

Service Date: May 26, 2005

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)	UTILITY DIVISION
MT ASSOCIATES, LLC, for Authority)	DOCKET NO. 2004.5.74
To Establish Initial Rates and Charges for)	ORDER NO. 6573b
Water Services)	

FINAL ORDER

Background

1. MT Associates LLC (MTA), formed on October 27, 2003, operates a water and sewer utility for Skyview Subdivision under interim rates that became effective on June 1, 2004. According to its application, MTA presently serves 105 customers and anticipates 120 customers at full build-out of Skyview Phases I - IV. M & W Investments plans on submitting an application to Lewis and Clark County to develop another subdivision called Northwest Major that will have between 40 and 80 additional homes. These will be added to the water system in the future.

2. On September 20, 2002, M & W Investments submitted an application for authority to establish initial interim rates for water and sewer service to the Skyview Subdivision, Helena, MT.

3. That Docket (D2002.8.102) was closed on January 28, 2003. The application was withdrawn because Skyview Water Users Association (Skyview) indicated that it was considering purchasing the water company. Skyview operated the water company until the filing of this docket. The sale of the water company to Skyview did not occur and on November 8, 2004, Skyview dissolved the water district.

4. On May 19, 2004, MTA applied for initial rates and requested interim rates. MTA stated that it was the successor to several companies, including the developer of Skyview subdivision in Lewis and Clark County, Montana, and that it began providing water services to properties in the subdivision on June 1, 2004. MTA proposed charging

residential and commercial customers a flat rate of \$69.76 per month for water services and impose certain ancillary charges associated with connections, reconnections, disconnections, delinquencies, and collections.

5. In its application, MTA stated that it expected Skyview to unanimously endorse this filing with the Commission, and that it has committed that the new water and sewer utility rates will not increase for three years, unless some significant unforeseen expense occurred and that assuming normal operating conditions, no rate increase should be necessary. MTA also stated that as utility operations become routine and there is less need for resolving complex legal and engineering issues, the utility's need for those services will substantially decline. MTA also stated that the depreciation of the assets of the utility will further tend to drive rates down assuming no substantial capital additions beyond those that are currently contemplated.

6. On June 1, 2004, the Commission granted pre-notice interim rates and charges as requested by MTA.

7. On June 15, 2004, Montana Consumer Counsel (MCC) intervened in the Docket and was the sole intervenor. MCC did not file any testimony and did not oppose the proposed rate levels.

8. On April 14, 2005, a public hearing was held at Jim Darcy School, 990 West Lincoln Road, Helena, MT. At the hearing there were three customers of MTA in attendance, 2 specific questions were asked and those were satisfactorily answered.

9. In its filing, MTA requested a total rate base of \$278,427, consisting of utility plant of \$265,125, unamortized rate case expense of \$7,000 and working cash of \$6,302.

10. MTA proposed adjusting the total rate base by \$17,304 for accumulated depreciation and \$2,677 for deferred taxes. Utility Plant for MTA consisted of a reservoir with an estimated original cost of \$200,000 and a 25 year expected life and 3 pumping units with an original cost of \$65,125 and a 7 year life. The valuation of the utility plant was based on the original cost of the plant to M and W Investments, a separate company owned by Larry Marshall, the owner of MTA. The utility plant was transferred to MTA.

11. The annual depreciation for the 3 pumping units was \$9,304, and the depreciation of the reservoir was \$8,000 for a proposed total annual depreciation of

\$17,304. MTA adjusted the rate base \$17,304 for depreciation on a straight line basis for a net Utility Plant Account of \$247,821. The rate base was also reduced by the estimated deferred income tax of \$2,677.

12. MTA requested operating revenues of \$93,736 based on Operating and Maintenance Expenses (O & M) of \$50,048, annual depreciation of \$17,304, non-income related taxes of \$366 and an operating income of \$26,018. The operating income provides MTA with a requested Return on Rate Base of 10.067%. The return based on a net rate base of \$258,446 is similar to the Commission approved rate of return in the Fairmont Hot Springs Resort, Docket D2003.10.152, according to testimony provided by MTA witness, John Goroski.

13. The O & M expenses of \$50,048 included \$30,000 for a system operator, \$8,557 for utilities, \$1,645 for water sampling, \$1,485 for insurance, \$611 for maintenance, \$590 for supplies, \$960 for professional services, \$2,700 for DEQ ground discharge permits and \$3,500 amortization of rate case expense.

14. MTA proposed adjusting its revenue request by \$14,000 for hookup fees for 28 customers at \$500 per customer. Revenues after hookup fees would be \$79,736. It used the 2004 average customer count of 95.25 customers to base its monthly charge of \$69.76 on. Though the \$14,000 revenue is expected for only one year, MTA contemplates that revenue increases resulting from growth in the subdivision will offset the loss of hookup fee revenue.

Findings of Fact

15. PSC recommended that the utility plant should be valued at the amount transferred from a related entity rather than at original cost that was shown on the related entity. MTA concurred with the PSC proposed adjustments to the rate base.

16. PSC recommended a utility plant original cost to MTA of \$235,074 consisting of \$196,000 for the reservoir and water pump valuation of \$39,074. By transferring the assets at book value of the related entity rather than as original cost to the related entity, the need for the deferred taxes adjustment was eliminated. The utility plant original cost to MTA will be \$235,074 instead of the originally filed \$265,125. The reservoir was transferred at a value of \$196,000 instead of the originally filed \$200,000 and the water

pumps were transferred at \$39,074 rather than the original proposed of \$65,125. The useful lives of the plant equipment were adjusted to reflect the reduction in useful life of the plant for the year that the plant was placed in service under a related entity. Those adjustments have an impact on accumulated depreciation and depreciation expenses.

17. MTA provided updated schedules during the technical hearing reflecting the adjustments recommended by the PSC and readjusted its estimate of customer hook up fees to \$10,500, a decrease from the original \$14,000 and using the adjustment as customer paid in rate base.

18. The adjustments to utility plant, deferred tax, working cash, and customer paid in capital equals a rate base of \$237,876. The write-down of net investment transfer avoided significant disputes on "original cost" and provides a clean basis for ongoing PSC review.

19. MTA may find it useful to maintain an ongoing monthly spreadsheet of metered usage by customer and address as well as at system level to ensure ability to analyze and design rate structure in the next rate case, and the Commission recommends that it does so, if it has the capability.

20. MTA is committed to keeping the flat rates less than \$70 per month for 3 years beginning June 1, 2004, the approval date for the interim rates. MTA has demonstrated adequate support to justify the rates of \$69.76 it has collecting under the interim order.

21. Based on the flat rate of \$69.76 per month, and the number of customers it is projecting, MTA will not receive its requested rate of return of 10.067 based on a theoretical equity structure of 45% debt, 55% equity. This is acceptable to MTA.

Conclusions of Law

22. MTA provides public water service within the state of Montana, and as such is a "public utility" within the meaning of § 69-3-101, MCA.

23. The Montana Public Service Commission properly exercises jurisdiction over MTA's rates and charges pursuant to Title 69, Chapter 3, MCA.

Order

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

24. MTA implements rates of \$69.76 per month
25. MTA's requested special terms and conditions are approved
26. MTA must file tariffs in compliance with this order.
27. Because there is no change in the rates between the interim and the final approved rates, no adjustment is necessary for over or under-collection of tariffs.
28. The tariffs, special terms and conditions are effect for service on or after June 1, 2005.

DONE IN OPEN SESSION at Helena, Montana on this 24th day of May, 2005 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

Greg Jergeson, Chairman

Brad Molnar, Vice Chairman

Doug Mood, Commissioner

Robert H. Raney, Commissioner

Thomas J. Schneider, Commissioner

ATTEST:

Connie Jones
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 ARM 38.2.4806.