Service Date: June 9, 1994

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 Of The Town of Darby To Increase Rates And Charges For Sewer Service In Its Darby, Montana Service Area.	))))	UTILITY DIVISION DOCKET NO. 94.3.16 ORDER NO. 5790

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DEFAULT ORDER GRANTING SEWER RATE INCREASE APPLICATION

BACKGROUND

1. On March 23, 1994, the Montana Public Service Commission (Commission) received an Application from the Town of Darby (Applicant or Town) for authority to increase rates and charges for sewer service to its customers in its Darby, Montana service area. The Applicant requested an average increase of approximately 67.15% or an increase of approximately $10,852 in annual revenues.

2. As part of its Application, the Town submitted a copy of Resolution No. 191 passed by a affirmative vote of the entire Town Council on March 21, 1994. Resolution No. 191 stated that engineering studies prepared for the Town demonstrated a need for a capital improvement program for the facilities which provide sewer service to the Town. The accounting projections indicated that the rates and charges presently in effect would not provide adequate revenues to meet loan requirements of the State Revolving Fund (SRF), which would be used to fund the capital improvement program.

3. On April 20, 1994, the Commission issued a Notice of Public Hearing. On May 26, 1994, a hearing was held in Darby at Town Hall in the Council Chambers.

4. No members of the consuming public or any other persons were present to protest or testify against the rate increase Application.

FINDINGS OF FACT

CAPITAL IMPROVEMENT PROGRAM

5. In its Application, the Town of Darby 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 $113,905. The following table (Table 1) sets out the proposed costs associated with the capital improvements.

Table 1

CONSTRUCTION	
Investigation and demolition of existing facilities:	$7,150.00
Low profile packaged lift station:	$39,000.00
Labor and materials to retrofit existing facilities:	$7,000.00
Sand blast and paint interior of wet well:	$4,000.00
SUBTOTAL CONSTRUCTION COST	$57,150.00
Construction contingency (10%):	$5,700.00
Portable generator and transfer switch: (Town of Darby to purchase direct)	$15,000.00
ENGINEERING	
Preliminary Planning:	$5,400.00
Architectural Engineering Basic Fees:	$10,700.00
Engineering and Construction Management:	$2,700.00
SUBTOTAL ENGINEERING COST	$18,800.00
FINANCING	
Bond Counsel:	$5,000.00
SRF Financing Fees:	$1,400.00
SRF Required 10% Reserve:	$10,355.00
MISCELLANEOUS	
State WQB Plan Review Fee:	$500.00
TOTAL ESTIMATED PROJECT BUDGET	**$113,905.00**
BONDED AMOUNT	$114,000.00

6. The Town proposes that the capital improvements under consideration in this Docket be funded from a loan from the State Revolving Fund (SRF). Repayment of the loan is proposed through revenue bonds having a term of 20 years and a interest rate of 4%, with the requirements that the Town provide debt service coverage of 125%.

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

DEBT SERVICE

8. The Town of Darby proposes to finance the capital improvements to the sewer system outlined in this proceeding through a revenue bond indenture. The revenue bonds will have a term of 20 years and carry a maximum interest rate of 4%.

9. In the bond requirement, the revenues must be 125% of the debt service. The Commission finds that a 125% coverage ratio is a standard requirement and, therefore, accepts it.

OPERATION AND MAINTENANCE EXPENSE

10. The test year operation and maintenance expenses totalling $16,000.00 were not challenged by any party participating in this proceeding. The test year operation and maintenance expenses presented by the Town are accepted by the Commission.

REVENUE NEED

11. The Applicant indicated that under present rates annual revenue generation would be $16,160.00. The test year operating revenues were not a contested issue in this case and are accepted by the Commission.

LATE PAYMENT FEE

12. The Commission received one comment by telephone concerning the late payment fee. However, no person or persons were in attendance at the public hearing to testify and protest the late payment fee. Therefore, the Applicant was not afforded an opportunity to cross-examine the protestant. Upon Commission examination, it was determined that the late payment fee would only impact revenues in the extreme case of most customers untimely paying their bills. The Commission finds that the late payment charge is encouragement for prompt payment of sewer bills in order for the Applicant to meet bond payment requirements and accepts it.

RATE DESIGN

13. The Commission received only one protest to the Applicant's proposed rate design. The protestant was supportive of the proposed capital improvements, however felt that more equitable rates should be developed. The Commission's examination of the rate structure indicates that the Town has applied a uniform percentage increase to all customer classes and accepts it. However, the Commission encourages the Town of Darby to examine the rate structures in any future rate proceedings and determine the true costs associated with providing service to the various customer classes.

CONCLUSIONS OF LAW

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

2. Public notice, an opportunity to be heard, and hearing have been provided and properly conducted, as required by §69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The revenues approved in this Order are just and reasonable. See §§69-3-201 and 69-3-330, MCA.

ORDER

IT IS HEREBY ORDERED THAT:

1. The Application is granted, subject to this Order.

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

3. The Town of Darby is authorized to file increased rates recognizing the costs associated with bond payment indentures.

4. The Town of Darby shall file with the Commission, copies of the bond indenture at which time the Commission will review for tariff approval.

DONE IN OPEN SESSION at Helena, Montana on this 6th day of June, 1994, by a 4-0 vote.

BY THE ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

Bob Anderson

BOB ANDERSON, Chairman

BOB ROWE, Vice Chairman

Dave Fisher

DAVE FISHER, Commissioner

Nancy McCaffree

NANCY McCAFFREE, Commissioner

ATTEST:

Kathlene M. Anderson

Kathlene M. Anderson
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.