. (See Finding of Fact 11)

13. The Applicant has requested that any interim relief granted by the Commission be generated by increasing the rate for all services using a uniform percentage increase. The

Commission finds that Applicant's request for a uniform percentage increase applicable to all services is reasonable.

CONCLUSIONS OF LAW

1. The Lone Mountain Springs is a public utility furnishing water service to customers in the Big Sky, Montana area. As such, it is subject to the supervision, regulation and control of this Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

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

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

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Lone Mountain Springs is hereby granted authority to implement on an interim basis increased rates for its Big Sky, Montana customers, designed to generate additional annual revenues in the amount of \$48,751.

2. This increase is in addition to the increase authorized by the Commission in Order No. 5660.

3. Lone Mountain Springs shall file revised tariff schedules spreading the increased revenues as a uniform percentage

increase to all services.

4. The increase granted herein is subject to rebate should the final order in this Docket determine that a lesser increase is warranted. Such rebate would include interest at 12.0% per annum.

5. The interim relief granted in this Order is to be effective for services rendered on and after November 1, 1992.

DONE IN OPEN SESSION at Helena, Montana this 21st day of December, 1992 by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DANNY OBERG, Chairman

WALLACE W. WALLY MERCER, Vice-Chairman

BOB ANDERSON, Commissioner

JOHN B. DRISCOLL, Commissioner

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.