READING FILE.

Service Date: October 23, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

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IN THE MATTER of the Application of the Town of Ekalaka to Increase Sewer Rates.	DOCKET NO. 81.4.59 PROPOSED ORDER NO. 4854

APPEARANCES

FOR THE APPLICANT:

Alyce Kuehn, Town Clerk, Town of Ekalaka, Ekalaka, Montana, 59324

FOR THE INTERVENORS:

Frank Buckley, Rate Analyst, Montana Consumer Counsel
34 West Sixth Avenue, Helena, Montana, 59620

FOR THE COMMISSION:

Robert Nelson, Staff Attorney, 1227-11th Avenue, Helena, Montana, 59620

BEFORE:

Thomas J. Schneider, Commissioner and Hearing Examiner

The Hearing Examiner, having taken evidence and being fully advised in the premises, makes the following Proposed Findings of Fact, Conclusions of Law, and Order:

FINDINGS OF FACT

1. On April 14, 1981, the Town of Ekalaka (Applicant or Town) filed an application for authority to increase sewer rates resulting in an annual revenue increase of approximately $8,200.

2. On August 13, 1981, pursuant to notice of public hearing,

a hearing was held in the Carter County Courthouse, Ekalaka, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer rate adjustments.

3. At the public hearing, the Applicant presented the following witnesses:

Alyce Kuehn, Town Clerk
Vernon Silvas, Sewer Superintendent

These witnesses testified relative to the increases experienced in operation and maintenance expense, the need for proposed capital expenditures and the estimated cost of the proposed capital expenditures.

4. The Montana Consumer Counsel presented the testimony of one public witness. Gladys Taylor, a subscriber on the Town sewer system, expressed concern regarding the magnitude of the proposed rate increase and the effect that the proposed increase would have on fixed income subscribers. Ms. Taylor did state that she would not be opposed to a reasonable increase in rates.

5. During the four year period of 1978 through 1981, the sewer utility has generated average annual revenues of approximately $13,200, fluctuating from a high of $13,382 in 1981 to a low of $13,109 in 1978. During this same period, the sewer utility experienced average annual expenditures of approximately $14,500, ranging from a high of $19,748 in 1981 to a low of $10,112 in 1980.

6. It can be concluded from the information in Finding of Fact No. 5 that the revenues of the sewer utility remain

relatively constant and the expenditures of the sewer utility are subject to wide variation. Given the fact that the sewer utility's total expenditures are subject to significant variation due to capital improvement projects, the Commission will confine its analysis of a need for additional revenues to the current budget year, fiscal year 1982.

7. The Town has proposed expenditures for the sewer utility in FY 82 of $20,400. The following is a breakdown of that proposal:

Operation and Maintenance Expense	$ 9,800
Capital Improvements	8,500
Depreciation	2,100
Total	$20,400

8. Examination of the workpapers submitted by the Town relative to its determination of "Operation and Maintenance Expense" indicates the Town has allocated $200 per month of the Town Clerk's salary to the water utility and none to the sewer utility. Consistent with its findings in Proposed Order No. 4850, Application of the Town of Ekalaka to Increase Water Rates, the Commission finds it inappropriate to charge 100% of the clerk's salary, attributable to utility operations, to the water utility, since work time is devoted to both the sewer and water utilities. The Commission further finds that the Town should allocate the utility portion of the Clerk's salary on the same basis as the water and sewer Superintendent's: 9 months to water and 3 months to sewer. This results in the Commission recognizing an operation and maintenance expense for the sewer

utility of $10,400.

9. The Town has proposed that the Commission allow $10,600 annually for capital improvements. The testimony in this docket indicates that the funds for capital improvements would be utilized as follows:

A. $7,500 to complete the extension of sewer facilities within the Town limits as mandated by the Montana Department of Health and Environmental Sciences;

B. $1,000 for improvements to the pumping system and treatment plant;

C. $2,100 for a depreciation reserve that would be utilized to make unspecified improvements to the current sewer system.

Item A concerns capital improvements to the current system that are of a non-recurring nature; therefore, it would be imprudent for the Commission to grant recurring revenues to fund this item. The funds requested in Items B and C are of a recurring nature and would be utilized to maintain the integrity of the current sewer system; however, granting funds to make unspecified capital improvements would be bad regulatory policy.

10. The funds requested in Item A (Finding of Fact No. 9) are to complete installation of the sewer collection and transmission facilities within the Town limits.* In August, 1978, the Town was directed by the DHES to complete this project as soon as possible. The Town has funded the construction costs for this project from current revenues of the sewer utility. While

*The total cost of this project was approximately $33,000 of which $18,000 has already been paid.

the Commission generally believes that the major capital improvements to utility systems should be funded through the issuance of long-term debt, the Commission, in this instance, a

through current revenues, given the present environment of high interest rates.

11. The testimony in this docket supports the Town's position that a need exists for $7,500 annually to complete construction of the transmission and collection system. The record indicates that the sewer utility has already incurred construction costs of $7,500 which have not been billed, and that the estimated cost of completing the project will be another $7,500. The Commission finds it appropriate to approve funds in the amount of $15,000 to complete the project. These funds should be generated over a period of two years ($7,500 per year) after which time rates could be reduced to reflect a $7,500 reduction in the Town's revenue need.

12. The funds requested in Items B and C (Finding of Fact No. 9) totalling $3,100 per year are both intended for the same purpose: that is to provide funds for capital improvements to the current system. The Town has not designated any specific capital improvements other than the $1,000 for pumping and treatment plant improvements which are needed to adequately maintain the integrity of the existing system. However, the Commission recognizes that recurring capital improvements are necessary to insure adequate service to consumers. The Commission finds that an allowance of $2,000 per year is generally

supported by the testimony and is within acceptable limits to fund recurring annual capital improvements. No additional allowance for accumulation of a depreciation reserve is warranted.

13. Based upon Findings of Fact 8, 11, and 12, the Commission finds that for a period of two years after issuance of the final order in this docket, the Town will have a revenue need of $19,900. For subsequent years, the Town's revenue need will be $12,400. These revenue levels are reasonable and just.

14. During the course of the hearing it was determined that the Town does not classify gas stations as commercial customers. It is not known if other customers of a commercial nature are classified as residential, but the Commission finds that the Town should define Residential customers as those receiving sewer service solely for domestic purposes.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this Docket (MCA 69-3-101, 69-3-302).

2. The Commission afforded all interested persons proper notice of these proceedings (MCA 2-4-601).

3. The Commission is charged to ensure that all rates approved herein are reasonable and just (MCA 69-3-201).

ORDER

NOW, THEREFORE, IT IS ORDERED that the Town of Ekalaka file

tariffs consistent with Finding of Fact No. 13 to yield $19,900 annual revenues for the two year period following issuance of the final order in this Docket, and to yield $12,400 for all subsequent years.

IT IS FURTHER ORDERED that the revenue increase granted herein shall be generated by increasing the residential rate by a flat percentage after the Town has determined the revenue contribution of the commercial customer, whose sewer charge is equal to the water charge.

IT IS FURTHER ORDERED that the Town file with the Commission a three (3) year improvement program plan, and a semi-annual report detailing progress on the proposed improvements.

IT IS FURTHER ORDERED, pursuant to Section 2-4-621, MCA, that this is a proposed order only. Any party has the opportunity to file exceptions to this initial decision. Exceptions and supporting briefs must be filed with the Commission within twenty (20) days from the date of service of this proposed order. Briefs opposing exceptions may be filed within ten (10) days thereafter. Any party may petition the Commission for oral argument within the time allowed for briefs.

DONE at Helena, Montana, this day of October, 1981.

Thomas J. Schneider

THOMAS J. SCHNEIDER, Commissioner and Hearing Examiner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)