

PUBLIC SERVICE COMMISSION STATE OF MONTANA



Travis Kavulla, Chairman
Gail Gutsche, Vice Chair
Bill Gallagher, Commissioner
Brad Molnar, Commissioner
John Vincent, Commissioner

1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601
Voice: 406.444.6199
Fax #: 406.444.7618
<http://psc.mt.gov>
E-Mail: psc_webmaster@mt.gov

MEMORANDUM

April 17, 2012

To: Robert A. Nelson
Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
P.O. Box 201703
Helena, Montana 59620-201703

From: Leroy Beeby, Rate Analyst
Montana Public Service Commission

RE: PSC data requests in Docket No. D2011.4.34 – AquaFlo, LLC

Enclosed please find data requests of the Montana Public Service Commission to the Montana Consumer Counsel, numbered PSC-029 through PSC-041, in the above-referenced docket. When responding, please begin each new numbered response on a separate page and identify the responding witness. If you have any questions regarding these data requests, please contact me at 444-6188.

Enclosure

cc: service list

Service Date: April 17, 2012

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

IN THE MATTER OF the APPLICATION of) REGULATORY DIVISION
AQUAFLO, LLC for Authority to Permanently)
Increase Rates and Charges and Amend Tariff) DOCKET NO. D2011.4.34
Rules and Regulations for Water and Sewer)
Service to its Helena, Montana, Customers)

**PUBLIC SERVICE COMMISSION DATA REQUESTS
PSC-029 THROUGH PSC-041 TO
THE MONTANA CONSUMER COUNSEL**

PSC-029

Regarding: Return On Equity (ROE)
Witness: Schulz

MCC has testified in the past that a utility that has decoupled revenues is less risky than a company that has volumetric charges. (See Direct Testimony of John Wilson, Page 25 of 36 in Docket D2009.9.129 recommending a 1 to 2 percent reduction in ROE.)

Considering the above testimony, please explain why AquaFlo, moving away from almost complete revenue certainty and as you state “a reverse decoupling,” is now less risky.

PSC-030

Regarding: ROE
Witness: Schulz

You state that AquaFlo is gaining the possibility of earning more than its authorized rate of return if water use rises above test year levels.

- a. Given the above, would not AquaFlo also gain the possibility of earning less than its authorized rate of return if water use was below test year levels? Why or why not?
- b. Does the variability and volatility of consumption based revenues increase the risk of a company? Why or why not?

PSC-031

Regarding: ROE
Witness: Schulz

You state that the greater risk burden lies with consumers because of the existence of the excess usage fee which acts as an inclining block rate thus accelerating the cost to consumers as they reach higher levels of consumption.

- a. Do you believe that the normal usage customers will be affected by the excess usage fee on a regular basis? Why or why not?
- b. What is the percentage risk exposure for a normal usage customer to be affected by the excess usage fee? Please provide all supporting calculations.
- c. In a volumetric charge, doesn't the consumer have a better opportunity to affect the expense incurred by the consumer? Why or why not?

PSC-032

Regarding: Usage volumes
Witness: Schulz

What in your estimation of the decrease in volumes from the prior year was due to the cooler temperatures and higher levels of rainfall that occurred in 2010 vs. the price signal sent by having a volumetric cost? Please explain.

PSC-033

Regarding: Rate Case Expense
Witness: Schulz

- a. When you examined the information supplied by AquaFlo in its response to PSC-026, did you include legal fees from Gallagher and Associates that pertained to the general rate case? Why or why not?
- b. Conversely, did you exclude out of legal expenses the expenses associated with rate case expense? Why or why not?

PSC-034

Regarding: Rate Case Expense in Rate Base
Witness: Schulz

You state that the utility must hire an attorney and regulatory consultant in order to apply for new rates with the Commission and that is a necessary expense of doing business as a regulated utility. You go on to state that those professionals are hired to specifically represent the interests of the utility and not any other party.

- a. Are the professionals used by the company, hired to determine from the company's point of view, just and reasonable rates? Does this differ from the role of the MCC in the converse? Please explain.
- b. When a regulated entity incurs costs associated with hiring the professionals, and requests recapturing those costs, are those costs considered a necessary and ordinary business expense? Please explain.
- c. If this is a necessary business expense and occurs in the test year, why is it not allowed to be recaptured 100% in the general rate case? Please explain.
- d. Please explain why the company should not be allowed a return on the expense if the expense is allowed to be recaptured over a period of greater than one year.
- e. Given all other things being equal, doesn't the incurrence of rate case expense decrease the amount of equity in a company? Why or why not?

PSC-035

Regarding: Rate Case Expense Handling (Pg 8, lines 23-30, Pg 9, lines 1-5)

Witness: Schulz

- a. Would it be preferable to have rate case expense adjusted to actual at the conclusion of the general rate case, to ensure that the company does not receive more or less than its cost of the general rate case? Why or why not?
- b. If this expense is collected over time, and is financed by the company, why shouldn't it be capitalized and the company allowed to earn a return on that asset that is created and being forced to their regulatory balance sheet by the regulatory process, especially in the context that rate case expense exceeds the original estimate?
- c. Doesn't not allowing a return on that asset amount to confiscatory ratemaking? Please explain.

PSC-036

Regarding: Rate case expense as a tracker

Witness: Schulz

- a. Should not a company be allowed recovery of prudently incurred expenses? Why or why not?
- b. Would not a tracker allow no more or no less than those prudently incurred expenses? Please explain.
- c. Please explain why this would be detrimental to other regulated utilities or ratepayers.

PSC-037

Regarding: Traditional approach instead of rate case surcharge
Witness: Schulz

Please explain the Commission's traditional approach to rate case expense.

PSC-038

Regarding: Rate case expense amortization
Witness: Schulz

- a. Please identify each docket, your original recommendation, if your position changed in response to rebuttal testimony, what it was changed to, and if a contested case, what the final accepted amortization period was for rate case amortization since you became a rate analyst for the MCC.
- b. Please identify each docket in contested cases that were not stipulated to in the past 10 years where the Commission has selected an amortization period for rate case expense different than a 3 year period.

PSC-039

Regarding: Organizational structure
Witness: Schulz

- a. Please provide your basis and support that AquaFlo LLC elected to be treated as a C Corp solely for income tax purposes.
- b. Is it your position that the only reason to become a C Corp is to allow a company to become publicly traded? Please explain.
- c. Do businesses change organizational structures as they grow, i.e., change from a sole proprietorship to a partnership or LLC or Corporation? Please explain.
- d. Is it your position that if a company chooses an other than pass through entity, and has the option of a pass through entity, that its request for income tax should be disallowed, regardless of the reasoning for the election? Please explain.

PSC-040

Regarding: Accounting Hourly Rate
Witness: Schulz

- a. What would you recommend for an hourly rate for accounting work performed in this business? Please explain.
- b. How many hours would you recommend be reimbursed for the accounting work performed in this business? Please explain.

PSC-041

Regarding: Working Cash

Witness: Schulz

- a. Please provide references to all dockets in the last 10 years before the PSC where adjustments to working cash for property tax lag were suggested by the MCC, and also the dockets where those adjustments were accepted by the Commission.
- b. Please provide references to all dockets in the last 10 years before the PSC where adjustments to working cash for MCC and PSC tax lag were suggested by the MCC and also those dockets where the proposed adjustments were accepted by the Commission.