

Service Date: August 6, 1985

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

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IN THE MATTER Of The Application)	UTILITY DIVISION
Of The CITY OF RED LODGE To)	
Increase Rates and Charges For)	DOCKET NO. 85.4.13
Sewer Service.)	
_____)	ORDER NO. 5150

APPEARANCES

FOR THE APPLICANT:

Arthur Ayers
City Attorney
P.O. Box 504
Red Lodge, Montana 59068

FOR THE COMMISSION:

Robert Nelson
Chief Legal Counsel
2701 Prospect Avenue
Helena, Montana 59620

BEFORE:

Tom Monahan, Commissioner, Presiding
Clyde Jarvis, Chairman
John Driscoll, Commissioner

BACKGROUND

1. On April 26, 1985, the City of Red Lodge (Applicant or City) filed an application with this Commission for authorization to increase rates and charges for sewer service to its Red

Lodge, Montana customers. The Applicant requested an average increase of approximately 320% which would result in an annual revenue increase of approximately \$34,155.

2. On July 9, 1985, pursuant to notice of public hearing, a hearing was held in the City Council Chambers, City Hall, Red Lodge, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer rate adjustment.

FINDINGS OF FACT

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

Thelma Vischoff, City Treasurer
Jeanette Jerkovich, City Clerk
Bob Kruse, Water & Sewer Superintendent
Steve Quail, Consulting Engineer

These witnesses testified relative to: the current financial condition of the sewer utility, projected operation and maintenance expenses, funding for capital improvements and rate structure.

4. No public witnesses appeared at the hearing to either support or object to the proposed increase in sewer rates. One public witness did appear, Doris Lockridge, but her concern was limited to questions regarding implementation of the proposed rate structure.

5. 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.

6. The Applicant's witnesses indicated that, historically, other City departments and accounts had been absorbing expenses which were properly chargeable to the sewer utility operation. Examples of expenses that had been absorbed by other City departments include such items as: Administration, Billing and Collecting and Employee Salaries.

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 the historically the sewer utility has not been self supporting; therefore, the Commission finds that implementation of rates which are sufficient to make the sewer utility self supporting are reasonable.

OPERATION AND MAINTENANCE EXPENSE

7. The test year in this case is the fiscal year ending June 30, 1984 adjusted for inflation and the inclusion of expenses previously paid by other City departments. The test year operation and maintenance expenses totaling \$38,015 were not challenged by any party participating in this proceeding, and are accepted by the Commission.

DEBT SERVICE

8. The City has a current outstanding sewer revenue bond payable with an annual principal and interest payment of payable with an annual approximately \$2,542. The proceeds from this bond sale were used to make capital improvements to the sewer utility; therefore, the Applicant has properly reflected this payment as an obligation of the sewer utility.

CAPITAL IMPROVEMENT FUNDS

9. 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 the funding of Recurring Annual Capital Improvements (RACI). Granting revenues which are sufficient to allow for the funding of RACI, in the City's view, would enhance the City's ability to provide reasonably adequate service and maintain the integrity of the current facilities.

10. In this filing, the City has included funding at the level of \$3,960 annually for RACI. The City, through its witnesses, indicated that funds accumulated in this account would be used to: replace failed sewer lines, repair wastewater lagoons, replace sampling equipment, purchase sewer department vehicles and replace laboratory equipment.

11. The Commission fully supports the adequate funding of RACI when that funding is tied to a schedule of contemplated system improvements. The City, in this instance, has requested funding for RACI but failed to tie that funding to a schedule of contemplated improvements. Generally, absent a contemplated schedule of system improvements, the Commission would not approve funding of RACI but, in this instance, given the nominal amount of funding requested and the testimony indicating a need for the funding, the Commission finds it appropriate to grant funding of the account without the schedule. The Commission would caution the City that failure to provide

a schedule of improvements in future proceedings may place continued funding of this account in jeopardy.

12. Based on the testimony in this case, the Commission finds the applicant's proposed funding for RACI, in the amount of \$3,960, to be reasonable.

REVENUE NEED

13. Under present rates, user charges would generate approximately \$10,362 in annual revenues. The test period user charge revenues are not a contested issue in this case and are, therefore, accepted by the Commission.

14. The Commission, based upon the Findings of Fact contained herein, finds that the Applicant should be allowed to increase annual revenues by \$34,155. This requirement is calculated as follows:

Operating Revenues	\$10,362
Operating Expenses	38,015
Debt Service	2,542
RACI	<u>3,960</u>
Total Revenue Requirement	\$44,517
REVENUE DEFICIENCY	\$34,155

RATE DESIGN

15. The Applicant's present rate structure for its sewer utility includes a flat rate charge for residential customers and a rate of 35% of the water bill for commercial establishments. The rate structure proposed bill by the applicant, in this filing, includes a monthly customer charge and a single usage rate applied to metered water consumption for an average winter period, or actual metered consumption dependent upon the customer classification.

16. At the time of the hearing in this Docket the City had not completed metering of its water system; therefore, it did not have available actual flow data for its sewer utility operation. To determine annual flow data, for purposes of constructing its proposed rate structure, the Applicant used an assumed water usage and determined an annual sewage flow of 83,044,800 gallons per year (See page 11, Exhibit 2, HKM Report).

17. While the Applicant's assumed sewage flow may be a reasonable estimate of the actual flows that will be experienced by the sewer utility and also a reasonable method for determining flat rate sewage charges, the Commission is of the opinion that estimated flows should not be used for purposes of determining the usage rate. Critical in the calculation of the applicable usage rate, is the actual sewage flow information, because absent this actual information the reliability of the calculated rate is suspect and could result in the over-collection or under-collection of the revenue requirement to the detriment of the consumer or the utility respectively.

18. The Commission finds that, absent actual sewage flow data, the applicant's request to implement a customer charge and a single usage rate applied to metered water consumption should be denied.

19. Since the Commission has denied the applicant's proposed rate structure it is incumbent upon the Commission to specify a rate structure that will allow the applicant the opportunity to generate the revenue requirement recognized in this order.

It is the Commission's understanding that residential customers, historically, have paid a flat monthly rate for sewer service and commercial customers have, historically, paid a percentage of their water bill for sewer service. The Commission is of the opinion that until actual flow data is available for these consumers continuation of the presently effective rate structure is appropriate.

20. Even though the Commission has disallowed use of the assumed flow information contained in the HKM Report (Exhibit 2), for purposes of determining a usage rate, it is an adequate information base for determining a flat monthly rate for residential consumers and an applicable percentage of the water bill for commercial accounts. The reason it is an acceptable information base for determination of these rates is due to the fact that the revenue collected will not be dependent upon the actual flows experienced by the utility.

21. Based upon the preceding, Findings of Fact, the Commission finds that the Applicant should continue its currently existing rate structure and use the information contained in the HKM Report to determine appropriate adjustments to the rates, generating the revenue requirement authorized herein.

22. Once the Applicant has actual flow data available, it can convene a hearing under the provisions of Title 69, Chapter 7, and implement a usage based rate, similar to that requested in this

filing, if it so desires. The Commission would encourage the Applicant to convene such a hearing because usage based rates create equity in billing, causing the party receiving the service to pay for the service received.

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. Section 69-3-201, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. The City of Red Lodge shall file rate schedules which reflect an annual revenue increase of \$34,155.

2. The increased sewer revenues authorized herein shall be generated as provided for in Findings of Fact Nos. 19 through 21.

3. The sewer rates shall not be effective until the new rate schedules and supporting calculations have been filed and approved by the Public Service Commission.

DONE IN OPEN SESSION at Helena, Montana this 5th day of August, 1985 by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Clyde Jarvis, Chairman

John B. Driscoll, Commissioner

Tom Monahan, Commissioner

ATTEST:

Trenna Scoffield
Commission Secretary

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 28.2.4806, ARM.