

Service Date: October 29, 1979

DEPARTMENT OF PUBLIC SERVICE REGULATION  
MONTANA PUBLIC SERVICE COMMISSION

In the Matter of the Application	)	
of the City of Columbia Falls,	)	
Montana for an order authorizing	)	DOCKET NO. 6687
a water rate increase and to	)	
implement a multiple user charge	)	ORDER NO. 4568
and a special Extreme Low Tem-	)	
perature Regulation.	)	

PROPOSED FINDINGS OF FACT  
AND CONCLUSIONS OF LAW

Pursuant to notice given in the manner prescribed by law, this matter came on regularly to be heard commencing at 10:00 a.m. on the 22nd day of August, 1979, at the City Hall, 130 6th Street West, Columbia Falls, Montana, before Commissioner George Turman, duly appointed Hearing Examiner for the Montana Public Service Commission.

APPEARANCES

FOR THE APPLICANT, CITY OF COLUMBIA FALLS:

James A. Cumming, 430 Nucleus Avenue, Columbia Falls, Montana 59912

FOR THE INTERVENOR, MONTANA CONSUMER COUNSEL:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59601

FOR THE COMMISSION:

Eileen E. Shore, Counsel  
James P. Dwyer, Rate Analyst

BEFORE:

George Turman, Commissioner

### APPLICATION AND PROCEEDINGS

1. On June 21, 1979, the City of Columbia Falls, Montana (Applicant, City or CF) petitioned this Commission for authority to increase the rates charged its water utility customers to generate \$73,000 in additional water department revenues; for authority to implement a special regulation to insure constant flow of water during periods of extreme low temperatures; and for authority to implement a multiple user charge.

2. On July 30, 1979, the Commission granted the petition of the Montana Consumer Counsel to intervene in this proceeding and the Consumer Counsel has actively participated in this docket since that time.

3. Public notice of this hearing was given by means of legal publication in an area newspaper and by way of a news release sent to various news media outlets in the Columbia Falls area.

4. The hearing commenced at 10:00 a.m. on August 22, 1979, at the Columbia Falls City Hall. During the hearing, four witnesses for the Applicant testified, subject to cross-examination: Charleen Lyngstad, City Clerk; John Floden, Public Works Director; Paul Stokes, Engineer and Vice President of Stahly Engineering & Associates, Helena, Montana; and T. R. Flynn, Consultant.

5. Upon careful review of the testimony, the exhibits and the proposed findings of fact and conclusions of law submitted by parties of record, the Commission makes the following.

### FINDINGS OF FACT

1. The total revenue increase requested by Applicant is \$72,984 per year, based on fiscal year data ending June 30, 1978 (page 5, Petition of City). Applicant seeks increases in rates for water service ranging from 53% to 231%, depending on class of service. Applicant also seeks to effectuate a multiple user charge so that multiple dwellings served through a common master meter may be billed individually on a per dwelling unit basis. The City further seeks to introduce a regulation whereby the City can order water users to allow a constant flow of water from a tap or taps within the user's premises during extreme cold periods in order to protect the city main. The City

also seeks to increase the surcharge assessed to consumers located outside city limits from 25% to 50%. It also sought an increase in sprinkling charges during the five designated sprinkling months to a charge of \$.40 per thousand gallons for water used exceeding the average gallonage used in the seven non-sprinkling months.

2. The City submitted projections for future capital expenditures through fiscal year 1983-84, incorporating factors such as inflation and depreciation and replacement reserve (page 22, Petition).

Much of this data was based on a study performed for the City of Columbia Falls by Stahly Engineering & Assoc. in 1975, updated in August of 1978, to consider post-1975 developments, namely, (1) the impact of the new Hilltop Homes Subdivision; (2) the impact of the Dallas 5 Riverview Subdivision; (3) the Montana Department of Highways participation in water line relocation/replacement on Nucleus Avenue and Highway 40; and (4) the effect of a new well. (page 7, Petition)

The Public Works Director of Columbia Falls, based on supporting data of the Stahly study, foresees 12 major improvements for the system for the period 1979 through 1984 (pages 16 & 17, Petition). The cost projections and years in which the City expects to incur the expenses for the capital improvements are set out on page 18 of the City's Petition.

The Commission finds that there is some merit and sufficient reliability to examine the short-term capital expenditure projections when dealing with cases involving municipally-owned utilities.

Municipally-owned water works are not operated for profit in the ordinary sense of that term, but are generally organized to serve the public on a cost basis (See 7-13-4307, MCA). It is necessary in determining the revenue requirements of public systems to give adequate consideration to the special debt requirements of such a plant as in many cases, financing of public works is realized not only by municipal taxes but by the issuance of general obligation and revenue bonds. Revenue requirements of a public works generally are designed to bring enough cash into the municipality to take care of all cash obligations. In the case of the City of Columbia Falls, the combination of (1) their having to meet part of their annual bond retirement obligation in recent years with mill levy assessments, and (2) their not having sought a rate increase for their water department in

approximately 20 years combined with (3) their obvious determination to implement some of Stahly's recommended water works improvements lead the Commission to believe that it is important to look at the City's capital expenditure projections through fiscal 1933-84. The Commission cannot, however, recognize for ratemaking purposes the speculative projections of inflation.

The City projects the following capital expenditures through fiscal year 1979-80:

**PROJECTED CAPITAL EXPENDITURES**

PROJECT	COST 6-1978	COST 6-1979	AMOUNT TO BE EXPENDED IN YEARS SHOWN				
			1979-80	1980-81	1981-82	1982-83	1983-84
Water Mains per Stahly							
City Share #1	18,333	18,333		18,333			
Inflation on C.S.		1,833		1,833			
Inflation on D.S.		3,667		3,667			
City Share #2	13,666	13,666		13,666			
Inflation on C.S.		1,367		1,367			
Inflation on D.S.		2,733		2,733			
City Share #3	6,333	6,333	6,333				
Inflation on C.S.		633	633				
Inflation on D.S.		1,267	1,267				
City Share #4	13,666	13,666		13,666			
Inflation on C.S.		1,367		1,367			
Inflation on D.S.		2,733		2,733			
Item #5	30,000	30,000		30,000			
Inflation on same		3,000		3,000			
Item #6		10,000			10,000		
Item #7		19,760	2,860 4,225	4,225	4,225	4,225	
Item #8		30,800	2,420	9,460	9,460	9,460	
Item #9		1,000	1,000				
Item #10		57,500	11,500 11,500	11,500	11,500	11,500	
Item #11		7,500			7,500		
Item #12		275,000				82,500	

		192,500			
	\$502,158	26,013	117,550	42,685	107,685
		208,225			

Montana Consumer Counsel in its proposed order espoused the idea of using only the 1979/80 calculation minus inflation which produces the following capital expenditure:

1.	4th Avenue West replacements	\$ 6,333
2.	Meters, as needed for new users	2,860
3.	Placement of remote reading heads	2,420
4.	Placement of remote heads West Side	1,000
5.	Purchase of backhoe	<u>11,500</u>
		\$24,113

The Commission notes the position of Montana Consumer Counsel in this manner. However, in a similar proceeding, City of Helena Docket No. 6643 Order No. 4498a, an average annual capital expenditure was calculated. Inflation was deducted from the City's position to produce the following capital expenditure schedule:

1979/80	\$ 24,113
1980/81	70,850
1981/82	42,685
1982/83	25,185
1982/84	<u>15,725</u>
 Total	 \$178,558
 ) 5	 = \$ 35,712

As the Applicant states on page 23 of its petition, "It will be necessary in 1983/84 to issue Revenue Bonds to finance the well system proposed for construction, "therefore, this project has been eliminated from the PSC calculation of capital expenditures.

3. Operating Expenses

In determining operating expenses the Applicant inflated yearly expenses by 8%. For the years FY80-FY84 this calculation results in the following:

FY80	66,896
FY81	72,250
FY82	78,030
FY83	84,270
FY84	91,000

Montana Consumer Counsel as in its previously stated position does not recognize inflation and as such allows only \$62,000 for operating expenses.

As cited in Finding of Fact No. 2, the Commission cannot recognize inflation, it can only recognize known and measurable changes and since none were presented for the record the Montana Consumer Counsel's \$62,000 must be accepted.

4. Debt Service

The Applicant's petition (page 22) lists the following Bond Interest and principal for FY80-84:

FY81	13,171
FY82	12,571
FY83	11,930
FY84	<u>12,370</u>
Total	\$61,694
	) 5
Average Annual	\$12,339

Montana Consumer Counsel proposed to use only the known figure for FY80, that being \$11,652.

Revenue bond principal and interest payments are set by city ordinance at the time of the sale of the bonds. Although these are future figures the Commission finds that the city ordinance is a binding financial requisite of the city and must recognize the city's position of \$12,339.

5. Depreciation and Replacement

The Applicant's petition at page 25 asserts the following:

No Depreciation Reserve was ever allocated until June 30, 1972. Although it has been designated every year since that period the funds were never available to set aside for replacement purposes, thus the reserve was never funded.

Assuming rate adjustments as requested and using our projections for the 5 years ending June 30, 1984 as a guide we would be able to fund the reserve account as detailed above. From these reserves improvements to the system could be made, which would completely deplete those funds, and is not the most desirable means of financing system improvements. Actual replacement of existing mains, etc. are properly charged to replacement reserves, however we should have had a much larger reserve to work from.

Assuming the Applicant's position would thus create these yearly depreciation figures:

6/30/80	63,800
6/30/81	77,675
6/30/82	75,000
6/30/83	70,500
6/30/84	65,130

As can be seen at page 26 of the petition, the Applicant's previous three years allocated depreciation is:

FY76	\$ 43,350
FY77	43,539
FY78	<u>44,362</u>
Total	131,251
	) 3
Average Annual	\$ 43,750

While the Commission has historically recognized only funded depreciation it recognizes the advantage to the municipality of allowing a depreciation reserve to be funded and used instead of borrowing in uncertain capital markets. The Commission accepts the depreciation replacement account with the understanding that the Applicant will file quarterly statements of funding for depreciation.

#### 6. Revenue

The following revenues and adjustments to expenses will be experienced by the City (not considering the requested rate increase):

	Revenues
	<u>1979-80</u>
Revenue - water sales	\$82,500

Add 30 Users Yearly	3,300
Interest Income	<u>1,800</u>
	\$87, 600

Source-Page 22, Petition.

7. Revenue Requirement

Total Revenue	\$87,600
Operating Expenses	<u>(62,000)</u>
Net Revenue	\$25,600
Capital Expenditures	<u>(35,712)</u>
Sub-Total	(\$10,112)
Debt Service	<u>(12,339)</u>
Sub-Total	(\$22,451 )
Depreciation & Replacement	<u>(43,750)</u>
Total Shortfall	<u>(\$66,201)</u>

8. The City seeks an increase in the 25% surcharge assessed to consumers located outside the City limits. The only justification for such a charge is found on page 4 of the City's Petition which shows that out-of-city commercial customers account for 15.3% of total gallonage and only 9.6% of total revenues. However, out-of-city residents account for 5.7% of total gallonage yet contribute 8.4% of total revenue. There is no basis here for assessing an additional surcharge on any of these customers. Until a cost of service study is undertaken and until the burden shouldered by the in-city customers as reflected in mill levies devoted to retirements of bonds is shown quantitatively, we cannot determine that such an increase is justified. The 25% surcharge should remain in effect.

9. Testimony elicited at the hearing revealed a problem that the City of Columbia Falls should attempt to solve. During calendar year 1978, the City pumped over 320 million gallons of water, yet billed only 164 million gallons.

Testimony indicated that part of this discrepancy could be accounted for by the fact that fire hydrant use was not included in billed water, yet it was admitted that this could not account for over 10-15% of the error (23 million gallons maximum - 15% of the 156 million gallon difference). Another 10% or 15.6 million gallons may be attributable to use of an incorrect gear in the reservoir meter. Feedback in the system may have caused the registering of pumped water more than once. If

the largest water users are metered, as indicated, this cannot be a source of significant error. Normal loss on a system should be no more than 10-15%.

There undoubtedly is some room for error in that for the last two years, residents of Columbia Falls have read their own meters.

We suggest that the City take steps to (1) allow for the City to read the meters, and (2) attempt to determine the exact reason(s) for the serious discrepancy in the water pumped versus the water billed. Quarterly reports will be filed informing the Commission of the City's progress in this problem area.

10. The Applicant's petition contained a multiple user charge and a special Extreme Low Temperature Regulation. No opposition was expressed to either proposition during the hearing.

#### CONCLUSIONS OF LAW

1. The City of Columbia Falls Water Department's rates are subject to the jurisdiction of this Commission under Section 69-1-102 et seq., MCA.

2. The increased rates approved herein are necessary to the continued operation of the City of Columbia Falls' Water Department. The additional annual revenue level of \$66,201 approved herein is reasonable and just.

#### ORDER

IT IS ORDERED that the Applicant shall submit for Commission approval a schedule of rates and charges which will produce a total additional annual revenue from normalized water rates, of \$66,201.

IT IS FURTHER ORDERED that the City of Columbia Falls, Montana, shall submit quarterly reports, commencing November 1, 1979, informing the Commission of the City's determination of the source of the discrepancy between total gallonage pumped and total gallonage billed by the water department, and shall continue to file such reports until the Commission is satisfied that the problem has been solved.

IT IS FURTHER ORDERED that the City shall submit quarterly reports commencing November 1, 1979 informing the Commission of the City's funding level for depreciation reserve.

IT IS FURTHER ORDERED that this Commission's acceptance of data concerning projected capital expenditures and depreciation in no way is to be construed as a change in Commission policy or Commission statutory interpretation but rather is to be seen as application of prudent regulatory policy to municipally-owned utilities in general, and the water department of the City of Columbia Falls, in particular.

IT IS FURTHER ORDERED that the Applicant implement the multiple user charge and the special Extreme Low Temperature Regulation.

IT IS FURTHER ORDERED that the new schedule of rates and charges and regulations shall be effective for water services rendered on and after November 1, 1979.

DONE IN OPEN SESSION this 29th day of October, 1979, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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GORDON E. BOLLINGER, Chairman

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CLYDE JARVIS, Commissioner

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THOMAS J. SCHNEIDER, Commissioner

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JAMES R. SHEA, Commissioner

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GEORGE TURMAN, Commissioner

ATTEST:

Madeline L. Cottrill  
Secretary

(SEAL)

NOTE: You are 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 purpose 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. 38-2.2(64)-P2750, ARM.