

Service Date: July 19, 1982

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

* * * *

IN THE MATTER of the Application)	
of the City of Harlem to Increase)	UTILITY DIVISION
Sewer Rates.)	DOCKET NO. 82.3.17
_____)	ORDER NO. 4917

APPEARANCES

FOR THE APPLICANT:

Frank Altman, City Attorney, City Hall, Harlem, Montana.

FOR THE INTERVENORS:

John Allen, Staff Attorney, Montana Consumer Counsel, 34 West 6th Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Eileen Shore, Chief Legal Counsel, 1227 11th Avenue, Helena, Montana 59620

BEFORE:

Howard L. Ellis, Commissioner and Hearings Examiner

FINDINGS OF FACT

1. On March 10, 1982, the City of Harlem (Applicant or City) filed an application with this Commission for authority to increase rates and charges for sewer service to its customers in Harlem, Montana. The Applicant requested an average increase of approximately 100 percent, constituting a revenue increase of approximately \$22,000 in annual revenues.

2. On June 23, 1982, pursuant to Notice of Public Hearing, a hearing was held in the City Council Chambers, City Hall, Harlem, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer rate adjustment. At the close of the

hearing,

all parties waived their rights to a proposed order and stipulated to authorize the Commission to issue a final order in this Docket. 2-4-622 (2), MCA.

3. At the public hearing, the Applicant presented the testimony and exhibits of:

Clifford Mummey, City Pumper
Harold Magnuson, Mayor

These witnesses testified relative to the need for a full-time employee in the sewer department, the need for capital improvement funds and funds to make repairs at the sewer treatment plant, and the need for funds to retire outstanding registered warrants.

4. The Montana Consumer Council presented the testimony of one public witness. Katherine Wilson, a subscriber to the utility's service, stated that it was her opinion that the residential rate structure was discriminatory in that it placed too great a revenue requirement on the consumers having a low sewage flow, when compared to the consumers having a high sewage flow.

5. At the hearing, as part of its Exhibit #1, the City introduced into evidence the last three (3) Department of Health and Environmental Sciences' inspection reports on the wastewater treatment plant. All three (3) of the inspection reports indicated that it was the Department's opinion that an additional plant operator is necessary to insure proper maintenance and operation of the wastewater treatment plant.

6. The City's witnesses testified that it would cost the sewer utility approximately \$10,000 annually to employ an additional plant operator. Based upon the Department of Health and Environmental Sciences' recommendation that an additional operator is necessary, the Commission finds the City's request for funding of this position at a cost of \$10,000 annually to be reasonable.

7. The City in its application requested that the balance of the proposed increase, \$12,000 annually, be utilized to retire outstanding registered warrants amounting to \$39,729.50 on May 31, 1982, and to provide funding for needed repairs and capital improvements at the sewer treatment plant.

8. The request for funding to be utilized to retire outstanding registered warrants is denied. The registering of warrants indicated that the sewer utility, in recent years, has not

generated sufficient revenues to meet its obligations and has, therefore, incurred deficits.

Pursuant to a Montana Supreme Court ruling in the City of Helena and the City of Billings vs. Montana Department of Public Service Regulation decided September 21, 1981, utilities may not set their rates so as to amortize past deficits.

9. At the hearing, Mr. Magnuson and Mr. Mummey listed capital improvements that need to be completed immediately or in the near future. The following are the capital improvements and their estimated cost:

<u>ITEM</u>	<u>Cost</u>
Comminutor	\$ 5,000
Lift Pumps (2 @ \$3,000 each)	6,000
Sludge Pumps (2 @ \$3,000 each)	6,000
100 feet 1 1/4" service line	2,000
Auxiliary Power Plant (1/3 of total cost of \$25,760)	<u>8,578</u>
Total	\$27,578

The witnesses also stated that the aerators need to be replaced and that they cannot be purchased from the plant manufacturer because the model is out of production, therefore, necessitating that the new aerators be fabricated at an unknown cost. The witnesses further stated that the plant needs extensive cement work for which they have obtained no estimates.

10. Given the deteriorated condition of the Applicant's existing facilities, the Commission finds that the Applicant should utilize the remaining \$12,000 of the proposed increase to upgrade the existing facilities.

11. The Commission further finds, based upon the preceding Findings of Fact, that the Applicant should be authorized to increase rates in an amount sufficient to generate \$22,000 in additional annual revenues.

12. The public witness in this Docket questioned the equity of the proposed residential rate structure. It was the witness's opinion that the proposed rate structure placed an excessive revenue burden on the consumers having low sewage flows.

13. The Commission's examination of the Applicant's proposed residential rate structure indicates no logical correlation between the rate assessed a consumer and the number of consumers in the household contributing to sewage flow. The following table reflects the

Applicant's proposed rates and the rate differential per additional consumer:

<u>Classification</u>	<u>Rate</u>	<u>Rate Differential Per Additional Consumer</u>
One Occupant	\$ 7.55	-----
Two Occupants	8.80	\$1.25
Three Occupants	9.25	.45
Four Occupants	9.95	.70
Five Occupants	10.40	.45
Six Occupants and over	12.90	2.50

The above table clearly shows that the Applicant's proposed rate structure has no consistent pattern relative to the additional revenue that should be generated by each additional consumer to offset the increased expense associated with the additional flow. Therefore, the Commission rejects the Applicant's proposed residential rate structure.

14. The Commission's examination of the Applicant's financial statements indicate that approximately 25% of the Applicant's total operating expenses are customer costs (i.e. costs associated with serving customers irrespective of the amount of flow), the remaining 75% of the Applicant's expenses are flow related (i.e. these expenses are variable, depending on amount of flow per consumer).

15. Utilizing the information in Finding of Fact 16, the Commission can determine the amount of the monthly customer costs and the monthly flow related costs per consumer. The Applicant has requested that the residential customer class contribute \$3,238.45 per month toward the utility's overall revenue requirement. The Commission finds this to be a reasonable contribution from this customer class in view of the fact that this customer class represents approximately 94% of the utility connections (360 total residential connections ÷ 383 total utility connections = 93.99%) and will be contributing approximately 88.3% of the utility's revenue requirement (\$3,238.45 monthly residential revenue ÷ \$3,666.66 total monthly revenue = 88.3%). Utilizing the 25% - 75% ration, we determined that the monthly customer costs for the residential customer class are \$809.61 ($\$3,238.45 \times .25 = \809.61) by dividing the monthly customer costs by the number of residential customer connections, we determined that customer cost per connection is \$2.249 ($\$809.61 \div 360 = \2.249) per month per customer. Again utilizing our

ratio, we can determine flow related costs as being \$2,428.84 monthly ($\$3,238.45 \times .75 = \$2,428.84$) by dividing the flow related costs by the total number of occupants in the residential class, we determine that the flow cost per occupant is \$2.57 per month ($\$2,428.84 \div 945$ total residential occupants = \$2.57). The total number of occupants in the residential class was determined from the City's listing of customers.

16. Based upon the calculations in Finding of Fact 15, the Commission finds that the Applicant should implement the following residential rate structure:

<u>CLASSIFICATION</u>	<u>MONTHLY RATE</u>
One Occupant	\$ 5.00
Two Occupants	7.50
Three Occupants	10.00
Four Occupants	12.50
Five Occupants	15.00
Six Occupants and more	17.50

17. The Commission finds all other rates, as proposed by the Applicant in its application, to be just and reasonable and are accepted as filed.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding.
2. All interested persons were given proper notice and an opportunity to participate in this proceeding.
3. The rates authorized 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 12th day of July, 1982, there being present a quorum of Commissioners there came regularly before the Commission for final action the matters and things in Docket no. 82.3.17, and the Commission being fully advised in the premises;

IT IS ORDERED by the Commission that the City of Harlem shall file tariffs consistent with the Findings of Fact herein.

IT IS FURTHER ORDERED that none of the revenue increase granted herein shall be

utilized to pay the outstanding registered warrants of the utility.

IT IS FURTHER ORDERED that a full, true and correct copy of this Order be sent forthwith by first class United States mail to the Applicant and to 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 12th day of July, 1982, by a vote 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, 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 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. 38.2.4806, ARM.