

Service Date: Aug. 18, 1992

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 Town of Ryegate To Increase ) DOCKET NO. 92.6.29  
Rates And Charges For Water Service ) ORDER NO. 5640  
In Its Ryegate, Montana Service Area. )

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FINAL ORDER GRANTING WATER RATE INCREASE APPLICATION

APPEARANCES

FOR THE APPLICANT:

Jim Kaercher, Consulting Engineer, HKM Associates,  
P.O. Box 31318, Billings, Montana 59107.

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel,  
34 West Sixth Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Denise Peterson, Staff Attorney, 1701 Prospect Avenue,  
Helena, Montana 59620-2601.

G. Joel Tierney, Utilities Engineer, 1701 Prospect Avenue,  
Helena, Montana 59620-2601.

BEFORE:

Danny Oberg, Chairman and Hearing Examiner.

BACKGROUND

1. On June 4, 1992, the Town of Ryegate (Applicant or Town) applied to this Commission for authority to increase rates and charges for water service to its customers in its Ryegate, Montana service area. The Town requested an average increase of approximately 180.8%, which constitutes an increase of approximately \$15,337 in annual revenues.

2. On July 29, 1992, following issuance of proper notice a hearing was held in the Ryegate Public High School. 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.

#### FURTHER FINDINGS OF FACT

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

Jim Kaercher, Consulting Engineer, HKM Associates,  
P.O. Box 31318 Billings, MT 59107;

Rusty Rokita, President, Rokita Associates,  
P.O. Box 272 Hardin, MT 59034;

Fern Kosbab, Town Clerk, Town of Ryegate.

These witnesses testified on the need, estimated cost and financing of a proposed capital improvement program; debt service obligations; cost allocations; and rate structure.

4. Two members of the public presented testimony at the public hearing. The Superintendent of Schools and the Golden Valley County Sheriff testified in favor of the rate increase, stating that improvements to the system are much needed and that the rate increase would not be prohibitive.

#### CAPITAL IMPROVEMENT PROGRAM

5. In its application, the Town has set forth a proposed capital improvement program for the water utility. The total estimated cost of the capital improvements as outlined by the Town is \$495,000.

6. The Town's proposed water system improvement program, according to the testimony of Jim Kaercher, includes the replacement of the sixty-six (66) year old cast iron water main, the addition of operating valves, and the addition of hydraulic capacity and storage for fire protection. Mr. Kaercher testified that there are potential health-related problems from the deterioration of the cast iron lines, problems at the

infiltration gallery and associated problems with disinfection. Although the entire system should be replaced, the Town has prioritized because of the limited resources. The condition of the distribution system is the most severe problem and will be addressed first in the capital improvement program. The major problems occur in the distribution lines in the south two thirds of the town where the soil type causes undue corrosion to the cast iron lines.

7. Rusty Rokita testified that without the \$120,000 bond issue, the water system will come apart and the Town will lose the Community Development Block Grant.

8. The Commission finds that the capital improvement program as proposed by the Applicant is reasonably prudent and therefore accepts the assertion that the improvements outlined in the filing need to be completed.

#### DEBT SERVICE

9. The Town proposes that the capital improvements under consideration in this Docket be funded in part by a \$375,000 Community Development Block Grant, and the remaining \$120,000 be funded from a Revenue Bond issue having a term of 15 years and a maximum interest rate of 8%.

10. Rusty Rokita testified that D.A. Davidson requires communities which will have to generate more than \$2,000 per household on a bond issue to have debt coverage, or reserve, of 25% which can also be used for operation and maintenance expenses.

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 promises, called covenants, to 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 the annual maximum principal and interest payment due on the bonds,

amounting to \$15,000, which will be capitalized from bond proceeds and a coverage ratio of 125%.

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

13. The Commission finds it appropriate for the Town to issue revenue bonds of \$120,000 with a term of 15 years and a maximum interest rate of 8%, 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%.

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 \$15,000. It will also incur the obligation to have a net operating income of at least \$3,750 to meet the requirement that it achieve a 125% coverage ratio. The required net operating income is calculated by multiplying the maximum principal and interest payment on outstanding bonds by 25% ( $\$15,000 \times .25 = \$3,750$ ).

#### OPERATION AND MAINTENANCE EXPENSE

15. The proposed annual operation and maintenance expenses totaling \$10,200 were not challenged by any party participating in this proceeding.

Expenses: Administration	\$2,600
Supply & Pumping	4,900
Treatment	700
Transmission & Distribution	2,000
	\$10,200

The proposed operation and maintenance expenses presented by the Applicant are accepted by the Commission.

#### REVENUE NEED

16. The Applicant indicated that the proposed annual revenue generation would be approximately \$23,820. This revenue would be

generated through the unmetered sales of the active services plus the monthly charge assessed to the services that are temporarily shut off. The purpose of this monthly charge is to recover the fixed costs associated with the ability to provide service. The proposed operating revenues were not a contested issue in this case and are accepted by the Commission.

#### RATE DESIGN

17. The Town's proposed rate design, the monthly cost per base unit of \$16.97 along with the annual irrigation charge of \$17.12 per lot, was not challenged by any party participating in this proceeding. The Commission's examination of the rate structure indicates that the Applicant has attempted to equitably distribute the cost of providing service, and it is therefore accepted.

#### CONCLUSIONS OF LAW

1. The Applicant, the Town of Ryegate, 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. Section 69-3-201, and 69-3-330, MCA.

#### ORDER

#### IT IS HEREBY ORDERED THAT:

1. The rates as filed by the Town with its application are authorized.

2. The rates shall be effective upon issuance of revenue bonds.

3. The Applicant, the Town of Ryegate, shall file copies of the revenue bond ordinance as proof of issuance of the revenue

bond.

DONE IN OPEN SESSION at Helena, Montana on this 18th day of August, 1992, by a 5-0 vote.

BY THE ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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DANNY OBERG, Chairman

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WALLACE W. "WALLY" MERCER, Vice Chairman

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BOB ANDERSON, Commissioner

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JOHN B. DRISCOLL, Commissioner

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TED C. MACY, Commissioner