Service Date May 7, 1976

BEFORE THE UTILITY DIVISION

DEPARTMENT OF PUBLIC SERVICE REGULATIONS
MONTANA PUBLIC SERVICE COMMISSION

In Re CITY OF CHINOOK,)	DOCKET NO. 6376
City Water Department.)	ORDER NO. 4253

FINDINGS OF FACT, CONCLUSIONS OF LAW, EVIDENTIARY RULINGS AND ORDER

A public hearing on the City of Chinook's Petition before the Montana Public Service Commission for an Order authorizing an increase in water rates was held on Thursday, April 1, 1976, in the City Council Chambers, Chinook, Blaine County, Montana. Mr. John Warner, Hearing Officer, presided over and conducted the hearing. The City of Chinook was represented by Counsel, Stuart C. MacKenzie; the Montana Consumer Counsel, Geoffrey L. Brazier, appeared on behalf of interested consumers. Interested parties, residents of the City of Chinook, were also present and offered testimony.

Upon reading of the transcript and due consideration of the evidence submitted and testimony given, the Commission makes the following:

FINDINGS OF FACT

1. By Ordinance No. 340 of the City of Chinook, passed February 25, 1976, the Mayor and City Attorney were directed to apply to the Montana Public Service Commission for the proposed increase in water rates of the City of Chinook. Such application was duly made and reasonable and proper notice of the public

hearing on such proposed increase was given by publication on three separate occasions in the Chinook Opinion, a newspaper of general circulation in the City of Chinook.

2. The water treatment plant owned by the City of Chinook was constructed in 1913. Some major improvements were installed in 1930. Since the latter date there have been no major improvements, even though some replacement equipment has been purchased. The plant is old and antiquated. The settling basins and filtering system have deteriorated to the point where they are incapable of producing an acceptable water supply. The valves, pumps and other machinery in the plant are old, inefficient, and in need of constant repair. Parts are either unavailable or difficult to obtain.

3. The present water treatment plant of the City of Chinook is incapable of operating in accordance with standards adopted by the Department of Health and Environmental Sciences of the State of Montana and the Environmental Protection Agency of the United States Government. The plant is presently operating under a permit which will expire at midnight, December 31, 1976. The present water treatment plant cannot be altered so as to comply with the appropriate standards.

4. Reasonable attempts have been made to utilize portions of the existing water treatment plant, however, it has been found economically impossible to do so. The uncontradicted evidence shows that the present water treatment plant in the City of Chinook requires replacement in its entirety.

5. The City of Chinook hired Wenzel and Company, Architects and Engineers, who have prepared complete and detailed plans and specifications for a proposed new treatment plant for the City. Wenzel and Company has recommended to the City Council, which recommendation has been accepted, that a new water treatment plant with a total capacity of 2,000,000 gallons per day, consisting of two identical 1,000,000 gallon per day units, be constructed. On a maximum usage day the present water usage in the City of Chinook is in excess of 1.3 million gallons. There is no present capacity to meet an emergency. The proposed plant would be adequate to meet the present water needs in the City of Chinook and allow a reasonable amount of increased capacity for growth.

6. The proposed plant consists of two identical one million gallon units. It is regular and accepted engineering practice to construct dual unit water treatment plants for reasons of safety and continuous service should one of the units malfunction. Uncontradicted evidence was presented that the cost of constructing a one and one-half million gallon per day water treatment plant would equal 94% of the cost of constructing a two million gallon per day plant.

7. The uncontradicted evidence shows that the two million gallon per day plant proposed by Wenzel and Company and the Chinook City Council is justified, reasonable and necessary to provide for the present and immediate future needs of the City of Chinook.

8. The City of Chinook has solicited and received bids for construction of the proposed new water treatment plant. The low bid is in the amount of $750,000 submitted by Sletten Construction Company of Great Falls, Montana. Said bid has been accepted by the City Council. The obligation period on the bid expires on April 15, 1976. It is anticipated that a short extension may be negotiated by the City of Chinook. Said bid for construction of the proposed water treatment plant, based on the specifications and plans submitted by Wenzel and Company, is reasonable.

9. The $750,000 bid for construction of the proposed water treatment plant has been approved by the Environmental Development Agency of the United States, which agency has unconditionally agreed to grant to the City of Chinook 60% of the construction cost, or $450,000. Said grant has been accepted by the City of Chinook, however, it is subject to change should the proposed plans and specifications be changed, or the amount of the construction cost be altered.

10. The City of Chinook proposes to sell revenue bonds in the amount of $300,000, payable over a period of twenty years, to secure the necessary additional funds to construct the proposed new water treatment plant. To service the debt of $300,000, approximately $30,000 per year is required if the bonds have a 7½% interest rate. In addition to the revenue required to service the debt it is necessary, in order to make the bonds marketable, that an additional amount be raised as "coverage" or surplus funds, to be

deposited in an interest bearing account to protect the bond holders. Testimony was introduced showing that the additional amount, or coverage, required in order to make the bonds marketable would be between 25% and 50% of the annual amount required to service the debt. Although there are many variables the testimony was that the higher coverage was the safer the investment would be and this would have a tendency to lower the interest rate at which the bonds could be sold. The rate proposed by the City of Chinook can reasonably be anticipated to cover maintenance and operation expenses, procurement of water, and service the debt with a coverage factor of 1.42. The uncontradicted evidence was that this amount of coverage was reasonable under the circumstances that are present in this case.

11. The City of Chinook obtains its water from the Milk River, which is a stream controlled by an agency of the United States Government. Chinook in effect buys its water. The rate which the City of Chinook pays for water can be anticipated to increase $5,000 per year or more in the immediate future.

12. The revenue being produced by the present water rate schedule in effect in the City of Chinook is inadequate to support the present plant. Maintenance and operation expenses have increased dramatically and continue to rise.

13. The rate schedule proposed by the City of Chinook can reasonably be expected to cover the necessary increases for water purchase, maintenance, operation, and in addition service a bond issue of $300,000 over a period of twenty years.

14. Any interested person may petition the Montana Public Service Commission under Sections 70-119 or 70-120, RCM 1947, for an increase, or decrease, in the water rate should it be shown that the proposed rate is producing too much, or too little, revenue to adequately acquire water, operate and maintain the plant, and service the necessary debt.

15. The City of Chinook is not now charging the general fund for fire hydrant service in the City.

16. The City of Chinook is not now charging the general fund for water used by the City.

17. The City of Chinook Water Department presently has approximately $13,000 in bonds which were acquired approximately twelve years prior to this date. These bonds constitute assets of the Water Department. The assets represented by these bonds should reasonably be required to be placed in the reserve account provided for by the indentures and thereby can reasonably be expected to increase the marketability of the bonds and lower the interest rate at which the bonds can be sold.

CONCLUSIONS OF LAW

1. The City of Chinook is required to furnish a safe and adequate water supply to its residents.

2. It is necessary that the present water treatment plant be abandoned and the proposed plant be constructed without delay.

3. The water rate schedule proposed by the City of Chinook must be approved and implemented to provide the required additional revenue for increased costs of procurement of water, maintenance and operation and repayment of the revenue bonds.

4. Water rate schedules for service to the City of Chinook and for fire hydrant service should be developed.

RULINGS ON MOTIONS AND OBJECTIONS

1. The motion of the Consumer Counsel that no specific increase in rate be authorized until a bond issue is sold is denied, but this order to increase rates shall not be effective if the bonds are not sold, or construction begun on the plant within a year after this Order is issued.

2. The motion of the Consumer Counsel that a reasonable charge for fire hydrant service be made by the Water Department to the general fund is granted to the extent that the City of Chinook must comply with applicable rules and regulations of the Public Service Commission and the Municipal Audit Division of the State of Montana.

3. All other rulings on objections to evidence and motions made at the hearing, and contained in the transcript, are incorporated herein by reference.

4. Any objections to evidence or motions not previously ruled upon are denied.

ORDER

1. The Applicant is authorized to institute the following rate schedules to generate approximately $118,000 per year in revenues, excluding the revenues derived from service charges to the City referred to in paragraphs 2 and 3 of this Order section.

	Inside City Limits	Outside City Limits
First 2,000 gal.	at $7.00 minimum	at $8.75 minimum
Next 3,000 gal.	.80 per 1,000 gal.	.95 per 1,000 gal.
Next 3,000 gal.	.70 per 1,000 gal.	.85 per 1,000 gal.
Next 500,000 gal.	.60 per 1,000 gal.	.60 per 1,000 gal.
All over 508,000 gal.	.45 per 1,000 gal.	.45 per 1,000 gal.

2. The City of Chinook shall develop and submit to the Public Service Commission for approval a water rate schedule for water used by the departments and elements of the city government.

3. The City of Chinook shall develop and submit to the Public Service Commission for approval a schedule of charges for fire hydrant service.

4. Revenue bonds owned by the Water Department of the City of Chinook must be placed in the surplus account established pursuant to the sale and retirement of the revenue bonds or, in the alternative, the bonds must be sold and the funds placed in the surplus account.

DONE IN OPEN SESSION at Helena, Montana, this 28th day of April, 1976.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman
Voting in Absentia

P. J. GILFEATHER, Commissioner

THOMAS G. MONAHAN, Commissioner

JAMES R. SHEA, Commissioner

GEORGE TURMAN, Commissioner

ATTEST:

GAIL E. BEHAN
Secretary

(Seal)

NOTICE: You are entitled to judicial review of this Order. Judicial review may be obtained by filing within thirty (30) days from the service of this Order, a petition for review pursuant to Section 82-4216, RCM 1947.