

Service Date: April 16, 1985

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

IN THE MATTER Of The Application) DOCKET NO. 84.9.56
Of The City Of Cut Bank To Increase)
Rates And Charges For Sewer Service.) ORDER NO. 5089a
)

APPEARANCES

FOR THE APPLICANT:

Seldon Frisbee, City Attorney, 113 East Main, Cut Bank Montana 59427.

FOR THE INTERVENORS:

James C. Paine, Montana Consumer Counsel, 34 West 6th Avenue, Helena,
Montana 59620.

FOR THE COMMISSION:

Robert Nelson, Staff Attorney, 2701 Prospect Avenue, Helena, Montana 59620

BEFORE:

Danny Oberg, Commissioner and Hearing Examiner

BACKGROUND

1. On September 14, 1984, the City of Cut Bank (Applicant or City) filed an application with this Commission for authorization to modify its rate structure and increase sewer rates to its Cut Bank, Montana customers on a permanent basis by approximately 220% which constitutes an annual revenue increase of approximately \$80,600.
2. Concurrent with its filing for a permanent increase in rates, the applicant filed an application for an interim increase in rates of approximately 220%, equaling a revenue increase of approximately \$80,600, or 100% of the proposed permanent increase .
3. On October 12, 1984, the Commission, having considered the data submitted with the

Applicant's interim application, issued Order No. 5089 granting the City interim rate relief in the amount of \$15,267, annually.

4. On November 16, 1984, the City, through its consulting engineers Morrison-Maierle, Inc., notified the Commission that pursuant to the provisions of Title 69, Chapter 7, MCA, it had implemented an increase in sewer rates that would generate approximately \$10,000 in additional annual revenues. The City further informed the Commission that it had implemented a modified rate structure pursuant to the provisions of the aforementioned Title.

The City undertook the modifications outlined in the preceding paragraph subsequent to, and in response to, this Commission's Interim Rate Order No. 5089. In Order No. 5089 the Commission indicated that \$10,000 of annual funding for lagoon repair "may be non-jurisdictional since the testimony indicates it is mandated by the Montana Department of Health and Environmental Sciences." With a mandate from a state or federal agency, a local government unit may increase rates and modify its rate structure without Commission approval, under the terms and conditions outlined in Title 69, Chapter 7, MCA.

5. On January 10, 1985, pursuant to notice of public hearing, a hearing was held in the Courtroom, County Courthouse, Cut Bank, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed rate adjustment. At the Close of the hearing, the parties stipulated to allow the Commission to issue a final order in this Docket.

FINDINGS OF FACT

6. At the public hearing the Applicant presented the testimony and exhibits of the following witnesses:

Gary Smith, City Superintendent

Tim Berry, Consulting Engineer

These witnesses testified relative to: the current financial condition of the sewer utility, projected increases in operation and maintenance expense, the need for funding of a capital improvement program. Inter-local Agreement for the Joint Acquisition, Maintenance and

Operations of Machinery and Equipment, rate structure and revenue projections.

7. No public witnesses appeared at the hearing to either support or object to the proposed increase in sewer rates.

8. The City through this filing proposes to accomplish two goals, the first is to place the sewer utility operation in a position of self sufficiency and the second is to implement rates which will provide revenues sufficient to adequately maintain and repair the existing sewer facilities.

9. The Applicant's witnesses indicated that, historically, the City has supplemented sewer utility funding through transfers of funds from other City departments. This testimony is supported by the Applicant's Exhibit 1, Table 6-1, wherein the Applicant has reproduced the sewer utility's operating statements for fiscal years 1982, 1983 and 1984.

This table shows that expenses exceeded revenues from charges by \$10,833, \$11,289 and \$10,516 for the fiscal years 1982, 1983 and 1984, respectively.

10. One of the guidelines regarding municipal sewer utility finance is that the enterprise operations should be a self supporting entity within the local government framework. The testimony and exhibits provided by the Applicant indicate that historically the sewer utility has not been self supporting, therefore, the Commission finds the implementation of rates which are sufficient to make the sewer utility self supporting are reasonable.

OPERATION AND MAINTENANCE EXPENSE

11. The test year in this case is the fiscal year ending June 30, 1984, during which the Applicant incurred operation and maintenance expenses totaling \$61,939 "including \$10,000 for lagoon repair). The Applicant, for rate case presentation, developed budgeted operation and maintenance expenses, using fiscal year 1984 as a base for all projections in its budget presentation.

The projected operation and maintenance expenses totaling \$61,939 were not challenged by any party participating in this proceeding and are, therefore, accepted by the Commission.

CAPITAL IMPROVEMENT PROGRAM

12. During the course of the public hearing, the City's witnesses indicated that maintenance to prolong the useful life of capital items had been deferred, due to insufficient revenue generation by the sewer utility. The City, in this filing, is proposing that the Commission grant revenues which are sufficient to allow for a Recurring Annual Capital Improvement Program (RACIP). Granting revenues which are sufficient to allow for the funding of a RACIP, in the City's view, would enhance the City's ability to provide reasonably adequate sewer service and maintain the integrity of the current facilities.

13. In its budget, the City has included funding at the level of \$17,000 annually for RACIP (excludes direct and ancillary funds associated with the Inter-local agreement). The City, through its Exhibit 6, identified approximately \$180,000 of capital improvements that it desired to fund through rates over approximately the next ten years. The improvements identified on Exhibit 6 include the installation, repair or replacement of approximately 100 manholes, renovation of the lift stations and replacement of part or all of the main out-fall line.

14. The Commission fully supports the adequate funding of a RACIP when that funding is tied to a schedule of contemplated system improvements. Funding of a RACIP, in the Commission's view, is good management and good regulation. Based on the testimony in this case the Commission finds the Applicant's proposed RACIP to be reasonably prudent and the funding level of \$17,000 annually adequate to complete the program within the timeframe outlined.

INTERLOCAL AGREEMENT

15. The City of Cut Bank, contingent upon the funding level authorized in this order, has entered into an inter-government agreement with the Cities of

Shelby and Conrad for the purchase and maintenance of equipment. These Cities have entered into this agreement for the reasons stated below, (which are excerpts from the "Inter-local Agreement for the Joint Acquisition, Maintenance and Operation of Machinery and Equipment" signed by all parties):

"the governing bodies of each of the parties are mutually interested in the acquisition, maintenance and operation of major items of machinery which is not practical for one of the cities to purchase and operate, but which may be practical for all of the parties. collectively to purchase and operate;"

"in the interest of providing the best service and facilities with the lowest possible expenditure of public funds, full cooperation between the cities is necessary and desirable:"

The Inter-local Agreement, signed by each of the parties requires a contribution of not less than \$20,000 annually from each of the cities for the acquisition of machinery and equipment.

16. During the hearing, the City's witnesses indicated that the first equipment acquisition, deemed acceptable to all parties, was the purchase of a "Sewer Jet". A "Sewer Jet" is a truck mounted piece of equipment used to clean sewer mains that does not require the operator to enter the manhole, resulting in an increased safety factor for sewer utility employees. The estimated purchase price of this piece of equipment is approximately \$130,000.

17. The City's witnesses indicated that acquisition of a "Sewer Jet" would result in improved on-going maintenance and improved preventative maintenance for the sewer utility. The witnesses stated there is a considerable accumulation of materials in the sewer mains, causing restricted flows and a potential for blockages of the mains. Removal of this material by the "Sewer Jet" would result in increased flow capabilities and reduce the potential of a blockage. Regarding preventative maintenance, the City indicated that, once mains had been cleaned, they could then be televised and the condition of the main determined and placed on a priority list for replacement under the RACIP.

18. The testimony provided in this case indicates that there are known sections of sewer

main that need replacement because they have deteriorated to the point where they have caved in and flooded consumer premises. Given the fact that cave-ins of the sewer main have occurred, it is reasonable to assume that other sections of sewer main are in an advanced stage of deterioration and in need of replacement. Before a television audit of the sewer mains can be accomplished, to determine structural integrity, it is necessary for the mains to be cleaned so that required equipment can pass safely through the main providing a comprehensive examination of the system of mains under scrutiny.

19. Based upon the preceding Findings of Fact, the Commission finds the City's participation in the Inter-local Agreement reasonably prudent. This agreement will allow the City access to equipment which on an individual basis would not be economically feasible to purchase and will result in improved service capability to its consumers through systematic cleaning of mains and the ability to prioritize main replacements, resulting in a more efficient utilization of rate-payer funds.

20. The Commission finds the City's request for annual funding in the amount of \$20,000 to participate in an Inter-local agreement with the Cities of Conrad and Shelby for the acquisition of equipment to be reasonable.

21. In conjunction with its request for funding of its participation in the Inter-local Agreement, the City has requested that the Commission authorize funds for "Sewer Cleaning, labor and water" and a Sewer "Televising, subcontract" totaling \$10,528. For the City to fully realize the benefits of the "Sewer Jet" it is necessary to allow funding of compensation for a person to operate the equipment and the televising subcontract. The Commission therefore, finds the funding requests reasonable.

REVENUE NEED

22. The City indicated that, under present rates effective November, 1984, user charges would generate approximately \$59,359 in annual revenues. The test period user charge revenues are not a contested issue in this case and are, therefore, accepted by the Commission.

23. The Commission, based upon the Findings of Fact contained herein, finds that the

Applicant should be allowed to increase annual revenues by \$50,108. This requirement is calculated as follows:

Operating Revenues	\$ 59,359
Operating Expenses	61,939
RACIP	17,000
Inter-local Agreement	20,000
Sewer Jet, labor	9,028
Televising, contract	<u>1,500</u>
Total Revenue Requirement	\$109,467
REVENUE DEFICIENCY	\$ 50,108

RATE DESIGN

24. The Applicant has converted its rate structure from a flat rate charge system to a user charge system. The user charge system implemented by the Applicant includes a monthly customer charge and a single usage rate applied to metered water consumption, for an average winter period consumption, or actual metered consumption dependent upon the customer classification. The Commission finds the rate structure of the Applicant to be fair and equitable.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapters 3 and 7, MCA.
2. The Montana Public Service Commission has afforded all parties interested in this proceeding proper notice, and an opportunity to participate. parties interested in this opportunity to participate. Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.
3. The rates approved herein are reasonable, just and proper. Section 69-3-201, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED by the Montana Public Service Commission that the City of Cut Bank Sewer Department shall file rate schedules which reflect an annual

revenue increase of \$50,108. These revenues are in addition to, and not in lieu of, the revenues granted in Interim Order No. 5089.

IT IS FURTHER ORDERED that the sewer rates shall not be effective until rate schedules have been filed and approved the Public Service Commission.

DONE IN OPEN SESSION at Helena, Montana, this 15th day of April, 1985, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

JOHN B. DRISCOLL, Commissioner

DANNY OBERG, Commissioner

TOM MONAHAN, Commissioner

ATTEST:

Trenna Scoffield
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.