

Service Date: February 28, 1991

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

\* \* \* \* \*

IN THE MATTER of the Application of )	
the Town of Philipsburg for Authority )	UTILITY DIVISION
to Increase Rates and Charges for Sewer )	DOCKET NO. 90.9.59
Service in its Philipsburg, Montana )	ORDER NO. 5541
Service Area. )	

\* \* \* \* \*

APPEARANCES

FOR THE APPLICANT:

Marshall D. Muchmore, Mayor, Town of Philipsburg, P.O. Box  
339, Philipsburg, Montana 59858.

FOR THE COMMISSION:

Chuck Evilsizer, Staff Attorney, 2701 Prospect Avenue,  
Helena, Montana 59620.

Ron Woods, Rate Analyst, 2701 Prospect Avenue, Helena,  
Montana 59620.

BEFORE:

John Driscoll, Commissioner and Hearing Examiner

BACKGROUND

1. On September 11, 1990, the Town of Philipsburg (Applicant or Town) applied to this Commission for authority to increase rates and charges for sewer service to its customers in its Philipsburg, Montana service area. The Applicant requested an average increase of approximately 191%, which constitutes an increase of approximately \$35,309 in annual revenues.

2. On January 22, 1991, following issuance of proper notice a hearing was held in the County Courthouse, Philipsburg, Montana. For the convenience of the consuming public there was a night session at the High School Library. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment. At the close of the public hearing, all parties stipulated to the issuance of a final order

in this Docket.

ANALYSIS AND FINDINGS OF FACT

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

Gary Swanson, Consulting Engineer

Virginia Yardley, Town Clerk

These witnesses testified on the need for the proposed capital improvements, the estimated cost of the proposed capital improvements, the financing of proposed capital improvements, debt service obligations, operation and maintenance expenses and rate structure.

CAPITAL IMPROVEMENT PROGRAM

4. In its application Philipsburg has set forth a proposed capital improvement program for the sewer utility. The total estimated cost of the capital improvements as outlined by the Town is \$538,546. The following Table 1, sets out the proposed costs associated with the capital improvements program.

TABLE 1

1. 18" Storm Drain	\$159,600
2. Storm Drain Manholes	\$ 7,500
3. Storm Drain Manholes w/inlets	\$ 16,200
4. 8" Sanitary Sewer	\$ 62,000
5. Sanitary Sewer Manholes	\$ 16,500
6. Trench Excavation & Backfill	\$ 28,750
7. Paving	\$ 18,000
8. Service Reconnections	\$ 25,000
9. Repair Sediment Trap	\$ 5,000
10. New Valving for Outlet	\$ 10,000
11. Remove Sediment from Cell 1	\$ 30,000
12. Piping Improvements	\$ 20,000
13. Influent Flow Monitor	\$ 8,000
14. Engineering & Contingencies	\$131,996

TOTAL \$538,546

5. Philipsburg proposes that construction of the capital improvements under consideration in this Docket be funded by a Sewer Revenue Bond in the amount of \$260,000 and a construction grant from the Environmental Protection Agency (EPA). EPA has committed to a construction grant in the amount of \$278,546 for construction of the capital improvements to the storm and sanitary sewer facilities.

6. The sewer revenue bond proceeds would be funds that require repayment by sewer utility subscribers. The grant

funding would not require repayment and will be used to pay for the storm sewer improvements. The grant funding has no impact on the rates assessed sewer utility customers.

7. The Town's proposed sewer system improvement program, as testified to by the Town's witnesses, includes the replacement of existing deteriorated undersized mains, separation of the combined storm and sanitary sewer interceptor line, replacement of deteriorated valves and installation of manholes throughout the system to meet requirements of the Montana Department of Health.

8. The Applicant's witnesses testified that significant problems are being experienced with the sewer utility's existing facilities. Some of the collection system deficiencies identified by the witnesses include: undersized pipelines that allow inadequate flows, plugging of lines due to root intrusions, flooding of basements connected to the combined storm/sanitary sewer line, and an insufficient number of manholes for proper maintenance of the system.

9. The Commission finds, based upon the testimony in this Docket, that the capital improvement program as proposed by Philipsburg is reasonably prudent and therefore accepts Philipsburg's assertion that the improvements outlined in the filing need to be constructed.

#### DEBT SERVICE

10. Philipsburg proposes to finance the bulk of the capital improvements to the sanitary sewer system outlined in this proceeding through the issuance of \$260,000 in revenue bonds. The proposed revenue bonds will have a term of 19 years and carry a maximum interest rate of 8.0%.

11. In any sale of municipal bonds, the purchasers of the bonds must be assured that their investment is secure. To provide this security, the municipality makes a promise, called a covenant, to do certain things that will ensure that it will always be able to pay the bond's principal and interest as they come due. In this instance, the Town proposes to include covenants agreeing to the establishment of a bond reserve fund in an amount equal to one year's principal and interest payment on the bonds and provide a coverage ratio of 125%.

12. The Commission finds the bond covenants, establishment of a reserve fund, and the 125% coverage ratio, to be among the standard requirements for the issuance of revenue bonds and, therefore, accepts the requirements.

13. The Commission finds the issuance of \$260,000 in revenue bonds with a maximum term of 19 years and an interest rate of 8.0%, with the requirements that the Town establish a bond reserve in an amount equal to one year's principal and interest payment on the bonds and provide a debt service coverage of 125%, is appropriate.

14. When the Town completes the sale of the proposed revenue bonds it will incur an annual principal and interest payment on the outstanding revenue bonds of approximately \$26,800. It will also incur the obligation to have a net operating income of at least \$6,700 to meet the requirement that it achieve a 125% coverage ratio. The required net operating income is calculated by multiplying the principal and interest payment on outstanding bonds by 25% ( $\$26,800 \times .25 = \$6,700$ ).

15. The Town currently has an outstanding debt that it does not anticipate retiring with the issuance of the proposed \$260,000 bond issue. This debt represents the sewer utility's obligation to repay a portion of a construction loan for a new shop building and present annual payments total \$807.

OPERATION AND MAINTENANCE EXPENSE

16. The test year operation and maintenance expenses totalling \$56,309 were not challenged by any party participating in this proceeding. The test year operation and maintenance expenses presented by the Applicant are accepted by the Commission.

17. The Commission finds the following test year operating revenue deductions to be reasonable:

Operating Expense	\$22,002.00
Shop Debt	\$ 807.00
Debt Service	\$26,800.00
Debt Service Coverage	\$ 6,700.00
TOTAL	\$56,309.00

The test year expense assumes full annualized costs for the proposed revenue bond issue. The Commission chooses to calculate expenses in this manner, as it is the most reasonable way of accounting for the effect of the proposed bond issue on the

operating statement of the utility.

REVENUE NEED

18. Philipsburg indicated that under present rates annual revenue generation would be approximately \$18,450. The Applicant also indicated that the sewer utility would generate \$2,550 in interest and miscellaneous earnings, resulting in total operating revenues of \$21,000. The test period operating revenues were not a contested issue in this case and are accepted by the Commission.

19. The Commission, based upon the Findings of Fact contained herein, finds that the Applicant should be allowed to increase revenues by \$35,309. This requirement is calculated as follows:

Operating Revenue	\$21,000
LESS:	
Operating Expense	\$22,002.00
Shop Debt	\$ 807.00
Debt Service	\$26,800.00
Debt Service Coverage	\$ 6,700.00
Total Revenue Requirement	\$56,309.00
REVENUE DEFICIENCY	\$35,309.00

RATE DESIGN

20. The Applicant has proposed a uniform percentage increase be applied to the rates of all customer classifications for purposes of generating the increased revenues authorized in this order. Absent a cost of service study, the Commission is of the opinion that a uniform percentage increase in rates to all customer classifications is the most equitable method of implementing the revenue increase authorized herein and therefore accepts the Applicant's proposal.

MISCELLANEOUS

21. During the Town's presentation of the facts it became clear that the Town had not properly allocated labor expense attributable to the operation of the sewer utility. In the filing presented to the Commission the Town has allocated 3 months of one maintenance employee's wages (\$5,300 including fringes) to the sewer utility. The Town Clerk indicated during cross-examination that based upon her knowledge of the operation of the sewer utility it would be reasonable to assess the sewer

utility 6 months of one maintenance employees wages (\$10,600 including fringes) rather than the 3 months reflected in the filing.

22. The municipal sewer utility operation is an enterprise fund and should be a self supporting entity within the local government framework. The testimony in this Docket indicates that the sewer utility will not be self supporting even after this increase is authorized, because additional wage expense should have been included in the cost of providing service.

23. Although the need for a higher revenue requirement has, in the Commission's opinion, been demonstrated, the Commission cannot authorize revenues to recover the unreflected wage costs. In ruling on a request for increased rates the Commission's authority is limited by the application filed by the Applicant and the notice of public hearing issued by the Commission. In this instance the Applicant requested an annual revenue increase of \$35,309, which is the amount authorized by the Commission in this Order. However, if the Town is able to issue its proposed revenue bonds at an annual cost of less than \$26,800 the Commission will allow the Applicant to apply any lower debt costs realized, up to \$5,300 annually, to recovery of the unrecognized wage expense.

#### CONCLUSIONS OF LAW

1. The Applicant, the Town of Philipsburg, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's rates. Title 69, Chapter 7, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

#### ORDER

NOW, THEREFORE, IT IS ORDERED THAT:

1. The Town of Philipsburg shall file rate schedules, consistent with the Findings of Fact herein, for its Philipsburg, Montana service area.

2. The Town of Philipsburg is authorized to issue revenue

bonds in the amount of \$260,000 with the requirements as outlined in Finding Fact No. 13.

3. The Town of Philipsburg is authorized to file increased rates recognizing operation and maintenance costs and costs associated with the proposed revenue bonds. The rates shall become effective upon Commission approval subsequent to the issuance of the revenue bonds.

4. The rates approved herein shall not become effective until the tariffs, revenue bond ordinance(s), and necessary calculations relating to debt costs have been submitted for review by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 28<sup>th</sup> day of February, 1991, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

---

HOWARD L. ELLIS, Chairman

---

DANNY OBERG, Vice Chairman

---

WALLACE W. "WALLY" MERCER, Commissioner

---

JOHN B. DRISCOLL, Commissioner

---

BOB ANDERSON, Commissioner

ATTEST:

Ann Peck  
Commission Secretary

(SEAL)

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