Service Date: December 26, 1980

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

* * *

IN THE MATTER of the Application	) UTILITY DIVISION
of the CITY OF COLUMBIA FALLS To	) DOCKET NO. 80.6.44
Increase Sewer Rates.	) ORDER NO. 4675b

APPEARANCES

FOR THE APPLICANT:
James A. Cumming, City Attorney, 17 - 6th Street West, Columbia Falls, Montana 59912

FOR THE INTERVENORS:
James C. Paine, Montana Consumer Counsel, 34 West 6th Avenue, Helena, Montana 59601

FOR THE COMMISSION:
Calvin Simshaw, Staff Attorney, 1227 - 11th Avenue, Helena, Montana 59620

BEFORE:
George Turman, Commissioner

FINDINGS OF FACT

1. On June 25, 1980, the City of Columbia Falls (Applicant) filed an application for authority to increase sewer rates, on a permanent basis, by approximately 163%, equaling a revenue increase BY approximately $110,900.

2. Concurrent with the filing of the permanent application for increased rates, the City filed an application for an interim increase in rates of approximately 163%, equaling a revenue increase of approximately $110,900 or 100% of the proposed permanent increase.

3. On July 29, 1980, Interim Order No. 4675 was issued in Docket

No. 80.6.44. This order granted the applicant an increase in sewer rates effective for sewer service rendered on and after August 1, 1980.

4. On August 8, 1980, the Mayor of Columbia Falls submitted a request for reconsideration of Interim Order No. 4675 requesting the Commission to authorize interim rates of 110% of the monthly water rates as opposed to the 98% of the monthly water rates granted in Order No. 4675.

5. On August 20, 1980, Interim Order No. 4675a was issued in Docket No. 80.6.44. This order granted the City's request for reconsideration and allowed the City to assess a sewer charge equal to 110% of the monthly water charge for services rendered on and after August 18, 1980.

6. On September 11, 1980, at 10:00 A.M. pursuant to notice of public hearing, a public hearing was held in the City Council Chambers, City Hall, Columbia Falls, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer rate adjustments.

7. The City introduced one exhibit and presented the testimony of the following five witnesses:

T. R. Flynn, Consultant
John Floden, Public Works Director
Paul Stokes, Consulting Engineer
Charleen Lyngstad, City Clerk
Mark Norby, Water Commissioner

8. The only public witness to testify in opposition to the proposed rate increase was Roger Elliott. It was stipulated by all parties that the testimony relating to multiple use rates from Docket No. 80.8.62 would be incorporated into this docket.

9. The parties have stipulated to a final order being rendered in this docket.

10. The City is presently involved with the Environmental Protection Agency in the 201 Construction Grants Program which is a federal funding program to upgrade and expand existing wastewater treatment facilities. One of the requirements which must be met to qualify for the federal funding is that the Applicant must adopt an equitable system of user charges that causes each recipient of wastewater treatment services to pay his proportionate share of the costs of operation and maintenance.

11. At present the City's sewer rates are predicated on a percentage relationship to the water charges. The City's current water rate structure is a declining block rate structure which means that as the usage increases the rate charged decreases, this rate structure does not satisfy the EPA requirement outlined in Finding of Fact No. 10. In view of the fact that the City's current sewer rates do not meet the EPA requirements the Commission finds it appropriate for the City to modify its rate structure and accepts the City's proposal of assessing charges based on a constant cost per 1,000 gallons of water used and a minimum charge computed utilizing 4,000 gallons times the constant cost.

12. The City's exhibit relating to operation and maintenance expense indicates that for the fiscal year 1981 it anticipates a total expense of $102,717. This expense was challenged by Mr. Elliott during his testimony and he was allowed one week within which to file additional testimony. Examination of the operating statements submitted by the City and Mr. Elliott indicate that the only difference between the two are the expenses associated with salary and wage expense.

13. Examination of the operating statement submitted by Mr. Elliott indicates that he has omitted the salary of the Assistant Water and Sewer Cashier since she was laid off and the City will no longer incur that expense and included the Public Works Director's salary in his labor calculation for the department, instead of reflecting it as a separate item.

The Commission concurs with Mr. Elliott's omission of the Assistant Water and Sewer Cashier's salary and overhead expense but finds that the City having greater knowledge of its utility operations has more fairly represented the actual usage and salary expense it will incur. The Commission finds that the City's operation and maintenance for test year should be decreased by $6,908 to reflect the decrease in expense resulting from the lay-off of the cashier and accepts test year operation and maintenance expense of $95,809 calculated as follows:

Test Year O & M		$102,717
Less Salary	$5,169	
Less Overhead @21.5%	$1,111	
Less Estimated Increase	$ 628	$ 6,908
APPROVED TEST YEAR O & M		$95,809

14. The City has proposed capital expenditures totaling $30,000 for the test year. The capital expenditures were broken down into dollar amounts for two categories; $25,000 for modification of Lift Stations and $5,000 for Other Capital Expenditures. The item, Other Capital Expenditures, would cover the cost of additions and replacements which occur on a more or less regular basis. Examples of such costs include distribution, main replacements, routine improvements and replacement of vehicles and equipment. The $25,000 requested for the Modification of Lift Stations is due to the continual breakdown of the lift stations which results in conditions detrimental to public health. The Commission finds, due to possible public health problems, the continual breakdown of the stations and the necessity for revenues to make recurring capita1 improvements to maintain an adequate system, that the capital

expenditures as proposed are reasonable and accepts the capital expenditures of $30,000.

15. The City at the present time is incurring interest expense on registered warrants it has outstanding for financing of a deficit and a planning note. The City has requested revenues to cover the amount of interest that will accrue annually on these warrants. The Commission finds it reasonable to grant the City revenues to cover the interest on these warrants and therefore accepts the City's request for $4,600.

16. The City has requested that the Commission grant the City revenues in the amount of $38,044 so that the City may recover prior years deficits. Pursuant to the July 11, 1979 ruling of Judge Meloy in Cause No. 4256S, this Commission must disallow the inclusion of the past deficit amount claimed by the City of $38,044.

17. The City in its application has requested that the Commission allow the City revenues in the amount of $36,000 so that it can fund a depreciation account. Testimony from City witnesses indicated that the City had been mandated by the Department of Community Affairs of the State of Montana (DCA) to fund said depreciation account.

18. The Commission is of the opinion that for ratemaking purposes it is inappropriate to allow a municipality sufficient revenues to cover both depreciation and debt service, because by allowing revenues for both accounts it would cause the current ratepayer to finance the cost of the present plant and the future plant. Debt is usually utilized by a municipality for purposes of making major capital improvements and this cost is reflected in the rates; by also allowing concurrent depreciation for replacement of the plant constructed by that debt issue the current ratepayer is made to

pay twice for the same asset.

19. The Commission has contacted DCA and has determined that DCA is requiring municipalities to fund depreciation accounts. The Commission at the present time is in the process of investigating the conflict between the DCA requirement described above and the Commission's ratemaking analysis described above.

20. Consistent with Findings of Fact Nos. 18 and 19 the Commission finds that at the present time it must disallow the request for any revenues to fund a depreciation account, but if upon completion of its examination of the conflict it is determined that it is appropriate, the Commission will allow the request. So that the Commission may render a final order in this matter the Commission will authorize a two step increase in this docket contingent upon its determination of funding depreciation.

21. The bond reserve for SID f23 in the amount of $3,575 was an uncontested item and therefore is accepted by the Commission.

22. The following are the accepted test year expenditures for Columbia Falls Sewer Department:

Operation & Maintenance Expense	$95,809
Capital Expenditures	30,000
Interest Expense	4,600
Bond Reserve SID #93	$ 3,575
Total Accepted Test Year Expenditures	$133,984

23. The City has requested that the Commission allow the implementation of multiple user rate for all consumers residing in multiple dwelling units that are served through a common meter. The City proposes to go from a system of charging a multiple dwelling unit with a single meter as a single customer, to a system of charging each unit a minimum plus the rate for a

percentage of the total water used, depending on the number of units.

24. Examination of the "Detail of Water Users -- Period Ending June 30, 1978", which was the document utilized in this Docket for purposes of determining the revenue effect of the proposed rate changes, indicates that the revenue projections made utilizing this document considered the multiple users water consumption on a total basis as a single customer and did not give consideration to the increase in revenue that would result from the increased minimum charge assessments that would occur with the shift from the higher consumption level as a single customer to a per unit charge basis with a lower consumption level.

25. The City's witness, Lyngstad, testified that if the Commission determined in Docket No. 80.8.62 it was appropriate to discontinue the assessment of a multiple user charge for water consumers that the Commission should not allow the implementation of a multiple user charge for sewer service. The witness reasoned that if it were allowed on one service but not the other it would create additional expense to the city because the billings or these services are on computer and if one were different it would have to be hand billed.

26. Considering Findings of Fact Nos. 24 and 25 the Commission finds that the City should not be allowed to implement a multiple user charge for sewer service.

27. The Commission finds that the City should be allowed to file immediately rates that will generate annual revenues in the amount of $133,984.

28. Should the Commission later find that it would be proper to allow a funded depreciation account in order to reconcile current

differences in treatment by DCA and the Commission, the City should be allowed to file rates that will generate annual revenues in the amount of $169,984. The Commission will notify the City of the outcome of its examination by letter and the City will be informed in that letter what revenue level shall be in effect.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the subject matter and parties in this proceeding.

2. The Commission afforded all interested parties notice and opportunity to participate in these proceedings.

3. the rates approved herein are reasonable and just.

ORDER

NOW THEREFORE, at a session of the Public Service Commission, Department of Public Service Regulation of the State of Montana, held in its offices at 1227 - 11th Avenue, Helena, Montana, on the 19th day of December, 1980, there being present a quorum of Commissioners, there came regularly before the Commission for final action the matters and things in Docket No. 80.6.44, and the Commission being fully advised in the premises;

IT IS ORDERED by the Commission that the City of Columbia Falls shall submit a schedule of rates and charges which will produce a total annual revenue of $133,984. This figure is calculated as shown in Finding of Fact No. 22.

IT IS FURTHER ORDERED that upon notification by this Commission the City of Columbia Falls may submit a schedule of rates and charges which will produce a total annual revenue of $169,984. This figure is as shown in Finding of Fact No. 28.

IT IS FURTHER ORDERED that the City of Columbia Falls file revised tariff schedules implementing the increased rates as outlined in Findings of Fact Nos. 11 and 26.

IT IS FURTHER ORDERED that the rates as ordered herein shall become effective upon Commission approval.

IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first class mail to the Applicant and all other appearances herein.

THE FOREGOING ORDER was adopted by the Department of Public Service Regulation of the State of Montana, Public Service Commission, IN OPEN SESSION at Helena, Montana on this 19th day of December, 1980, by 5-0 vote.

BY ORDER OF THE MONTM1A PUBLIC SERVICE COMMISSION.

_____
Gordon E; Bollinger, Chairman

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Clyde Jarvis Commissioner

_____
Thomas J. Schneider, Commissioner

_____
James R. Shea Commissioner

_____
George Turman, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary
(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion For Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion

For Reconsideration is filed, a Commission-order is final for purposes of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.