

Service Date: September 11, 1998

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)	UTILITY DIVISION
of the Mountain Water Company for)	
Authority to Increase Rates and Charges)	DOCKET NO. D98.5.104
for Water Service to its Missoula Division)	ORDER NO. 6069b

INTERIM RATE ORDER

FINDINGS OF FACT

1. On May 11, 1998, the Montana Public Service Commission (Commission) received an application from Mountain Water Company (Mountain Water) for authority to increase rates and charges for water service in its Missoula Division serving Missoula, Montana. Mountain Water computed its revenue requirement for test year 1997 to be \$10,124,011, compared with revenues at present rates of \$8,518,339. The total requested percent increase is for \$1,605,672 in annual revenues, or an 18.86 percent increase.

2. Concurrent with this filing for a permanent increase in rates, Mountain Water filed an application for interim rate relief. Mountain Water requested an interim increase in rates of 16.76 percent, equaling a revenue increase of \$1,428,086. The driving force of the request was \$6.72 million in capital improvements, including incorporation into the distribution system of Mountain Water's two stand-alone systems at Momont and East Missoula. Other investments included the costs of looping, replacement and installation of new mains to improve or correct water quality, water flows, leakage and redundancy of flow for domestic and fire flows.

3. The interim rate request included a significant increase in booked expenses of the utility and additional adjustments. Among these adjustments are increases in insurance expenses, capital improvements and related expenses, main office expenses and power cost increases attributed to a Montana Power rate increase. Recovery of these amounts is not decided finally in this Order for interim relief.

4. In considering a request for an interim rate increase, the Commission is guided by generally established principles of utility regulation. Pursuant to ARM 38.5.506, the Commission normalizes and annualizes test year booked financial information. Using the methodology and rate of return on equity from the order in the last general rate case, the Commission then makes adjustments to the test year amounts. The Commission, in its discretion, may waive these rules (ARM 38.5.508).

5. During June and July of 1998, staff of the Commission and the Montana Consumer Counsel (MCC) conducted an audit of the books and records of Mountain Water and its parent company, Park Water Company. Upon completion of that audit, Mountain Water filed, on August 10, 1998, an amended interim rate request of 10.62 percent, for an annual revenue increase of \$910,920, to be implemented by an increase of 11.04 percent applied to the present rates for flat rate and metered customers. This request was \$517,166 less than the original interim rate increase request, due to corrected calculations of present revenues, a lower rate of return, and a true-up in insurance and benefits.

6. Mountain Water filed a second amended interim request on August 19, 1998, proposing an interim increase of 9.99 percent with a revenue increase of \$857,386. The second revised interim proposal is \$53,534 less than the first revised interim, or \$570,700 lower than the original request. These additional reductions were achieved through a purchase power adjustment for flat rate sprinkling, a change in workers compensation rates and a reduction due to savings in travel expense. Mountain Water requested that the interim apply only to the flat rate and metered customers, and not to the Public and Private Fire Protection rates. The original application increased the rates for Public and Private Protection rates 8.15 percent and 6.59 percent, respectively. Mountain Water proposed implementing the second revised interim increase of 9.99 percent by applying an increase of 10.39 percent to flat rate and metered customers' present rates.

7. For interim purposes, the Applicant requested that the Commission authorize an overall rate of return of 9.65 percent, recognizing Mountain Water's most recent cost of debt capital of 8.92 percent and a cost of equity of 10.25 percent.

8. In applying the interim rate relief criteria of ARM 38.5.506 to the amended request, the adjustments to Mountain Water operations for the test year adjusted produced an

overall rate of return of 6.99 percent. The following schedule demonstrates the comparison of 9.66 percent with the overall rate of return of 6.99 percent allowed for interim purposes.

SCHEDULE

	<u>At Present Rates</u>	<u>At Proposed Rates</u>
Revenues	\$8,578,419	\$9,435,805
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Dollar Increase		857,386
Percentage Increase		9.99%
O&M Expense	5,294,021	5,297,810
Depreciation & Amort.	864,278	864,278
Taxes Other Than Income	659,471	662,292
Income Taxes	386,197	713,363
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Total Deductions	7,203,967	7,537,743
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Operating Income	<u>\$1,374,452</u>	<u>\$1,898,062</u>
Rate Base	<u>\$19,664,957</u>	<u>\$19,664,957</u>
Return on Rate Base	6.99%	9.66%

9. The Commission finds that the difference between what Mountain Water earns and what it is entitled the opportunity to earn constitutes an income deficiency. Deferring rate relief pending a final order may adversely affect the utility's financial condition. Further, under current ratemaking standards, the utility may be entitled to rate relief at the time a final order is issued in this proceeding. The Commission finds that Mountain Water is entitled to interim rate relief of \$857,386 on an annual basis.

10. The Applicant has requested that any interim relief granted by the Commission be generated by increasing the rate using a uniform percentage increase for all services, except public and private fire protection customers and qualified low income discount customers, which will not receive an increase at this time. Customers who have already paid for sprinkling for 1998 will not receive an increase this season. To achieve the requested revenue for interim

relief, Applicant proposes a 10.39 percent increase to all flat rate and metered customers present rates. The Commission finds that this request is reasonable.

CONCLUSIONS OF LAW

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

2. Section 69-3-304, MCA, provides that the Commission may 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 § 69-3-304, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Mountain Water is hereby granted authority to implement on an interim basis increased rates for its Missoula, Montana customers, designed to generate additional annual revenues in the amount of \$857,386.

2. Mountain Water shall file revised tariff schedules, spreading the increased revenues as a uniform percentage increase to all services, except public and private fire protection customers, low income discount customers and customers that have already paid for the 1998 sprinkling season.

3. The increase granted is subject to rebate if the Commission determines that a lesser increase is warranted. This rebate would include interest at 12.0 percent per annum.

4. The interim relief granted in this Order is to be effective for services rendered on and after the service date of this Order.

DONE AND DATED this 9th day of September, 1998, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)