



VIA E-FILING

May 31, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**RE: Comments of Aqua Pennsylvania, Inc.
Alternative Ratemaking Methodologies
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Enclosed please find the Comments of Aqua Pennsylvania, Inc. to the Commission's March 2, 2017 Tentative Order concerning Alternative Ratemaking Methodologies.

If you have any questions regarding this filing please contact me at 610-645-1130.

Sincerely,

A handwritten signature in blue ink that reads "Alex Stahl".

Alexander R. Stahl
Regulatory Counsel

Enclosure

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Alternative Ratemaking Methodologies : Docket No. M-2015-2518883

Comments of
Aqua Pennsylvania, Inc.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Alternative Ratemaking Methodologies : Docket No. M-2015-2518883

**COMMENTS OF AQUA PENNSYLVANIA, INC.
TO THE
MARCH 2, 2017 TENTATIVE ORDER**

I. INTRODUCTION

Aqua Pennsylvania, Inc. (“Aqua” or the “Company”) appreciates the opportunity to comment on the Pennsylvania Public Utility Commission’s (“PUC” or the “Commission”) Tentative Order (“Tentative Order”) entered March 2, 2017 in Docket No. M-2015-2518883, regarding Alternative Ratemaking Methodologies (“ARMs”). By Secretarial Letter dated March 23, 2017, the Commission extended the filing date for comments to May 31, 2017 and reply comments to July 31, 2017. Aqua serves a population of approximately 1.4 million in Pennsylvania through 32 counties. Aqua water system includes over 5,700 miles of main. Aqua’s wastewater subsidiary, Aqua Pennsylvania Wastewater, Inc. (“APW”), serves approximately 20,000 connections in Pennsylvania. Aqua’s water and wastewater systems serve both rural and urban areas.

Aqua commends the Commission for taking steps to review and consider new ARMs. It is with this background that Aqua provides the following comments for the Commission’s consideration.

II. COMMENTS

A. Water and Wastewater Utilities

The Commission in its March 2, 2017 Tentative Order requested water and wastewater utilities to comment on the reasonableness and efficacy of water and wastewater utilities using

ARMs in a manner that addresses the costs associated with replacing aging infrastructure and meeting increasing environmental regulation. Specifically, the Commission asked water and wastewater utilities to address the following questions.

- 1. Identify the alternative rate methodology(ies) each water and wastewater utility is currently using, including the number and types of automatic adjustment clauses, cost trackers and separate cost recovery mechanisms. Also identify, as a percentage of total costs or revenues, the costs or revenues each separate mechanism recovers.**

Aqua currently use three of the ARMs identified by the Commission in its Tentative Order: (1) Choice of Test Years, (2) the State Tax Adjustment Surcharge (“STAS”), and (3) a Pennsylvania Infrastructure Investment Authority (“PENNVEST”) Charge.

Aqua has used the future test year (“FTY”) in its previous base rate cases. Aqua commends the Commission for passing Act 11 of 2012 which allows for companies to use fully projected future test years (“FPFTY”) in base rate cases. The FPFTY reduces regulatory lag by allowing utilities to project out an additional year to capture known and anticipated changes. While Aqua has not filed a water base rate case since 2011 and a wastewater rate case since 2010, and therefore has not had the opportunity to use the FPFTY in a base rate case, the Company will likely be using the FPFTY in its base rate cases going forward.

Aqua currently has a provision for STAS in its tariff. The STAS is not often used, because the Company’s overall state tax rate changes infrequently. The STAS, when used, has typically been applied to bills as a surcharge of less than 1% of the total bill.

The PENNVEST Charge is another cost tracker that Aqua uses, however, it only applies for systems that have received PENNVEST funding for infrastructure projects. The PENNVEST charge is typically a set dollar amount applied to a system’s customer bills to repay a specific

PENNVEST loan. Aqua and APW currently have only one system that uses a PENNVEST charge.

2. **If any, what alternative rate methodology(ies) could and should be used by water and wastewater utilities and explain why would they be beneficial? Regarding the proposed methodology(ies) please provide comments on:**
 - a. **The potential advantages;**
 - b. **The potential disadvantages;**
 - c. **The effects on all rate classes, with a specific focus on small volume, low-income, income-challenged and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting; and**
 - d. **The effects on the number and/or frequency of rate case filings, as well as possible rate increases or decreases.**

Aqua acknowledges that each of the ARMs that are discussed in the Tentative Order require further analysis and development, but provides comments on the following mechanisms: a form of decoupling, straight fixed variable pricing, and cost trackers including purchased water adjustment and energy cost adjustment mechanisms.

Decoupling

Aqua has been tracking residential consumption over the past seventy years and has seen a steady decline in consumption since 1971. Residential consumption in Aqua’s southeastern Pennsylvania (“SEPA”) region has gone from a high of approximately 7,200 gallons per month in 1971 to approximately 4,100 gallons per month in 2016. The decline in residential consumption can be attributed to several factors over the recent years including increased use of high efficiency plumbing fixtures and appliances, growing water conservation ethic among customers, and price elasticity. While Aqua recognizes that declining consumption is an ongoing issue concerning revenue, Aqua supports conservation initiatives for customers.

The potential benefits of a decoupling mechanism in Pennsylvania would allow for greater certainty to the Company of collecting its authorized revenue, and would allow for water

companies to further promote conservation without the commensurate negative impact to the Company's realized rate of return. The Company and the customer would be protected for changes in weather that may produce revenues that exceed or fall short of the authorized revenue requirement through a surrcredit or surcharge on customer bills. Further, by collecting the authorized revenue requirement it has the potential to delay base rate case filings and reduce overall requested increases.

The potential disadvantages of a decoupling mechanism are that the customer may not see the need to conserve and the customer will experience difficulty in anticipating their bill amount. Customers may not see the need for conservation if they receive a surcharge on their bill when they have made efforts to conserve during each billing period. Additionally, because of the added surcharge the customer may have a hard time predicting their monthly bill. In Aqua's experience in other states, the inability to anticipate what the monthly bill would be was a main concern from customers and created confusion and complaints from customers.

Straight Fixed Variable Pricing

The costs associated with providing water and wastewater service are highly capital intensive. The water industry has to invest more capital to produce one dollar of revenue than other regulated utilities. These costs to provide water and wastewater service are generally fixed costs. Accordingly, by designing utility rates that emphasize a greater weight on the fixed charge, as opposed to the volumetric charge, would help ensure that the utility is collecting its authorized revenue requirement, reduce the risk of regulatory lag, and provide for more predictable rate requests in the future.

The benefits associated with greater revenue certainty include further spacing of rate increase requests. The potential disadvantages would include an impact on conservation efforts

and a greater impact on low-income customers. Conservation efforts could potentially be impacted due to the reduced weight placed on the volumetric portion of the bill, thereby customers with high usage would not have the financial incentive to conserve. Low-income customers could potentially be affected by the higher fixed charge, and efforts to reduce their bill through conservation may not have a significant impact.

Cost Trackers

Cost trackers are a way for public utilities to recover the expenses of a specific item which may vary from time to time due to price changes outside the control of the public utility. Common cost trackers or commodity pass throughs include purchased water and purchased power. The Company has proposed a Purchased Water Adjustment (“PWA”) and an Energy Cost Adjustment (“ECA”) mechanism in prior base rate cases.¹ These mechanisms would allow for a surcharge or surrcredit to be applied to customer bills to reflect increases or decreases in purchased water and purchased power expense. The Company and the customers would benefit from the PWA and ECA because it would more accurately reflect both increases in costs and savings to customers as the price for these two commodities change between base rate cases. This would help reduce regulatory lag when the utility experiences a price increase, and would provide savings to customers if the price decreases between base rate cases. A potential disadvantage is that customers may not be able to anticipate their monthly bill if a surcharge or surrcredit is applied due to a price change. The mechanisms would be applied to customer bills as a percentage surcharge or surrcredit across all customer classes. The surcharge/surrcredit

¹ See Pa. Pub. Util. Comm’n et al. v. Aqua Pennsylvania, Inc., Docket No. R-2011-2267958, AP Statement No. 1 Direct Testimony of William C. Packer at 24-28 (Nov. 18, 2011) and Pa. Pub. Util. Comm’n et al. v. Aqua Pennsylvania, Inc., Docket No. R-2009-2132019, AP Statement No. 1 Direct Testimony of William C. Packer at 24-27 (Nov. 18, 2009).

would be based on increases/decreases over a baseline cost established in a base rate case, and would be subject to audit and reconciliation.

3. How would the particular rate methodology(ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to water and wastewater utilities (e.g., DSIC, FPFTY, etc.)?

Any ARM implemented by the Commission would have to be reviewed to determine the impact, if any, on existing mechanisms. The Company does not foresee any concerning interaction between the above ARMs and the level of infrastructure replacement or existing mechanisms.

4. How would such a methodology be implemented? Specifically in what timeframe? Is there a need for a gradual implementation or phasing-in process?

The methodologies that Aqua discussed in Section A.2., above, still need to be explored and reviewed by the Commission, statutory advocates, and public utilities as to whether such mechanisms would serve the public interest. Aqua is not recommending any implementation schedule at this time; however, as discussed below in Section B, the Commission should establish work groups and follow its rulemaking procedure to implement any new ARM.

B. Should the Commission proceed with adopting policy statements identifying guidelines for preferred alternative rate methodologies for each utility type, under identifiable conditions, and as permitted by law? Or, should the Commission initiate rulemakings to require a specific alternative rate methodology for specific utility types or specific rate classes, and under what conditions should such alternative rate methodologies be used?

Aqua submits that the Commission should put together industry specific work groups allowing for input from the Commission, statutory advocates, utilities, and other parties to discuss how these ARMs should be developed. Also, any ARM that is implemented should be established through the rulemaking process to which utilities, the statutory advocates, and any other parties may submit comments on the proposals from the work groups. The specific ARMs

would then be established for specific utilities with requirements necessary to use those methodologies.

III. CONCLUSION

Aqua appreciates the opportunity to comment on the Tentative Order and asks that the Commission consider its comments. Aqua looks forward to continuing to work with the Commission on these issues. Please direct any questions with regard to these comments to the undersigned.

Respectfully submitted,



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Dated: May 31, 2017