

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

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IN THE MATTER of the Petition of the) REGULATORY DIVISION
Montana Consumer Council to Amend)
ARM 38.5.2527 and 38.5.2528) DOCKET NO. N2017.9.76
)

**COMMENTS AND RESPONSE TO THE PETITION OF THE MONTANA
CONSUMER COUNCIL TO AMEND ARM 38.5.2527 AND 38.5.2528**

In a petition submitted by the Montana Consumer Counsel (MCC) dated September 25, 2017, the MCC asks the Public Service Commission (PSC) to repeal the Standard Rate Rules. This petition should be denied because it does not fairly balance the long-term interests of small water utility companies and the customers they serve.

In spite of the fact that the MCC routinely employs outside consultants and rate analysts, its petition is strangely silent as to the actual costs involved in owning and operating a small public water utility.

While the costs of building, owning and operating a small public water utility will vary from company to company, the initial cost of building any water system is staggering in and of itself. As an example, the construction cost of the Circle H Water System near Missoula was reportedly over \$2,300,000. In addition to this initial cost, an operator must plan and provide for the day when an unexpected repair or other necessary expenditure to the system is required. Components wear out and obviously the operator will be required to pay for all replacements, repairs and associated labor costs for these components as the system ages.

These costs, which are inherent for all small water systems, are not difficult to establish. The analysis begins with a consideration of the average service life of a water system's major components. The following table, provided by the National Association of Regulatory Service Commissioners, clearly shows that some of these components wear out in as little as 10 years:

Item	Average Service Life (Years)
Wells	30
Storage Tanks	50
Pumps	10
Transmission & Distribution Mains	50
Services	30
Hydrants	50

Next, the analysis shifts to the cost of the major components. For demonstrative purposes, here are the reported costs for the Circle H Water System:

Water					
1	Well	2	EA	\$ 20,000.00	\$ 40,000
2	12" DIP Water Main w/Fittings	6,383	LF	\$ 85.00	\$ 542,555
3	8" DIP Water Main w/ Fittings	5,139	LF	\$ 62.00	\$ 318,618
4	6" Water Main w/Fittings	452	LF	\$ 58.00	\$ 26,216
5	Fire Hydrant Assembly	5	EA	\$ 5,500.00	\$ 27,500
6	Booster Pump Building and Piping	1	LS	\$ 50,000.00	\$ 50,000
7	Booster Pump Assembly	1	LS	\$ 30,000.00	\$ 30,000
8	Booster Pump Electrical and Mechanical	1	LS	\$ 25,000.00	\$ 25,000
9	Air Relief Valve Stations	2	EA	\$ 6,000.00	\$ 12,000
10	Storage Tank	500,000	GAL	\$ 2.50	\$ 1,250,000
Subtotal					\$ 2,321,889

Dividing the cost of each major component by its average service life yields a yearly cost for the operator to operate and maintain a system. In the example given here, that total yearly cost computes to \$62,382.00, or \$5198.50 per month.

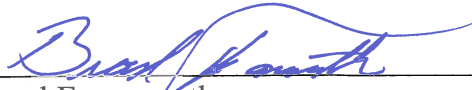
The cost analysis should also include the cost of complying with DEQs requirements to conduct a series of nitrate-related tests every three years on all water systems. The cost of these tests is approximately \$1500.00, or \$41.67 per month.

Dividing this monthly cost of \$5240.17 by the Standard Rate of \$50.00 reveals that Circle H would have to serve 105 users to break even. Yet in reality, like most if not all small water companies, it serves far fewer people. In Circle H's case, that number is 38 users and therefore, Circle H should actually be charging users \$137.90 per month to break even,

a **176% rate increase** for the consumer. And again, this rate increase does not even take into account the enormous start-up costs that any water system requires. If anything, the PSC should consider amending Montana Administrative Rule 38.5.2528 to provide for an increase in its standard rates.

In view of the information noted above, it is obvious that the MCC's request is unjust and unreasonable and its petition is without merit. It is undisputable that a private water utility should continue to have the option to request a standard rate tariff simply because the Standard Rate is more than justified by the costs inherent in operating any small water system. For these reasons, the Public Service Commission should deny MCC's petition.

Respectfully submitted this 18 day of October, 2017.



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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Comments and Response to the Petition of the Montana Consumer Counsel has been served upon the following persons by first class mail this 18 day of October, 2017:

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