

Service Date: October 18, 1979

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

* * * * *

IN THE MATTER of the application)	DOCKET NO. 6688
of the CITY OF SIDNEY for an)	
order authorizing a sewer rate)	STIPULATED FINAL ORDER
increase.)	NO. 4564

APPEARANCES

FOR THE APPLICANT:

Honorable Ben Nordell, Mayor, City of Sidney

FOR THE PROTESTANT:

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

FOR THE STAFF:

Robert F. W. Smith, Attorney at Law
James P. Dwyer, Rate Analyst

BEFORE:

GORDON E. BOLLINGER, Chairman & Hearing Examiner

APPLICATION AND PROCEEDINGS

On June 22, 1979, the CITY OF SIDNEY (Applicant) filed a petition with the Montana Public Service Commission for an order authorizing Applicant to increase its rates for sewer service. The increased revenues are needed to defray increased costs of operation and to accomplish the extension, expansion, repair and improvement of the sewer utility.

A Notice of Public Hearing was published on August 3, 1979, stating that a public hearing on the matter would commence in the City Hall Council Chambers, Sidney, Montana at 10:00 a. m., Thursday, September 6, 1979.

The hearing was conducted under the Commission's procedural rules for contested cases, as contained in the Administrative Rules of Montana.

The Commission having taken evidence and being fully advised in the premises makes the following Findings of Fact, Conclusions of Law and Order.

FINDINGS OF FACT

1. The Applicant presented several witnesses. They were Mayor Ben Nordell; Terry Verhasselt of Sidney Data Processing; William Enright, P.E., Morrison and Maierle, Inc.; Harold Mercer, Director of Public Works; and several public witnesses acting as proponents.

2. Mayor Nordell's testimony was primarily directed to city council policy and decision making procedures. The mayor testified that the increasing search for sources of energy, specifically petroleum, had produced a tremendous growth rate in and around the City.

Cross-examination by Montana Consumer Counsel elicited from the mayor the methods of financing considered by the city council. The council considered three methods: Special Improvement Districts (SID); General Obligation Bonds (GOB); and Revenue Bonds and decided in favor of a revenue bond issuance to cover the expansion projects.

During cross-examination by the hearing examiner, the mayor further stated that if and when EPA Grant monies are received the City of Sidney would definitely develop a program for rebate to the consumers on the sewer system.

3. Mr. Enright, who is the project engineer for Morrison and Maierle, Inc., testified with respect to design, EPA provisions, bonding requirements, and system growth.

According to Enright the City of Sidney is likely to receive EPA Step III Grant money late in Fiscal Year 1981.

Population projection data was basically derived from the DCA study entitled Montana Population Projection.

Enright testified about Step II and Step III procedures and financial requirement. According to Enright the engineering and construction contracts call for payments upon percentage completion of project. With a bond issuance and subsequent receipt of funds prior to project completion substantial interest income can be realized in the interim construction phase.

4. Mr. Verhasselt of Sidney Data Processing testified with respect to the customer classification computer data. During cross-examination it was established that the customer classification (e.g. residential or commercial) was identical to the water classification.

5. Harold Mercer testified about the actual workings of the sewer department. He stated that in his view the 25% coverage factor could be used for the succeeding years O & M expense. Mr. Mercer also explained the proposed storm water drainage system.

6. Math J. Dassinger, a local businessman, although in favor of the project, was opposed to the amount levied against his particular commercial establishment. The city and Engineer Enright agreed to work with Mr. Dassinger towards a possible solution.

7. The Applicant proposed to increase annual revenues to a level of \$174,170. The calculation of this amount is as follows:

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Total</u>
Debt Service	\$ 97,458	\$ 97,458	\$ 97,458	\$ 97,458	\$ 389,832
Fringe & Wages	22,500	24,075	25,760	27,563	99,898
Maint. & Supplies	8,600	8,600	8,600	8,600	34,400
Prof Ser: Rent, Power	8,250	8,828	9,445	10,107	36,630
Insurance	3,000	3,210	3,435	3,675	13,320
Depreciation	14,000	14,000	14,000	14,000	56,000
Storm Drain	<u>15,000</u>	<u>16,050</u>	<u>17,174</u>	<u>18,376</u>	<u>66,600</u>
Total	\$168,808	\$172,221	\$175,872	\$179,779	\$ 696,680

$$696,680 \div 4 = \$174,170$$

Debt Service

The following table shows the predicted expenditures over the next 20 years of the project.

Debt service was arrived at in the following manner.

Amount of Debt	826,000
7% for 20 years	(.09439)
Average Annual Payment (Principal & Interest)	\$77,966

Bonding Companies require 25% coverage on the Debt per year, therefore

$$1.25 \times 77,966 = \$97,458$$

The Commission finds that the preceding calculation is an accurate projection of the future annual debt service requirement. For the initial five years of the bond repayment period the 25% coverage factor can be used to establish the customary reserve account, which must equal the annual payment of P & I in a following year. Subsequent years the 25% shall be used to offset the next years O & M Expense.

Fringes & Wages

The Applicant computes an annual increase, in fringes and wages, equal to 7%. Absent any testimony to the contrary one must assume that this figure is an inflationary calculation. In the interest of maintaining the concept of known and measurable changes, the Commission finds that the amount 22,500 must be carried in all four years.

Professional Services; Rent & Power

The Applicant again inflates this amount over four years. Similarly the Commission finds that \$8,250 must be carried over four years.

Insurance

The Applicant also inflates insurance annually during the four year period. The Commission finds that Insurance must be carried at the \$3,000 test year level.

Depreciation

The Applicant offered no testimony nor financial data to prove that Depreciation had been funded in the past operations of the sewer department.

Without actual funding the Commission finds that depreciation is not an actual revenue requirement.

Storm Drain

The Applicant's testimony indicated that the storm drain system was not a part of the sewer system per se. However, the mayor and city council took this opportunity to solve a problem existing at the local level. Since this is a policy decision of the locally elected officials the Commission finds that the storm drain project can be included herein.

Assimilating the foregoing financial data produces the following Test Year:

Expenditures

Debt Service	\$97,458
Fringes & Wages	22,500
Maint. & Supplies	8,600
Prof. Ser: Power & Rent	8,250
Insurance	3,000
Storm Drain	<u>15,000</u>
Total Expenditures	<u>\$154,808</u>

Calculation of Rates

To generate the required revenue, Sidney Data Processing used 1979 Winter Average usages on Active Accounts and used the following criteria to output the needed rate structure:

- 1) Commercial Minimum to be 1.67 of that residential.
- 2) Minimum rate at 3,000 Gallons.
- 3) Minimum charges established that do not substantially increase the existing minimum charge to cause undue hardship on consumers on fixed incomes.

- 4) Twenty-four percent surcharge included on commercial rates for usage over 3,000 gallons.
- 5) For residential users the amount to be charged over the minimum figured for winter use. This negates sewer charges for irrigation purposes which do not enter the sewer.

Using the following data the Revenue Projected was \$172,929.24, which is only 0.37% deviation from the revenue required of \$172,300.

Input Rate Structure

Residential:	\$3.50 Minimum 10 Cents/100 Gal. after 3,000 Gals. Amount over 3,000 Gals. based on winter usage.
Commercial:	\$5.85 Minimum 12.4 Cents/100 Gal. after 3, 000 Gals. Amount over 3,000 Gals. for entire year.

The Commission's previous calculation of revenue requirement was \$154,808. In order to adjust the input rate structure a percentage application of $154,808 / 172,929 = 10.48\%$ must be applied to the input rate structure. Therefore, the applied rate structure should be the following:

Residential:	\$3.15 Minimum 9 Cents/100 Gal. after 3,000 Gals. Amount over 3,000 Gals. based on winter average.
Commercial:	\$5.25 Minimum 11.1 Cents/100 Gal. after 3,000 Gals. Amount over 3,000 Gals. for entire year.

Hookup Charge

On April 16, 1979 the entire City Council of the City of Sidney passed Ordinance No. 290. This Ordinance established an increased sewer hookup charge. Mr. Mercer testified that this increase was necessary to offset the direct costs associated with new sewer hookups. Also Mr. Mercer testified that the City Council had enacted this large increase in order to place a larger share of the

burden for sewer expansion on the new customers who, in the views of the City, were the cause for the expansion.

- 6) At the close of the hearing, all parties agreed that a final order would be acceptable.

CONCLUSIONS OF LAW

- 1. The City of Sidney is a public utility furnishing sewer service to customers in the State of Montana.
- 2. This Commission has jurisdiction over the rates and the conditions under which utility service is rendered in Montana.
- 3. The following rates approved for the City of Sidney sewer utility are just and reasonable.

ORDER

- 1. The following rates are approved for the City of Sidney Sewer Department:

Residential:	\$3.15 Minimum
	9 Cents/100 Gal. after 3,000 Gals. Amount over 3,000 Gals. based on winter average.
Commercial:	\$5.25 Minimum
	11.1 Cents/100 Gal. after 3,000 Gals. Amount over 3,000 Gals. for entire year.

- 2. Ordinance No. 290 is approved in its entirety. The rates therein are as follows:

<u>Size of Dwelling</u>	<u>Unit Value</u>	<u>Amount of Fee (\$250/unit)</u>
Single Family	2 Units	\$500.00
Two Family	4 Units	\$1,000.00
Three Family	5 Units	\$1,250.00
Four Family	6 Units	\$1,500.00
Five Family	6 1/2 Units	\$1,625.00
Six Family	7 Units	\$1,750.00

Seven Family	7 1/2 Units	\$1,875.00
Eight Family	8 Units	\$2,000.00

3. The rates approved herein are to be effective for services rendered on and after the first day of the first billing period following the sale of the revenue bonds. Ordinance No. 290 is to be effective on the service date of this order.

Done In Open Session in Helena, Montana, on this 16th day of October, 1979, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

CLYDE JARVIS, Commissioner

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.