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November 21, 2019

VIA OVERNIGHT MAIL

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

Re: Implementation of Act 120 of 2018 - Docket No. M-2019-3013286

Dear Secretary Chiavetta:

On behalf of Pennsylvania-American Water Company ("PAWC") please find for filing its Responses to the Bureau of Technical Utility Services' Directed Questions – Set I in the above-captioned docket.

Copies are being served on all parties on the attached Certificate of Service.

Sincerely,

Susan Simms Marsh

Enclosures

cc: Per Certificate of Service (*via electronic and first-class mail*)

RECEIVED

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU



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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of Act 120 of 2018 : Docket No. M-2019-3013286

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the following Responses upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC AND USPS FIRST-CLASS MAIL

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Responses to the Bureau of Technical Utility
Services' Directed Questions – Set I
Pennsylvania-American Water Company
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Page 2

Dated: November 21, 2019



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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

IMPLEMENTATION OF ACT 120 OF 2018	: :	DOCKET NO. M-2019-3013286
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**PENNSYLVANIA-AMERICAN WATER COMPANY’S COMMENTS IN
RESPONSE TO THE BUREAU OF TECHNICAL UTILITY SERVICES’
DIRECTED QUESTIONS – SET I**

I. INTRODUCTION

Act 120 of 2018 (“Act 120”) amended Section 1311(b) of the Public Utility Code, 66 Pa.C.S. § 1311(b), to authorize water and wastewater public utilities to recover a return on and a return of the costs they incur to replace customer-owned lead water service lines (“LSLs”) and customer-owned damaged wastewater laterals (“DWWLs”)¹ subject to specified conditions. Act 120 was signed by the Governor on October 24, 2018 and became effective 60 days thereafter.

On October 24, 2019, the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) issued a Secretarial Letter soliciting comments to the Bureau of Technical Utility Services’ (“TUS”) Directed Questions – Set I. TUS plans to consider those comments in developing “recommendations for additional parameters for customer-owned LSL and DWWL replacement programs.” The Secretarial Letter provided interested parties until November 22, 2019 to submit their comments and scheduled a workshop with interested parties for December 19, 2019 to address issues pertaining to the implementation of Act 120.

¹ As used here in, “LSLs” and “DWWLs” shall refer to the customer-owned portion of lead service lines and the customer-owned portion of damaged wastewater laterals.

Pennsylvania-American Water Company (“PAWC” or the “Company”) provides service to approximately 665,731 water customers and 74,425 wastewater customers within its certificated service territory, which encompasses portions of thirty-six counties across the Commonwealth. As a Pennsylvania public utility, PAWC is subject to the regulatory authority of the Commission. In addition, the Company must comply with drinking water, environmental and operational standards established by the Pennsylvania Department of Environmental Protection (“DEP”) and the United States Environmental Protection Agency (“EPA”) that govern its provision of water and wastewater service. The Company’s legal obligation to comply with the laws and regulations administered by the DEP and EPA is directly relevant to issues relating to the replacement of LSLs and DWWLs.

In its capacity as a Pennsylvania water and wastewater public utility, PAWC submits these comments to the TUS Directed Questions to the extent such questions are relevant to PAWC’s operations and PAWC has information that enables it to respond.

II. BACKGROUND AND OVERVIEW

PAWC is the only Pennsylvania water utility for whom the Commission has approved a plan for replacing LSLs (hereafter, “LSL Replacement Plan”) under and pursuant to Act 120.² The Commission’s order approving the LSL Replacement Plan³ was the culmination of a fully-litigated proceeding (the “LSL Proceeding”) in which an extensive evidentiary record was developed by the

² In 2017, prior to enactment of Act 120, the Commission approved an LSL replacement plan proposed by The York Water Company (“York”). York petitioned for expedited approval of tariff changes required to implement an LSL replacement program because lead levels in its distribution system had exceeded the “action level” set forth in the applicable state and federal drinking water regulations. See *Petition of The York Water Company for an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Costs of Certain Customer-Owned Service Line Replacements to the Company’s Service Account*, Docket No. P-2016-2577404 (Final Order entered March 8, 2017). Since the PUC issued Final its Order, York has submitted various reports delineating its customer outreach efforts and evaluating the effectiveness of its LSL replacement plan.

³ *Petition of Pennsylvania-American Water Company For Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Service Pipes*, Docket No. P-2017-2606100 (October 3, 2019), adopting the Recommended Decision on Remand of Administrative Law Judge Elizabeth H. Barnes issued August 7, 2019.

parties, which included, in addition to PAWC, the Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”). As explained hereafter, the robust record in the LSL Proceeding, the Joint Petition for Settlement on Remand of the LSL Proceeding executed after Act 120’s passage, and the terms of PAWC’s final Commission-approved LSL Replacement Plan already address many of the TUS Directed Questions. Accordingly, several PAWC’s responses refer to, or incorporate by reference, detailed information that was previously developed and provided for the Commission’s consideration in those sources.

A. The LSL Proceeding

The LSL Proceeding started on May 22, 2017, when PAWC petitioned the Commission to approve an LSL replacement plan and recover the associated costs (the “Petition”). With its Petition, PAWC filed the direct testimony and accompanying exhibits of David R. Kaufman (PAWC Statement No. 1) and John R. Cox (PAWC Statement No. 2). Copies of the Petition and of PAWC Statement Nos. 1 and 2 are provided in Appendix A, which accompanies these Comments. The information provided below is derived from those sources and from other parts of the evidentiary record in the LSL Proceeding.

The Petition proposed a Replacement Plan with two parts. Under Part 1, PAWC would replace, with customers’ consent, LSLs encountered when it replaces its mains and Company-owned service lines. Under Part 2, PAWC would replace LSLs when asked to do so by a customer subject to verifying that an LSL is present. Under Part 2, the Company would coordinate customer requests, group them by geographic location, and perform replacements when requests in a given area could be aggregated into a single project in order to capture reasonable economies of scale.

PAWC proposed a budget cap of \$6.0 million per year on expenditures under Parts 1 and 2 of the replacement plan.

PAWC's proposed replacement plan was designed to address conditions that could expose customers to lead in their drinking water and, in that way, to help comply fully with applicable drinking water regulations. PAWC witness Kaufman testified that PAWC was complying with the Lead and Copper Rule⁴ ("LCR") by implementing various measures, including corrosion control treatment of the water it supplies. Mr. Kaufman also explained that replacing LSLs in conjunction with the Company's main replacement program would be a cost-effective way to continue PAWC's main replacement program while avoiding the health and safety concerns associated with "partial" lead service line replacements.⁵ In addition, Mr. Kaufman testified that replacing LSLs is a reasonable and cost-effective way to assure that a source of potential water-borne lead exposure would be eliminated.

B. Procedural History Up To The Commission's January 2019 Order

The Petition was served on the OCA, I&E, OSBA, and all parties of record in PAWC's Long-Term Infrastructure Improvement Plan proceeding at Docket No. P-2017-2585707. Written direct testimony was submitted by I&E, OCA and OSBA. Thereafter, the Company and the other parties submitted written rebuttal and surrebuttal testimony, respectively. (Copies of PAWC's Rebuttal Testimony, identified as PAWC Statement Nos. 1-R and 2-R, and accompanying exhibits are included in Appendix A.) Evidentiary hearings were not held because the parties waived cross-

⁴ 25 Pa. Code §§ 109.1101 through 109.1108.

⁵ A "partial" service line replacement removes and replaces only the utility-owned segment of a service line (the portion from the main to the utility's curb box). Mr. Kaufman explained the physical and electrochemical forces that contribute to an increased risk of lead contamination when a partial replacement disturbs, but leaves in place, the customer-owned segment of a lead service line. PAWC St. 1, pp. 8-10.

examination and moved their respective witnesses' written testimony and exhibits into evidence by motion and stipulation.

Main and Reply Briefs were submitted on March 1, 2018 and March 15, 2018, respectively. In their briefs, the other parties supported the Company's proposal to replace LSLs in order to eliminate potential sources of lead exposure and protect public health and safety. However, I&E and OCA disagreed with the Company proposals to capitalize its LSL replacement costs and recover a return on and of that investment.

On May 15, 2018, the ALJ's first Recommended Decision was issued, which found that PAWC's two-part proposal to replace customer-owned LSL was in the public interest. Accordingly, the ALJ recommended that the Commission approve PAWC's proposed tariff revisions and authorize the Company to move forward with replacing LSLs. The ALJ, however, did not approve the Company's proposal to capitalize its expenditures to replace LSLs and recover a return on an of its investment. Instead, she recommended I&E and OCA proposals to defer the replacement costs and amortize them over a period of up to ten years without a return on the unrecovered balance. PAWC filed Exceptions to the Recommended Decision on June 4, 2018. I&E, the OCA and the OSBA filed Replies to Exceptions on June 14, 2018.

C. Act 120 And The Commission's January 2019 Order

Act 120, which was enacted after the first Recommended Decision, authorized investor-owned water utilities to pursue comprehensive replacement of LSLs lead service lines, subject to budget caps, and prescribed accounting and ratemaking treatment deeming the replacements of customer-owned LSLs (and DWWLs) to be part of the regulated utility's distribution/collection system and, as such, to be included in rate base, depreciated and earn a return.⁶ Act 120 also

⁶ *Id.* at §§ 1311(b)(2)(i)-(iii).

provided that the utility did not become the owner of a replacement⁷ and directed the PUC to establish standards for warranties on the replacement work and for reimbursing customers who replaced LSLs and DWWLs at their own cost.⁸

On January 4, 2019, in response to Act 120, the Commission set aside the portions of the Recommended Decision dealing with accounting and ratemaking treatment of replacement costs.⁹ The Commission found that Act 120 prescribed the cost recovery for LSL replacement costs and addressed other contested issues, such as warranties on the work performed.¹⁰ The Commission remanded the LSL Proceeding to evaluate the impact of Act 120 and to develop a solution that could become a “model” for other Pennsylvania water utilities to replace LSLs in accordance with the terms of Act 120.¹¹

D. Procedural History On Remand

On January 11, 2019, the parties advised the ALJ that they agreed with the Company’s decision to proceed at the LSL Proceeding docket rather than file a new plan. They also requested an opportunity to negotiate revisions to the previously-proposed replacement plan in light of Act 120. The ALJ granted the request. The parties worked together to try to reach a reasonable resolution consistent with the directives in the January 2019 Order. The parties were able to achieve a settlement (“Settlement”) that was set forth in a Joint Petition for Settlement on Remand filed on July 17, 2019. A copy of the Joint Petition, together with accompanying Exhibit 1 and the

⁷ 66 Pa.C.S. § 1311(b)(2)(v)-(vi).

⁸ *Id.* at § 1311(b)(2)(vii).

⁹ *Petition of Pennsylvania-American Water Co. For Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Serv. Pipes*, Docket No. P-2017-2606100 (Opinion and Order entered January 4, 2019) (“January 2019 Order”).

¹⁰ *See* January 2019 Order, p. 13.

¹¹ *Id.*, pp. 14-15.

Joint Petitioners' Statements in Support, is provided in Appendix A hereto. On August 7, 2019, the ALJ issued her Recommended Decision on Remand approving the Settlement. A copy of that Recommended Decision is also provided in Appendix A. The Recommended Decision on Remand was adopted by the Commission's Final Order entered on October 3, 2019, and a copy of that Order is included in Appendix A.

As noted previously, PAWC has already provided extensive information about many of the areas that are the focus of the TUS Directed Questions. Additionally, many of the topics for which TUS is soliciting comments have been carefully considered by all the parties to LSL Proceeding and are addressed by the terms of PAWC's PUC-approved LSL Replacement Plan. Accordingly, several TUS's areas of inquiry can, and will, be addressed by reference to PAWC's LSL Replacement Plan and the evidentiary record that supports it.

E. Background Information Relevant To DWWL Plans

Unlike the replacement of LSLs, which addresses potential public health risks, the replacement of DWWLs would be undertaken when it is a necessary and cost-effective means of addressing excessive infiltration and inflow ("I&I") to a wastewater system. Thus, a decision to implement a DWWL replacement plan for a particular collection system (or a particular collection basin within a collection system) would be a function of system-specific, fact-sensitive factors, such as the overall level of I&I, the major sources of I&I, treatment capacity constraints, and the cost-effectiveness of DWWL replacement versus other I&I reduction measures. Consequently, the existence of DWWLs on a particular collection system does not, in itself, drive the need for DWWL replacement. Utility-funded DWWL may, under certain circumstances, be the cost-effective solution for addressing high I&I level. To date, PAWC has not identified any conditions on its wastewater collection systems where a utility-funded DWWL replacement program would be

needed to address operational issues or to achieve compliance with regulatory requirements. Consequently, issues pertaining to DWWL replacement will not be a principal focus of PAWC's comments.

III. PAWC'S COMMENTS RESPONDING TO SPECIFIC TUS DIRECTED QUESTIONS

Planning and Reporting¹²

M-1 What information should utilities seeking to replace LSLs and DWWLs provide in a distinct comprehensive replacement plan or as integrated elements within their long-term infrastructure improvement plans (LTIIPs)?

Response: The information the PAWC provided in its Petition, accompanying direct testimony, rebuttal testimony and the terms of the Joint Petition for Settlement on Remand were considered by the litigants, the ALJ and the Commission to provide an ample evidentiary basis for approval of PAWC's LSL Replacement Plan. Please refer to PAWC's Petition, direct and rebuttal testimony, accompanying exhibits, and the terms of the LSL Replacement Plan as modified by the Joint Petition for Settlement on Remand for the elements the parties and the Commission deemed appropriate for approval of an LSL replacement plan.

PAWC has not proposed, nor has it had occasion to consider, a comprehensive DWWL replacement plan. The forces driving a wastewater utility's decision to replace DWWLs are different from those that govern LSL replacement, as explained in Section II.E., above. Because the factors that may support a utility decision to implement utility-funded replacements of DWWLs are system-specific and fact-sensitive, it would not be productive to generalize about specific information requirements before any plan has been submitted for the Commission's consideration. Each plan would presumably be tailored to the operational, regulatory, and demographic conditions of the affected collection system.

M-2 What are the most effective methodologies for completing a thorough study to locate and identify LSLs and DWWLs within a utility's service territory?

Response: PAWC located potential LSLs by reviewing "tap cards" and property records in its own files in order to identify areas that exhibit characteristics indicating a high probability that LSLs may be present. A tap card is a hard copy record of the location and data related to each service tap into the main. These sources are not always entirely accurate because homeowners may have replaced LSL

¹² PAWC has grouped its responses under the same section headers employed by TUS in Attachment 1 to the October 24, 2019 Secretarial Letter.

without notifying the Company. For areas where the Company's records do not contain tap cards or other historic records (often these are the service areas of systems PAWC or its predecessors acquired from other utilities or from municipalities), the Company would initially delineate areas, based on factors such as the age of the housing stock, where LSL are likely present. It would then physically examine the service lines (or a representative sample) through the technique of "potholing" which involves excavating the service line to enable visual inspection of the material. This technique would confirm the material on the customer owned portion of the service line.

Utilizing available records, PAWC has prepared an inventory, by district, of known or suspected LSLs. PAWC will use Geographic Information System mapping ("GIS") to correlate the age of housing stock with the age of water mains and types of service line material to identify suspected areas with lead service lines.

Wastewater utilities regularly clean and inspect sewer mains, including through closed-circuit televised internal inspections. This process can provide the utility information about the condition of customer-owned laterals to determine if they are damaged, the extent of the damage and whether such damage could be a source of I&I. The inspections are augmented by the utility's internal reporting of customer-side sewer back-up events, which provide additional information for assessing the probability that a customer's sewer lateral is damaged or debilitated and may be a source of I&I.

M-3 What would be a reasonable timeframe, based upon a concerted effort, for a utility to identify all the LSLs within its service territory via historical records, city permits, direct visual inspections and other such means early in an LSL replacement plan's schedule as part of a utility's LTIP?

Response: It is not possible to achieve a level of precision that would allow a water utility of the size and geographic scope of PAWC to definitively state that it has identified all LSL within its service territory. This is particularly true for utilities, like PAWC, that are implementing the PUC's policy of promoting regionalization by acquiring small, troubled water systems. Those efforts are adding customers to PAWC's service territory on a regular basis, and the additional service territory may bring with its additional LSLs that need to be addressed. Consequently, identifying LSLs is part of an on-going process and must be diligently pursued in connection with the Company's overall programs of main and service line replacements. The existence of an approved LSL Replacement Plan permits the Company to replace customer-owned LSLs whenever they are encountered in connection with a main replacement. This ensures that the risk of lead exposure can be minimized because "full" replacements will be done if any part of the service line could be disturbed in connection with the utility-initiated work. As explained in detail in PAWC Statement No. 1 (pp. 8-10), the same risk does not exist if a lead service line

remains intact and is not disturbed by surrounding main replacements. For that reason, the Company proposed a two-part LSL Replacement Plan, with Part 1 addressing replacements in connection with utility-initiated main and service-line work, and Part 2 for replacements requested by customers where no utility-initiated work is being done in proximity to the customer's LSL. The time required to make a reasonable estimate of the number and approximate location of customers with LSLs will vary from company to company and within different parts of the service territory of single company based on the availability and quality of historical records and other available sources of information. PAWC believes that its estimate of the number of LSLs remaining on its system at the time it filed its Petition was a reasonable basis for developing the timing, budget cap and pace of replacements used in developing its PUC-approved LSL Replacement Plan.

M-4 What are the best practices and avenues for reporting and/or communicating the results of a thorough study to locate and identify LSLs and DWWLs within a utility's service territory?

Response: It is not clear from the question to whom the utility would be reporting or communicating the results of its study. PAWC's PUC-approved LSL Replacement Plan contains provisions for communicating with potentially-affected customers, including outreach about Part 2 of its plan. *See* Joint Petition for Settlement on Remand, ¶ 33.

M-5 Other than annual asset optimization plans filed pursuant to 66 Pa.C.S. § 1356, what is/are the most effective means of reporting the progress of LSL and DWWL replacement program efforts, including the number of LSL and/or DWWL replacements, the size and length of pipe removed, the cost per service, the location of removal, site conditions, etc.?

Response: A reporting requirement acceptable to all parties and approved by the PUC is included in PAWC's LSL Replacement Plan. *See* Joint Petition for Settlement on Remand, ¶ 41. Additionally, York has already begun implementing its pre-Act 120 LSL replacement plan. Consistent with its plan, York has been filing regular reports with the Commission at Docket No. P-2016-2577404. York's most recent report was filed on September 12, 2019.

Communications

M-6 What information should be provided to customers that are or may be affected by a known or suspected LSL or DWWL (e.g., The utility's replacement schedule, the material type of the company owned service line, etc.)?

Response: PAWC provided for the record in the LSL Proceeding copies of the written material it would provide to potentially affected customers. *See* PAWC

Exhibit Nos. DRK-1R and DRK-2R and PAWC Statement No. 1-R, p. 12. PAWC's customer outreach and the Company's communication plan were addressed in its PUC-approved LSL Replacement Plan. See Joint Petition for Settlement on Remand, ¶¶ 33-34.

Consistent with the terms of its LSL Replacement Plan, PAWC will provide customers information about its approved LSL Replacement Plan; guidance on how to check their service lines for lead; information on the health risks of lead; and steps they can take to minimize potential exposure to lead. For customers in areas with known or suspected LSLs, PAWC will notify each customer in the area of an identified main replacement project, provide a packet of information about lead exposure, and provide a form for customers to give written consent for PAWC to investigate their customer-side service line material. The Company will notify each customer of the results of its service line assessment (confirming whether lead is present) with a door-hanger. If the customer side of the service line is lead, PAWC will provide the customer with a lead water service line replacement agreement to sign. All customers affected by a planned water main replacement project will receive a flyer with information about the replacement project's location, schedule, work hours and the applicable Company point-of-contact. At the conclusion of an LSL replacement, PAWC will provide customers with instructions for daily and monthly flushing for six months following the completion of the project.

It also should be noted that the Commission, in its final order approving York's LSL replacement plan, directed York to report on its customer outreach efforts. York filed a report in response to that directive at Docket No. P-2016-2577404 on October 10, 2017, which included copies of York's written materials provided to customers. It appears that the Commission found York's plan and customer materials to be appropriate and did not direct any changes.

PAWC has not had occasion to consider what information would be provided to customers in areas where a utility-funded DWWL plan may be implemented. Because DWWLs do not implicate the public health concerns raised by LSLs, the nature, extent and frequency of outreach and communications to potentially affected customers would be different.

M-7 How and when should information be provided to customers that are or may be affected by a known or suspected LSL or DWWL? Discussions may include, but are not limited to, providing information in a website portal and/or printed materials, sending out materials at periodic intervals and/or providing materials when a customer completes an application for service.

Response: Please refer to the Company's response to Directed Question M-6, above. PAWC plans to implement a Customer Outreach and Communication Plan consistent with the terms of its approved LSL Replacement Plan, in 2020. As

explained in the response to Directed Question M-6, the Customer Outreach and Communications Plan the Company is developing will provide customers with known or suspected LSLs with information about the LSL Replacement Program and details about main or service line replacement projects in their area. Using the GIS information, it develops (*see* PAWC's response to Directed Question M-2, above) as well as information from all other sources of information relevant to locating LSLs, PAWC will identify the locations of customers with suspected LSLs and maintain a log of those customers and locations in its GIS mapping system.

As part of its on-going main replacement program, PAWC will review its records on company-side and customer-side service lines during the fourth quarter of each year as projects are selected and planned for the following year. When main replacement projects are identified, PAWC will contact each customer with a known or suspected LSL within the scope of the project, provide a packet of information about lead exposure, arrange to verify whether the customer has an LSL and, if so, provide documentation to obtain the customer's written consent to replace its LSL. The Company will notify each customer of its assessment of its service line by leaving a door hanger with that information. Before starting any main replacement project, PAWC will obtain a signed agreement for LSL replacements to be performed as part of the project.

Customers can inquire about the status of their LSL replacements (including LSL replacements requested under Part 2 of the LSL Replacement Plan) using an email address specifically created for that purpose or by calling customer service. At the end of each year, PAWC will mail letters to all customers who have requested LSL replacements regarding the status of their requests and provide the anticipated timeframe for their LSLs to be replaced.

M-8 What information, if any, should the utility provide a municipality about the number of known and suspected LSLs within its jurisdictional boundaries and the potential schedule for replacement?

Response: PAWC tries to maintain good lines of communication with the municipalities in its service area, particularly with regard to upcoming or anticipated construction projects. While PAWC believes municipalities in its service area should be apprised of initiatives it is undertaking to enhance customer service, the Company does not believe the Commission should mandate any specific information exchange or communication regarding municipalities.

M-9 What processes and procedures should utilities follow based upon a customer's acceptance of an LSL or DWWL replacement?

Response: This information was provided regarding LSL replacements in PAWC Statement No. 2, pp. 9-10. Reference should be made to that portion of the

Company's testimony in the LSL Proceeding. Please note that the Company will take and test an initial water sample and, thereafter, a second sample will be taken and tested. Test results will be provided to the customer.

The Company has not had occasion to consider implementing a utility-funded DWWL program. Given the differences in the issues that LSL replacements and DWWL replacements are intended to address, the communication plan for a DWWL replacement program will likely be different from that used when LSLs are present.

M-10 What content should be included in notices to utility customers when a utility files a new tariff or tariff supplement pursuant to 66 Pa. C.S. § 1308 to replace LSLs and DWWLs?

Response: Because Act 120 already authorizes a utility to recover a return on and a return of its investment in LSL and DWWL replacements, the filing of a tariff to revise a utility's rules to permit it to perform work on the customer side of a water service line or sewer lateral does not, in itself, produce a "change in rates" that requires individual customer notice. The utility will still need to seek approval to recover the fixed costs of the replacement in a subsequent base rate or distribution system improvement charge ("DSIC") filing, in which issues pertaining to whether the incurred costs should be reflected in rates (e.g., the prudence and cost-effectiveness of the expenditures) can be adjudicated. The Commission does, however, retain discretion to consider other forms of notice, such as newspaper publication, publication in the Pennsylvania Bulletin, and posting on the utility and the Commission's websites. However, PAWC believes that appropriate notice to affected customers will be provided by its customer outreach and communication plan for LSL replacements, pursuant to its PUC approved LSL Replacement Plan. See Joint Petition for Settlement on Remand, ¶¶ 33-34.

Replacements

M-11 What are the best ways to prioritize LSL replacements outside of scheduled main replacement and relocation projects to allow for a proactive and distinct LSL replacement program in an efficient and effective manner?

Response: Please refer to PAWC Statement No. 1, pp. 8-10, explaining that risks of lead exposure are minimal to non-existent when a lead service line is left undisturbed. The insoluble coating or "scale" that builds up naturally over time on the inside of the service line creates a physical barrier that prevents leaching of lead into the water the service line delivers. Following good corrosion-controlling water treatment practices (as PAWC does) avoids any material risks of exposure to lead in the drinking water from such service lines.

A greater risk of lead exposure occurs if the physical “scale” barrier is disturbed, which occurs when a main and Company service line are replaced without, at the same time replacing the customer’ LSL (i.e., a so-called “partial” replacement). Part 1 of PAWC’s LSL Replacement Plan is designed to assure that full, not partial, replacements can be performed whenever Company mains and Company-side services are replaced. Accordingly, those instances are given first priority under Part 1 of the Company’s LSL Replacement Plan. When mains, Company-side services and customer LSLs remain undisturbed (i.e., where there is not utility-initiated work in proximity to the LSL), the risk of lead exposure is not material, for the reasons explained above. In these situations, customers with verified LSL can request replacement under Part 2 of the Company’s LSL Replacement Plan. In those instances, projects are grouped and prioritized to assure that they can be performed cost-effectively by capturing economies of scale. See PAWC Statement No. 1-R, p. 8. Paragraph Nos. 26-28 of the Joint Petition for Settlement on Remand contain terms specifically designed to address situations where a customer is waiting for an LSL replacement under Part 2 of its LSL Replacement Plan, in which case there is an enhanced testing requirement and provisions for offering in-home filters free of charge to low-income customers.

M-12 Should priority LSL replacement scheduling be provided for customers where water is/will likely be consumed by sensitive populations (e.g., children in schools or day-care centers, pregnant women, etc.), what criteria should make a customer eligible for prioritization and how should utilities obtain this information?

Response: Please refer to the response to Directed Question M-11, above. The Company’s LSL Replacement Plan provides reasonable assurance that conditions that might create a risk of exposure to elevated lead levels would not occur.

M-13 Describe the considerations and replacement procedure of an LSL on a property where the site conditions would be conducive to a standard approach?

Response: Please see the response to Directed Question M-9 and PAWC Statement No. 1-R, pp. 9-10.

M-14 Describe the considerations and replacement procedure of an LSL on a property where the site conditions would require the utility to take unique or extraordinary efforts?

Response: Please see the response to Directed Question M-9 and PAWC Statement No. 1-R, pp. 9-10.

M-15 Should the Commission establish a cap on the amount a utility is permitted to invest in a LSL or DWWL replacement for a customer, what should this amount be and would it be reasonable to establish this cap based on a customer's meter size?

Response: In the LSL Proceeding, no party proposed imposing a “cap” (based on meter size or otherwise) on the cost to install LSL replacements in Part 1 of the LSL Replacement Plan. Imposing such a “cap” would increase the risk customers would not agree to replacements in circumstances where full LSL replacements are needed to address an elevated risk of exposure to lead in their drinking water. The OSBA proposed a cap on the cost of LSL replacements under Part 2 of the LSL Replacement Plan. That recommendation was not adopted in the PUC-approved LSL Replacement Plan. PAWC witness Kaufman explained why it is not appropriate or prudent to impose a cap on LSL replacements. PAWC Statement No. 1-R, pp. 12-14.

The impact of utility LSL replacement plans on customer rates can be mitigated through the annual cap on replacements mandated by Act 120, 66 Pa. C.S. §1311(b)(2)(vi), and annual budgetary allotments for the plan. A reasonable budgetary allotment for a utility’s LSL replacement plan should be based on a variety of factors, including the LSL inventory, planned main replacement work and ability to realize economies of scale, and the customer rate impact in individual utility service territories. Please see PAWC Statement No. 1, pp. 14-15, for a discussion of how PAWC developed the \$6.0 million budgetary allotment under its LSL Replacement Plan.

PAWC has not had occasion to consider the components of a plan for utility-funded DWWLs. However, because a DWWL replacement plan would be implemented principally as a cost-effective means of reducing excessive I&I, and the cost-effectiveness would necessarily apply to the plan, it does not appear the purpose for implementing a DWWL plan would be advanced by requiring the imposition of caps on individual DWWL replacements.

Refusals

M-16 What processes or procedures should utilities follow based upon a customer's refusal of a LSL replacement, including:

- a. Should there be any implications for residential real estate property where the presence of an LSL is identified but the current property owner refuses to voluntarily and affirmatively collaborate with the public utility in question in the replacement of such identified LSL (e.g., filing of notices with appropriate municipal authorities and property registration records whether the LSL and the corresponding

company-owned LSL have been identified and have or have not been replaced)?

- b. Should utilities install a backflow prevention device on the company's service line and/or terminate service to the customer if an LSL is not replaced within a reasonable period?

Response: Please see Joint Petition for Settlement on Remand, ¶ 20, for a description of the processes and procedures utilities should follow if a customer refuses to enter into an agreement granting permission for the utility to enter onto the customer's property to perform an LSL replacement. As explained in PAWC Statement No. 1-R, p. 6, PAWC will take measures to mitigate risks to customers who do not agree to a PAWC-funded LSL replacement and, therefore, leave no option but to implement a partial service line replacement. PAWC does not believe additional procedures are necessary to reduce the risks attendant with partial LSL replacements or potential liabilities for the utility and its customers.

M-17: What processes or procedures should utilities follow based upon a customer's refusal of a DWWL replacement?

Response: PAWC's tariff requires customers to maintain their laterals in good working order. Failure to properly maintain a customer-owned lateral, including replacing a damaged lateral, would be grounds to terminate service to the customer. If a customer refuses a utility-funded DWWL replacement pursuant to a Commission-approved DWWL replacement program, PAWC would be authorized to follow the procedures in its tariff to terminate service. PAWC believes that the customers would generally be persuaded to acquiesce to a utility-funded DWWL replacement before such measure would need to be implemented.

M-18: If a customer refuses to accept full replacement of a LSL, what considerations should be addressed to reduce potential liabilities for the utility and its ratepayers?

Response: Please see the Company's response to Directed Question M-16. All parties to the LSL Proceeding agreed to the relevant terms of the Joint Petition For Settlement On Remand.

M-19: Considering health implications associated with partial LSL replacements, should Company-owned LSLs be replaced where a customer refuses to allow replacement of the customer-owned LSL and, if so, what additional procedures should a utility follow than those previously discussed?

Response: Please see the Company's responses to Directed Questions M-16 and M-18.

M-20 When a number of LSLs are identified within a municipal boundary, should the utility seek legislative support regarding LSLs from the municipal entity to support a complete LSL replacement effort?

Response: Act 120 does not mandate replacement of all LSLs remaining in the Commonwealth, and the Company is not aware of any municipalities that have enacted local ordinances requiring all residents to replace LSLs on their property. Trying to implicate a multiplicity of municipal government units across the Company's service territory to get involved in the LSL replacement program would add unnecessary complication and potentially delay rather than advance the goal of LSL replacement. American Water has implemented utility-funded LSL replacement programs in other parts of its water utility footprint and, in its experience, the number of qualifying customers that refuse utility funded LSL replacement is de minimis even without municipal ordinance to compel such replacements.

Section 1311(b) Analysis

M-21 What is the appropriate definition of a DWWL?

Response: PAWC has not had occasion to consider Act 120 implementation issues for DWWLs. PAWC notes, however, that the National Association of Sewer Service Companies ("NASSCO") has established criteria for evaluating the condition of sewer mains that are accepted across the industry and used by DEP. The Commission may consider whether those criteria could be adapted to provide guidelines for assessing the condition of customer-owned sewer laterals. However, as previously explained, the decision to implement a DWWL replacement plan involves more than the presence of DWWLs; it also is based on the contribution DWWLs make to excessive I&I and whether DWWL replacement is a cost-effective solution or reducing excessive I&I.

M-22 What are reasonable standards, processes, and procedures for establishing the maximum number of LSLs and DWWLs that can be replaced annually?

Response: The total number of LSL replacements that can reasonably be implemented annually is a function of a number of factors including the geographic scope of the utility's service area; the number of LSL to be replaced; the availability of contractors to perform the work; the utility's internal resources available to plan and supervise the LSL replacements; other major projects that need to be completed; the utility's financing capacity; and the impact on customer rates. These factors are company-specific and fact-sensitive. Please refer to Paragraph No. 35 of the Joint Petition for Settlement on Remand, which established the annual cap and budgetary allotment for PAWC's PUC-approved LSL Replacement Plan.

The development of annual levels of DWWL replacements would likely consider the factors outlined above as well as the operational and regulatory requirements that may be driving the replacement of DWWLs as the cost-effective means of reducing excessive I&I.

M-23 What are reasonable standards, processes and procedures for establishing a reasonable LSL or DWWL warranty term.

Response: LSL replacements would be done by contractors retained by PAWC for that work. Contractors typically restrict the warranty they provide to one-year. *See* PAWC Statement No. 1, p. 11. Also refer to Paragraph 31 of the Joint Petition for Settlement on Remand setting for the warranty period under PAWC’s PUC-approved LSL Replacement Plan. *See also* Recommended Decision, p. 24.

M-24 What are reasonable standards, processes, and procedures for establishing the amount and means for reimbursing customers that have replaced a LSL and/or DWWL within one year of commencement of a replacement project?

Response: Please see PAWC Statement No. 1-R, pp. 17-18. The terms under PAWC’s PUC-approved LSL Replacement Plan for reimbursement of customers who recently paid for their own LSL replacement, the scope of a “project” referenced in 66 Pa. C.S. §1311(b)(2)(vii)(B) and limits on the amount of reimbursement are set forth at Paragraph 32 of the Joint Petition for Settlement on Remand. *See also* the Recommended Decision, pp. 25-26. The Commission may wish to consider the terms of PAWC’s PUC-approved LSL Replacement Plan in assessing reasonable reimbursement terms for DWWL replacements.

M-25 What constitutes customer LSL and DWWL projects as referenced in 66 Pa. C.S. §1311(vii)(B) and how would reimbursements be linked to the referenced project (e.g., proximity or direct impact)?

Response: Please refer to the Company’s response to Directed Question M-24. As noted, the scope of a “project” is addressed in the Joint Petition for Settlement on Remand. The Commission may wish to consider the terms of PAWC’s PUC-approved LSL Replacement Plan in assessing the scope of DWWL projects.

Rates

M-26 What benefits do LSL and DWWL replacements provide to each customer class, including the public and private fire protection, bulk/wholesale and industrial customer classes?

Response: Please refer to Section II.A.-D. and the response to Directed Question M-3 for benefits to customers of LSL replacements. While LSL replacements may be made under the LSL Replacement Plan for any general service rate class, the Company anticipates that the majority of LSL replacements will be performed at the premises of residential customers.

PAWC has not had occasion to consider adopting a DWWL replacement plan. However, because utility-funded replacements of DWWLs would likely be proposed as the cost-effective means of reducing excessive I&I, the such a program would benefit all classes of customers connected to the wastewater system by reducing total costs, including avoiding or postponing the construction of additional treatment capacity. In addition, to the extent that reduced I&I reduces discharges of untreated flows at the system's outfalls, there is a significant environmental benefits.

M-27 What benefits do utilities and ratepayers realize from LSL and DWWL replacements apart from a return on and of the utility's investment?

Response: Replacement of LSL will assist water utilities in assuring compliance with the Lead and Copper Rule. *See* PAWC Statement No. 1, pp. 6-10. In the LSL Proceeding, the OCA's witness, Scott Rubin, testified that full LSL replacement has become a "best practice" in the water industry for both investor-owned and municipal water providers. OCA Statement No. 1, pp. 8-9.

Replacing DWWLs as a cost-effective means of reducing excessive I&I benefits utilities and their ratepayers by assuring compliance with environmental laws and regulation and avoiding or postponing capital expenditures for capacity additions.

M-28 What is the applicable depreciation or amortization rate for LSL and DWWL replacement costs for DSIC purposes and would this change over the life of the investment?

Response: Please refer to Paragraph 37-38 of the Joint Petition for Settlement on Remand, which provides that LSL replacement costs will be recorded in a subaccount of Account 333 – Services. As such, LSL replacement costs will be included with all of Account 333 in determining appropriate service life parameters and depreciation rates.

PAWC has not had occasion to consider implementing a DWWL replacement plan. However, in view of the approach employed in PAWC's PUC-approved LSL Replacement Plan, it would be reasonable to record DWWL replacement costs in a subaccount of Account 363 – Service Laterals and include those costs with all other costs in Account 363 to determine appropriate service life parameters and depreciation rates.

M-29 What is the applicable depreciation or amortization rate for LSL and DWWL replacement costs for base rate purposes and would this change over the life of the investment?

Response: Please see the Company's response to Directed Question M-28. The depreciation rates for Accounts 333 and 363 would be subject to change if actuarial analysis performed for purposes of periodic service life studies indicated that the service lives of those accounts changed over time.

M-30 When allocating LSL and DWWL replacement costs between customer classes, what guidelines should balance cost causation, benefits received and LSL/DWWL replacement program participation while ensuring just and reasonable rates?

Response: The costs of LSL replacements are to be recorded in a subaccount of Account 333 – Services. The costs in all of Account 333 should be functionalized, classified and allocated in accordance with the accepted principles for conducting customer class cost of service studies for water utilities. The same approach should apply to DWWL replacement costs.

M-31 When allocating LSL and DWWL replacement costs within a customer class, should customers with larger meters and greater consumption than the average member of their customer class have a lesser, equal or greater proportionate financial responsibility for LSL and DWWL replacement costs and should this responsibility be capped at a fixed amount for customers with meters larger than a certain size?

Response: Please see the response to Directed Question M-30. The size of meters and services should be considered to the extent that those factors are an input in applying accepted principles and procedures for conducting customer class cost of service studies.

M-32 What alternative financial support sources exist for the replacement of LSLs and DWWLs, e.g., grants, and how should the potential and actual use of such funding sources be recognized by public utilities for accounting and ratemaking purposes in their respective LSL and DWWL replacement programs?

Response: As explained in PAWC Statement No. 1, pp. 15-16, the Company intends pursue state and federal funding sources to offset LSL Replacement Plan costs to the extent such funding might be available. To the extent state and federal grants for LSL replacement may be obtained by PAWC in the future, the Company will record those amounts in Account 271 and treat the funding as Contributions in Aid of Construction for accounting and ratemaking purposes. If low-interest rate loans could be obtained, the cost of that financing would be included in the Company's weighted average cost of capital for ratemaking purposes. It should be noted that York, which has begun implementing its LSL replacement plan, has investigated the availability of alternative funding sources and reported on its efforts in its Lead Service Line Replacement Progress Reports filed with the Commission on January 16, 2019 (p. 3) and September 12, 2019 (p. 3). York reported that it had thoroughly investigated grants and low-cost funding options, including PENNVEST funding, and determined that alternative funding sources were not available.

M-33 Should utilities be required to continually seek out alternative financial support sources to fund the replacement of LSL and DWWLs and how should these efforts be documented and/or reported?

Response: Please see the Company's response to Directed Question M-32. The Company will make reasonable efforts on an ongoing basis to identify and obtain alternative funding sources for LSL (or, if applicable, DWWL replacements). Utilities should not be required to document or report such efforts. Act 120 (*see* 66 Pa.C.S. § 1311(b)(2)(i)-(iii)) authorizes utilities to include LSL and DWWL replacement costs incurred pursuant to a Commission-approved program in the utility's rate base in a subsequent base rate case and to recover the fixed costs of such investments in property placed in service between base rate cases through a utility's Distribution System Improvement Charge. The ratemaking treatment authorized by Act 120 does not include any requirements related to formalized proof, documentation or reporting of efforts to obtain alternative funding sources.

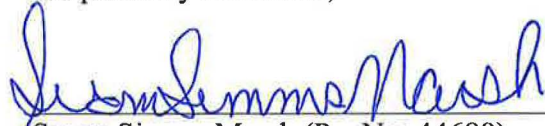
M-34 Should utilities be required to submit and receive approval of a new tariff or a tariff supplement pursuant to 66 Pa. C.S. § 1311(b)(v) before LSL and DWWL replacement costs are incorporated into a utility's LTIIP?

Response: Act 120 (*see* 66 Pa.C.S. §1311(b)(2)(v)) requires prior Commission approval of a new tariff or tariff supplement to implement an LSL or DWWL replacement plan. In addition, prior to the enactment of Act 120, the Commission authorized York to coordinate the replacement of adjoining utility-owned and customer-owned LSLs pursuant to the terms of a settlement among parties at Docket No. P-2016-2577404. Because

York's then-current tariff did not authorize it to replace any customer-owned portions of LSLs, the settling parties agreed to a waiver of York Water's tariff rule regarding ownership and control of service lines. The Commission determined that replacing customer-owned LSLs was in the public interest, but that it was more appropriate to implement the settlement through a tariff supplement as opposed to a "waiver" of preexisting tariff language. *See Petition of The York Water Co. For an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Cost of Certain Customer-Owned Service Line Replacements to the Company's Services Account*, Docket No. P-2016-2577404 (Order entered March 8, 2017), pp. 5-7.

PAWC appreciates having the opportunity to provide its comments in response to the TUS Directed Questions and looks forward to participating in the Commission's Working Group Workshop on Act 120 implementation scheduled for December 19, 2019.

Respectfully submitted,



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APPENDIX A

PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY (including Testimonies)

Statement 1.0 – David R. Kaufman

Statement 2.0 – John R. Cox

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May 22, 2017

VIA eFILING

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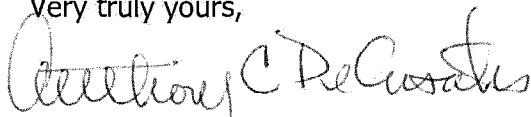
Re: Petition of Pennsylvania-American Water Company for Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Service Pipes, Docket No. P-2017-

Dear Secretary Chiavetta:

Enclosed please find the **Petition of Pennsylvania-American Water Company**, in the above-referenced proceeding.

A copy of this Petition will be served on those parties identified on the attached Certificate of Service.

Very truly yours,



Anthony C. DeCusatis

c: Per Certificate of Service (w/encls.)

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA-
AMERICAN WATER COMPANY FOR
APPROVAL OF TARIFF CHANGES AND
ACCOUNTING AND RATE TREATMENT
RELATED TO REPLACEMENT OF LEAD
CUSTOMER-OWNED SERVICE PIPES** :
: **Docket No. P-2017-**
:

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Petition of Pennsylvania-American Water Company** on the following persons, in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

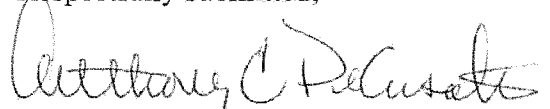
VIA ELECTRONIC AND FIRST CLASS MAIL

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Respectfully submitted,



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Dated: May 22, 2017

*Attorneys for Pennsylvania-American
Water Company*

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA-
AMERICAN WATER COMPANY FOR
APPROVAL OF TARIFF CHANGES
AND ACCOUNTING AND RATE
TREATMENT RELATED TO
REPLACEMENT OF LEAD
CUSTOMER-OWNED SERVICE PIPES** :
:
:
: **DOCKET NO. P-2017-**
:
:
:

**PETITION OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

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Dated: May 22, 2017

Counsel For Pennsylvania-American Water Company

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND RATE TREATMENT RELATED TO REPLACEMENT OF LEAD CUSTOMER-OWNED SERVICE PIPES :
: DOCKET NO. P-2017-

**PETITION OF PENNSYLVANIA-AMERICAN WATER
COMPANY**

I. INTRODUCTION

Pursuant to 52 Pa. Code § 5.41, Pennsylvania-American Water Company (“PAWC” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) to approve tariff revisions that will authorize PAWC to replace lead customer-owned Service Pipes and recover the associated costs.¹ Specifically, PAWC requests that the Commission: (1) approve the tariff revisions set forth in the Supplement to Tariff No. 4 provided as PAWC Exhibit No. 1, which will allow the Company to replace lead Service Pipes at its sole cost, subject to the accounting and rate recovery proposals set forth in this Petition;² (2) authorize the Company to capitalize costs incurred to replace lead Service Pipes (“LSP Replacement Costs”) and to record such costs in Account No. 333 – Services (“Services Account”) for accounting purposes; and (3) affirm that the Company’s investment in capitalized

¹ Rules 2.11 and 2.12, respectively, set forth at page 16 of PAWC Tariff Water-Pa. P.U.C. No 4 (“Tariff No. 4”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat part of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied.” Therefore, throughout this Petition, the terms “Service Line” and “Service Pipe” are employed in the manner they are defined in Rules 2.11 and 2.12 of Tariff No. 4.

² This revision is required because Rule 4.9, at page 20 of Tariff No. 4, currently provides that “[t]he Customer shall have full responsibility for the installation, repair, replacement, and maintenance of all Service Pipes.”

LSP Replacement Costs constitutes “eligible property” for water utilities as defined in 66 Pa.C.S. § 1351 and, therefore, pursuant to 66 Pa.C.S. § 1357, PAWC is entitled to recover a return on, and a return of, such costs through its Distribution System Improvement Charge (“DSIC”).

PAWC’s plan to replace lead Service Pipes (“Replacement Plan”) consists of two parts. First, PAWC will proactively remove and replace, with the customer’s consent, lead Service Pipes that are encountered when it replaces its mains and service lines (“Replacement Plan – Part 1”).³ Second, PAWC will remove and replace lead Service Pipes when requested to do so by a customer subject to verifying that the customer, in fact, has a lead Service Pipe (“Replacement Plan – Part 2”). Under Replacement Plan – Part 2, the Company will coordinate customer-requested replacements. Customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale by doing those replacements as a single project.

PAWC proposes to set a budget cap of \$6.0 million per year on the amounts expended to replace lead Service Pipes. Lead Service Pipe replacements under Replacement Plan – Part 1 will have priority on the use of the \$6.0 million annual budgetary allotment because, as explained below, these replacements address conditions that pose relatively greater risks of raising lead levels for the affected customers.

If implemented as proposed, the Company’s lead Service Pipe Replacement Plan would help PAWC reduce customers’ exposure to lead and maintain compliance with applicable

³ When PAWC replaces a main, it typically replaces its Service Lines that are attached to that main at the same time. There may also be locations where PAWC, for sound operational reasons, will replace its Service Lines even though it is not replacing its mains. In both of the aforementioned scenarios, PAWC would replace all of the lead Service Pipes it encounters pursuant to its Replacement Plan – Part 1.

drinking water regulations. Specifically, those regulations impose obligations on drinking water providers to prevent elevated lead levels at the customer's tap even if the source of lead originates within the customer-owned Service Pipes and in-home piping. Eliminating lead Service Pipes, together with PAWC's on-going efforts to eliminate its remaining lead Service Lines and its robust corrosion control water treatment measures, are a prudent and effective means to maintain regulatory compliance and protect public health.

PAWC requests the Commission's approval of the tariff revisions set forth in PAWC Exhibit No. 1 in order to implement both Parts 1 and 2 of its Replacement Plan and bear the LSP Replacement Cost, subject to the accounting and rate recovery treatment requested herein. In light of the public health and safety benefits of a well-coordinated lead Service Pipe replacement initiative, PAWC should be allowed to capitalize the LSP Replacement Costs for accounting purposes and recover a return on, and a return of, such costs by including them in rate base in a subsequent base rate case and through its existing DSIC for property placed in service between base rate cases.

II. BACKGROUND AND OVERVIEW

1. PAWC is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal offices in Hershey, Pennsylvania. As of February 27, 2017, PAWC furnished water service to 655,632 customers and wastewater service to approximately 54,478 customers within its authorized service territory, which encompasses portions of thirty-six counties across the Commonwealth.

2. As a Pennsylvania public utility, the Company is subject to the regulatory authority of the Commission. In addition, the Company must comply with drinking water, environmental and other operational standards established by the Pennsylvania Department of

Environmental Protection (“DEP”) and the United States Environmental Protection Agency (“EPA”), including the Lead and Copper Rule (“LCR”). The LCR regulations promulgated by the EPA and DEP require utilities, among other things, to test drinking water inside older homes for lead and take additional action if more than 10% of tap water samples exceed the lead concentration limit (i.e., 15 parts per billion).⁴ The Company regularly monitors the drinking water in its distribution system in accordance with DEP and EPA standards.

3. Lead is a naturally occurring metal that can cause a variety of adverse health effects, including delays in normal physical and mental development of young children. While the most common sources of lead exposure are soil, paint chips and dust, drinking water is another route of lead exposure, primarily as a result of corrosion of lead pipes and plumbing materials. Recent events, including those in Flint, Michigan, have heightened customers’ concern about the possible presence of lead in their drinking water.

4. Until around 1950, it was common for water utilities to install lead service lines. In addition, lead was widely used in on-premises plumbing fixtures and solder until “lead free” plumbing was mandated by amendments to the federal Safe Drinking Water Act enacted in 1986 and the Pennsylvania Plumbing System Lead Ban and Notification Act, enacted in 1991.⁵ The Company ceased installing lead Service Lines by the 1950’s. However, some lead Service Lines remain in service in the portions of PAWC’s distribution system that predate this change.

5. As discussed by Mr. Kaufman in PAWC Statement No. 1, the Company employs a proactive approach to manage the potential risks of lead exposure as part of its commitment to maintain excellent water quality and protect the health and safety of its customers. To that end,

⁴ See 40 C.F.R. §§ 141.80 *et seq.*; 25 Pa. Code §§ 109.1101 *et seq.*

⁵ See 42 U.S.C. § 300g-6; 35 P.S. §§ 723.3-723.5.

the Company has implemented a variety of measures, including effective corrosion control treatment, ongoing research to ensure that sampling and corrosion control protocols reflect the latest available science and best practices, robust customer education and eliminating the Company's remaining lead Service Lines.

6. Ownership and the responsibility for the maintenance, repair and replacement of Service Lines and Service Pipes lies with the Company and customers, respectively. As previously explained, under existing Rules 2.1, 2.2 and 4.9 of Tariff No. 4, the Company owns and is responsible for the Service Line, which extends from the water main to the curb stop, while the customer owns, and is responsible for, the Service Pipe that extends from the curb stop to the customer's premises.

7. This Petition requests the requisite tariff authority and associated accounting and ratemaking treatment to enable PAWC to replace customers' lead Service Pipes pursuant to its proposed Replacement Plan. In further support of the approvals requested herein, PAWC is submitting the following statements, which are attached hereto and incorporated herein by reference:

PAWC Statement No. 1 – Direct Testimony of David R. Kaufman

Mr. Kaufman is PAWC's Vice President of Engineering. His testimony discusses PAWC's efforts to better protect customers from the health and safety risks of lead exposure in drinking water and describes the benefits of allowing the Company to replace lead Service Pipes under its proposed Replacement Plan.

PAWC Statement No. 2 – Direct Testimony of John R. Cox

Mr. Cox is PAWC's Manager of Rates and Regulations. Mr. Cox presents the Company's proposed tariff changes to enable PAWC to implement its proposed Replacement Plan and discusses the Company's proposed accounting and ratemaking treatment of the associated costs and their impact on customers' rates.

III. TARIFF CHANGES RELATED TO REPLACING LEAD SERVICE PIPES

8. The current LCR requires public water suppliers to employ water treatment methods, as necessary, to minimize the corrosive quality of the water they provide because corrosion can cause lead piping and lead solder to leach lead into the water drawn at the customer's tap. If, notwithstanding optimal corrosion control measures, the lead "action level" is exceeded in more than 10% of the samples in a water system, LCR regulations require utility-owned and customer-owned lead piping be replaced. However, the applicable regulation permits the utility to replace only the segment it owns if a customer is unable or unwilling to pay for replacing the portion of the service piping for which the customer is responsible. In PAWC's case, its options are further limited by Rule 4.9 of Tariff No. 4, which does not authorize the Company to replace a customer's Service Pipe.

A. Replacement Plan – Part 1

9. As explained below, where a lead Service Pipe is encountered, replacing only the Service Line may cause lead concentrations in water at that customer's tap to increase for a period of time after such a "partial" replacement occurs. Thus, replacing lead Service Pipes when the corresponding Service Lines are replaced will eliminate that potential source of lead exposure for PAWC's customers.

10. Lead Service Lines and lead Service Pipes remain in service in PAWC's distribution system. Notwithstanding the presence of the lead piping, PAWC has not triggered the LCR action level requirements in any portion of its system,⁶ which is a testament to the

⁶ In McEwensville and Wildcat Park, two small systems recently acquired by PAWC, testing indicated a possible exceedance that, upon further analysis, was attributed to customer sampling irregularities. DEP agreed that testing two subsequent, properly obtained samples showing negative results would confirm that the action level had not been exceeded. The results of the first subsequent sampling and testing have been below the action level.

effectiveness of the Company's corrosion control measures and prudent management of its distribution system.

11. PAWC's main and Service Line replacement programs are on-going. PAWC has tried to stage its replacements to avoid portions of its distribution system where lead Service Pipes are likely to remain in service. Nonetheless, infrastructure rehabilitation in those areas is necessary and must be undertaken. As previously explained, this work will entail replacing mains and associated Service Lines.

12. A growing body of research indicates that "partial" replacements of lead services, where only the utility-owned segment is replaced and the customer-owned segment remains, potentially elevates the risk of lead exposure through drinking water. Two primary factors contribute to this elevated risk.

a. Removing and replacing the Service Line and curb box connection may disturb the "scale" or coating that builds up naturally inside of the Service Pipe over its years in service. If an insoluble and adherent scale forms, there is a physical barrier that prevents leaching of lead into the water the lead Service Pipe delivers.⁷ This protective barrier, however, may be susceptible to releasing lead and other accumulated material in the scales following physical disturbances related to infrastructure work.

b. If a lead Service Line is replaced with a line made of another metal, the conditions are created for bi-metallic corrosion. The lead in the Service Pipe is a sacrificial metal that loses electrons to the non-lead material it adjoins. This is the cause of corrosion, which affects the interior wall of the lead Service Pipe and accelerates leaching of lead into the

⁷ See *Optimal Corrosion Control Treatment Evaluation Technical Recommendations for Primacy Agencies and Public Water Systems*, EPA 816-B-16-003 (Mar. 2016), pp. 9-10.

water passing through the pipe. While optimal corrosion control techniques can mitigate this risk, it is still a risk that should be avoided given the health and safety concerns associated with lead contamination.

13. Lead Service Pipes are more likely to still be in service in older neighborhoods with populations that face economic constraints that make it more difficult for them to bear the cost of replacing their lead Service Pipes.

14. The Company does not have, nor could it reasonably be expected to have, records of the material used in Service Pipes that are installed and owned by the customer. Consequently, PAWC does not have an exact count of lead Service Pipes that would be replaced under its Replacement Plan – Part 1. However, PAWC preliminarily estimates that there are approximately 18,000 lead Service Lines remaining on its system. Given the age of the housing stock in the areas where PAWC estimates lead Service Lines are located, it is reasonable to assume that the majority of the same customer premises served by the Company’s lead Service Lines will have lead Service Pipes. As previously explained, an elevation in lead concentration following a “partial” replacement is a function of the lead Service Pipe remaining in place. Therefore, under its Replacement Plan – Part 1, PAWC proposes to replace lead Service Pipes when they are encountered in conjunction with the Company’s main and/or Service Line replacements whether or not the associated Service Line that is also being replaced is made of lead or some other material.

B. Replacement Plan – Part 2

15. There are lead Service Pipes serving customer premises in locations that are not within areas where the Company is replacing, or plans to replace, its mains and Service Lines. The Company believes that its corrosion control treatment process coupled with required

monitoring of lead levels at customers' taps in these areas assures that customers are currently receiving water that fully complies with the LCR's requirements. However, the Company recognizes that an incremental risk can be avoided by replacing lead Service Pipes (together with the Company's Service Line if it is also lead) even in areas where there is no on-going work by the Company that would disturb the existing Service Lines and adjoining Service Pipes. Consequently, the Company proposes to proactively address these situations. The best way to identify such locations is through customers' requests to have their lead Service Pipes replaced. In that way, the Company's customers will play a role in developing an inventory of lead Service Pipes that may remain in service.

16. Under its proposed Replacement Plan – Part 2, the Company will offer to replace a Service Pipe at a customer's request if the customer and the Company verify that the customer's Service Pipe is made of lead. However, these lead Service Pipes will not be replaced on a customer-by-customer basis. The Company will, instead, maintain a log of customer requests grouped by relevant geographic areas. When a reasonable number of requests have been received in a given area, the Company, using the same qualified contractors it uses for its own distribution system work, will undertake all of the replacements in an area as part of a single project. This approach recognizes that: (1) costs can be managed by coordinating requested replacements based on geographic area to achieve economies of scale; and (2) there is not the same risk posed by the lead Service Pipes remaining in service in these areas as the lead Service Pipes in areas envisioned by the Company's proposed Replacement Plan – Part 1 and, therefore, it is reasonable that customer-requested lead Service Pipe replacements should be done over a longer time horizon and within a capped budget to improve cost-efficiency and mitigate rate impacts.

17. The Company will undertake appropriate customer education in areas that align with the scope of its Replacement Plan – Part 2 to inform customers in those areas that the Company is offering to replace their lead Service Pipes under the terms and on the timeline explained above.

C. Ownership And Maintenance Of Service Pipes After Replacement

18. Although PAWC proposes to replace lead Service Pipes under the terms set forth herein, it will not retain ownership of, or be responsible in the future for maintaining, repairing or replacing, the Company-installed replacement Service Pipes. The affected customers will retain the ownership and responsibility for maintaining, repairing and replacing their new Service Pipes. The tariff revision set forth in PAWC Exhibit No. 1 provides that an affected customer will enter into an appropriate agreement with the Company to allow PAWC to perform the replacement on the customer's property and document the customer's ownership of the replacement Service Pipe.

IV. COSTS AND BUDGETARY ALLOTMENT

19. PAWC estimates that the average cost to replace a lead Service Pipe would approximate \$3,500 whether the replacement is done under either Parts 1 or 2 of its proposed Replacement Plan. The Company proposes to begin replacing lead Service Pipes as they are identified in conjunction with its on-going main and Service Line replacements as soon as practicable after the Commission approves this Petition. Replacements under its Replacement Plan – Part 2 would begin when, in the Company's discretion, various factors such as the customer request level in a designated geographic area, would support undertaking a project to replace the verified lead Service Pipes identified by those customer requests.

20. As previously noted, the Company will establish a budget cap of \$6.0 million per year to replace lead Service Pipes under its Replacement Program. The Replacement Plan – Part 1 will have first priority on the use of the annual budget allotment. Subject to the coordination, grouping and minimum customer request levels discussed previously, any funds available in the annual budgetary allotment not used for the Replacement Plan – Part 1 will be applied to lead Service Pipe replacements under Replacement Plan – Part 2 in that year. If, in any year, the entire budgetary allotment is not expended by PAWC, it will be carried forward and added to the budgetary allotment for the next subsequent year. However, the priority of use by each Part of the Replacement Plan will remain the same.

21. PAWC believes that a budgetary allotment of \$6.0 million per year is adequate to address lead Service Pipes encountered under Replacement Plan – Part 1 and provide a reasonable level of funds to implement Replacement Plan – Part 2 while balancing the impact of both Parts of the Replacement Plan upon customer rates. If PAWC determines that the proposed annual budget no longer meets the future needs of administering both Parts of the Replacement Plan, the Company may seek Commission approval to modify this amount.

V. PAWC’S PROPOSED REPLACEMENT PLAN IS IN THE PUBLIC INTEREST

22. In summary, PAWC’s proposed Replacement Plan is reasonable and in the public interest.

a. With regard to its Replacement Plan – Part 1, a relatively recent and growing body of research indicates that a “partial” replacement, which physically disturbs, but leaves in place, the customer’s segment of a service connection, may potentially increase the risk of lead exposure through drinking water. For that reason, the National Drinking Water Advisory Council recommended that the EPA revise the LCR regulations to require complete replacement

of both the utility and customer segments of service connections that contain lead. PAWC has an on-going infrastructure rehabilitation program that includes replacing mains and associated Service Lines. PAWC has tried to stage its infrastructure rehabilitation to temporarily avoid locations where lead Service Pipes are likely to be found until a solution is adopted, and regulatory approvals obtained, to avoid the risks that may be posed by partial replacements. However, that avoidance cannot continue indefinitely; infrastructure rehabilitation must proceed into areas where PAWC expects to find larger numbers of lead Service Pipes.

b. With regard to its Replacement Plan -- Part 2, proactive replacement of lead Service Pipes will eliminate a potential, incremental risk of lead exposure and will address customer concerns about lead Service Pipes and Service Lines. Because neither the potential risks nor the need for prompt action rise to the level of those addressed by Replacement Plan -- Part 1, it is reasonable for the Company to coordinate lead Service Pipe replacements under Part 2, use reasonable grouping measures and set reasonable customer-request levels as the trigger for undertaking a project to replace lead Service Pipes in designated area.

c. PAWC is requesting approval of tariff revisions to allow it to replace lead Service Pipes under Parts 1 and 2 of its Replacement Plan and to bear the cost of the replacement. Because lead Service Pipes largely remain in neighborhoods that face economic constraints making it unlikely the affected customers could bear the cost of such replacements, it is particularly important that the Commission approve the tariff revisions requested in this Petition and provide PAWC reasonable means to recover the fixed costs of its investments to replace lead Service Pipes, as also requested in this Petition.

23. As previously explained, the LCR imposes an obligation on drinking water providers to furnish water that is below the lead action level at the customer's tap regardless of the fact that lead may originate in property the water provider does not own, such as the customer's Service Pipe or in-home piping. Consequently, remaining in compliance with applicable drinking water regulations necessarily requires taking steps to address possible sources of lead contamination from customer-owned property.

24. The Company's proposed Replacement Plan is an efficient and cost-effective way: (1) to avoid creating a risk of exposing customers to elevated lead levels in their drinking water from PAWC's extension of its infrastructure rehabilitation program into areas where lead Service Pipes are more likely to exist (Replacement Plan – Part 1); and (2) proactively remove any possible risk of lead exposure from Service Pipes in other areas in a coordinated manner (Replacement Plan – Part 2). As explained by Mr. Kaufman, under both Parts 1 and 2 of its Replacement Plan, the Company will be able to leverage economies of scale to reduce costs and minimize service disruptions related to lead Service Pipe replacements. In addition to these efficiencies, PAWC's ability to coordinate the replacement of Service Lines and lead Service Pipes will streamline project administration and reduce overall costs.

25. For similar reasons, the Commission recently authorized York Water Company ("York Water") to coordinate the replacement of utility-owned service lines and adjoining customer-owned lead service lines.⁸ During its most recent triennial water sampling prior to filing its Petition, York Water found elevated levels of lead in portions of its system that

⁸ See *Petition of The York Water Co. For an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Cost of Certain Customer-Owned Service Line Replacements to the Company's Services Account*, Docket No. P-2016-2577404 (Order entered Mar. 8, 2017) ("York Water Order").

exceeded the LCR action level.⁹ As a result, on December 16, 2016, York Water entered into a Consent Order and Agreement with DEP and committed to, among other things, expeditiously replace its remaining known lead service lines.¹⁰ Because York Water's then-current tariff did not authorize it to replace any customer-owned portions of lead service lines discovered during this replacement work, York Water requested, and the settling parties agreed to, a waiver of its tariff rule regarding ownership and control of service lines.¹¹ The Commission concluded that York Water's proposed course of action was an appropriate means to address the issues associated with unacceptable levels of lead:

The efficiency of this approach minimizes total costs thereby providing better service to York Water customers, particularly to those who might find the total cost of replacing the customer-owned line to be burdensome or too expensive a task to undertake independently. Additionally, a "partial lead service replacement" may not significantly reduce the lead level at the customer's tap, but may temporarily increase lead at the customer's tap due to disturbing the customer-owned service line during the partial replacement.¹²

The Commission further determined that it was more appropriate to implement the settlement through a tariff revision and, therefore, directed York Water to submit a tariff supplement and granted time-limited waivers that would expire upon the effective date of such compliance filing.¹³

⁹ *Id.*, pp. 2-3.

¹⁰ *Id.*

¹¹ *Id.*, pp. 4-5.

¹² *Id.*, p. 6.

¹³ *York Water Order*, pp. 5-7; see also *Petition of the York Water Co. For an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Cost of Certain Customer-Owned Service Line Replacements to the Company's Services Account*, Docket No. P-2016-2577404 (Motion of Commissioner Gladys M. Brown issued Mar. 2, 2017) ("Moreover, I strongly encourage any future applicants seeking to address a situation similar to the one faced by York Water to propose a tariff amendment, as opposed to requesting a waiver of tariff language.").

VI. ACCOUNTING AND RATEMAKING TREATMENT OF LSP REPLACEMENT COSTS

26. As previously explained, the Company will limit LSP Replacement Costs to an annual budgetary allotment of \$6.0 million. PAWC proposes to capitalize those costs because they are incurred to create a long-lived asset that, as previously explained, has a direct, immediate and long-term impact on PAWC's ability to comply with important primary drinking water standards of the EPA and DEP. In short, PAWC's investment in replacing lead Service Pipes provides a multi-year assurance that it can continue to comply with the LCR and, as a result, its investment has all the characteristics of a capital asset of the Company. Consequently, PAWC proposes to record LSP Replacement Costs in its Services Account because that investment creates property physically connected to its Service Lines. And, just as important, because of the obligations imposed by the LCR, the Company's investments are functionally a part of property that must be considered as a single unit for purposes of complying with applicable drinking water and environmental regulatory mandates.¹⁴

27. Given all of the factors set forth above, replacing lead Service Pipes under the Company's proposed Replacement Plan is an integral part of PAWC's infrastructure rehabilitation efforts and, as such, the associated costs should properly be capitalized.

28. Prior decisions of the Commission support the Company's proposal. The Commission has previously determined that it is appropriate to capitalize the cost to replace

¹⁴ The fact that the Service Pipes installed by PAWC will not be owned or maintained thereafter by the Company does not preclude the LSP Replacement Costs from being recorded in the applicable property account of the Company. Every time the Company (or any other utility) excavates a public street to install, replace or rehabilitate its mains, services or appurtenances, it incurs substantial roadway restoration costs. The restoration costs are capitalized and booked to the utility's property account for the utility's underlying capital project even though the roadway, including the newly restored portion, remains the property of the municipality in that location. The same is also true of restoration work performed on the premises of a landowner in connection with capitalized main, service or other work performed by a utility.

customer-owned service lines, and to recover the associated “fixed costs” (depreciation and pre-tax return) of such investments through the DSIC, where the service lines being replaced are made of vulnerable material and, therefore, pose safety concerns.¹⁵ In light of lead’s negative health effects, the Commission should follow its previously-established, directly-applicable policy and authorize PAWC to capitalize its LSP Replacement Costs.

29. PAWC also requests that the Commission affirm that capitalized LSP Replacement Costs constitute the “original cost” of “eligible property” for a water utility under 66 Pa.C.S. § 1351 either by reason of such costs being recorded in the Services Account (as requested herein) and/or pursuant to section (3)(vi) of the definition of “eligible costs” as including “other capitalized costs.” Simply stated, once the Commission determines that LSP Replacement Costs should properly be capitalized – and existing Commission policy and precedent would dictate that result – then those costs are squarely within the definition of “eligible property” under Section 1351. The LSP Replacement Costs are expected to have a negligible effect on customers’ bills for water service (i.e., approximately, 10 cents per month), as explained by Mr. Cox in PAWC Statement No. 2. As also explained by Mr. Cox, the Company’s DSIC rate has reached its ceiling of 7.5% and, therefore, approval of this Petition would not result in any further increase in PAWC’s DSIC rate at this time.¹⁶

¹⁵ See *Petition of Peoples Natural Gas Co., LLC for Approval of Limited Waivers of Certain Tariff Rules Related to Customer Service Line Replacement*, Docket Nos. P-2013-2346161 (Opinion and Order entered May 23, 2013), pp. 9-10, 45 (approving gas utility’s request to capitalize the cost of replacing customer-owned bare steel service lines to address the same durability problems as utility-owned bare steel mains); *Petition of Columbia Gas of Pennsylvania, Inc. for Limited Waivers of Certain Tariff Rules Related to Customer Service Line Replacement*, Docket No. P-00072337 (Order entered May 19, 2008), pp. 4-6 (same).

¹⁶ LSP Replacement costs would not be reflected in the Company’s DSIC rate until its DSIC is “reset” following the conclusion of the Company’s base rate case filed on April 28, 2017 at Docket No. R-2017-2595853. And, even then, the Company’s DSIC rate would not be affected until after the end of the fully projected future test year used in that case (December 31, 2018) and the projected plant additions included in the Company’s rate base claims have been placed in service (i.e., in all likelihood, after the first quarter of 2019).

VII. NOTICE

30. PAWC is serving copies of this Petition on the Commission's Bureau of Investigation and Enforcement, the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, and all parties of record in PAWC's Long-Term Infrastructure Improvement Plan proceeding at Docket No. P-2017-2585707. Should the Commission conclude that further notice of this Petition is appropriate, PAWC will provide such additional notice as directed by the Commission.

VIII. CONCLUSION

Based upon the foregoing, including the accompanying testimony and exhibits, PAWC respectfully requests that the Commission grant this Petition and enter an Order:

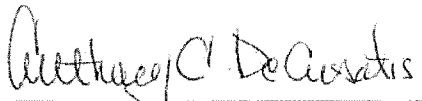
(1) Approving PAWC's proposed tariff changes as set forth in PAWC Exhibit No. 1 and authorizing PAWC to file the tariff supplement provided in PAWC Exhibit No. 1 on one-days' notice;

(2) Authorizing the Company to capitalize its LSP Replacement Costs and to record such costs in its Services Account; and

(3) Affirm that capitalized LSP Replacement Costs are "eligible property" under Section 1351 and, as such, the fixed costs (depreciation and pre-tax return) of such property are

recoverable under the Company's DSIC between base rate cases and in base rates established in a base rate proceeding.

Respectfully submitted,



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Counsel For Pennsylvania-American Water Company

Dated: May 22, 2017

DB1/ 91257056.7

Pennsylvania-American Water Company

4.9.1 Replacement of Lead Service Pipes

Notwithstanding Rules 2.11, 2.12, 2.14 and 4.9, the Company may replace lead Service Pipes pursuant to Parts 1 and 2 of its lead Service Pipe replacement plan (Replacement Plan), subject to the budgeted allotment of \$6.0 million per year for all lead Service Line replacements under its Replacement Plan. Pursuant to its Replacement Plan – Part 1, the Company will replace lead Service Pipes it encounters when replacing its mains and/or Service Lines up to the budgeted allotment of \$6.0 million per year. Pursuant to its Replacement Plan – Part 2, the Company will replace a lead Service Pipe at a customer’s request subject to the following conditions: (1) verification that the customer has a lead Service Pipe; (2) the time when the replacement occurs will be determined by the Company based on factors determined by the Company including, without limitation, the number of customer requests for Service Pipe replacements in Company-designated geographic areas; and (3) availability of funds not used for Part 1 replacements under the Company’s budgeted allotment of \$6.0 million per year. Lead Service Pipe replacements performed pursuant to Replacement Plan – Part 1 will have priority on the use of funds under the annual budget allotment and, therefore, in any year, funds will be used for lead Service Pipe replacements under Replacement Plan – Part 2 only to the extent that funds are available within the budget allotment and are not allocated to Part 1 replacements planned for that year. Portions of the annual budget allotment of \$6.0 million that are not expended on lead Service Pipe replacements under Part 1 or Part 2 of the Replacement Plan in a year will roll-over to the next subsequent year, but use of the roll-over funds will still be subject to the requirement that priority be given to Part 1 replacements. The Company may, but shall not be required, to petition the Commission for approval to modify its annual budget allotment of \$6.0 million if the Company, in its sole discretion, determines that its annual budget allotment no longer meets the future needs of administering both Parts of the Replacement Plan. However, no change may be made without prior Commission approval. All lead Service Pipe replacements made under the Company’s Replacement Plan shall be at the Company’s sole cost, subject to the accounting and rate treatment approved by the Order of the Pennsylvania Public Utility Commission (Commission) entered [date] at Docket No. P-2017-_____ (Approval Order). After a lead Service Pipe is replaced by the Company, the Customer shall own the Service Pipe and shall have full responsibility for the repair, replacement and maintenance of the new Service Pipe, which, upon installation, shall thereafter be subject to the terms of Rules 2.12, 2.14 and 4.9. The Customer shall enter into an **Agreement for Replacement of Lead Service Pipe**, in a form provided by the Company, prior to the initiation of any work by the Company to replace a Customer’s Service Pipe.

Issued:

Effective:

**Pennsylvania American Water Company
Annual Revenue Requirement Impact
Replacement of Lead Customer-Owned Service Pipes**

<u>Line #</u>		
1	Total Annual Budgeted Funds for Replacing Customer-Owned Service Pipe	\$ 6,000,000
2	Annual Revenue Requirement Rate	11.73% *
3	Annual Capital Cost Recovery (Line 1 x Line 2)	\$ 703,800
4	Annual Depreciation Rate - Services	1.74% *
5	Annual Depreciation Cost (Line 1 x Line 4)	\$ 104,400
6	Annual Revenue Requirement (Line 3 + Line 5)	\$ 808,200
7	Number of DSIC Eligible Customers	654,356 **
8	Annual Cost Per Customer (Line 6 / Line 7)	\$ 1.24

* The Annual Revenue Requirement Rate and the Annual Depreciation Rate are the same as those used in the Company's Water DSIC filing that was approved at Docket No. M-2017-2594415 and became effective on April 1, 2017.

** The Number of DSIC-Eligible Customers is the numebr of water customers at December 31, 2016 excluding Public Fire Customers.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY
FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND
RATEMAKING TREATMENT RELATED TO REPLACEMENT
OF LEAD CUSTOMER-OWNED SERVICE PIPES
DOCKET NO. P-2017-_____**

**DIRECT TESTIMONY
OF
DAVID R. KAUFMAN**

**WITH REGARD TO
PENNSYLVANIA-AMERICAN WATER COMPANY'S PLAN TO
REPLACE CUSTOMER-OWNED LEAD SERVICE PIPES**

DATE: May 22, 2017

PENNSYLVANIA-AMERICAN WATER COMPANY

DIRECT TESTIMONY OF DAVID R. KAUFMAN

1 **Q. What is your name and business address?**

2 A. My name is David R. Kaufman, and my business address is 800 West Hersheypark
3 Drive, Hershey, Pennsylvania 17033.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Pennsylvania-American Water Company (“PAWC or the “Company”)
6 as Vice President of Engineering.

7 **Q. Please describe your educational background and business experience.**

8 A. In 1975, following graduation from Pennsylvania State University with a Bachelor of
9 Science degree in civil engineering, I accepted an engineering position with Pennsylvania
10 Gas and Water Company (“PG&W”) in Wilkes-Barre, Pennsylvania. I remained in that
11 position until 1989, when I was promoted to Manager of Water Engineering for PG&W.
12 In August 1991, I was promoted to Vice President of Water Resources for PG&W. In
13 that position, I was responsible for PG&W’s water operations relating to water supply,
14 water quality and treatment, water engineering and planning. When the water assets of
15 PG&W were acquired by PAWC in February 1996, I accepted an Operations Manager
16 position with the Company in its Northeast Region. I remained in that position until
17 February 2001, when I was promoted to Manager of Northeast Operations. In 2004, I
18 accepted the position of Director of Engineering – Southeast Region with American
19 Water Works Service Company and remained in that position until I accepted the
20 position of Vice President of Engineering for PAWC. I am a registered Professional
21 Engineer in Pennsylvania and hold a Class A1 water treatment plant operator’s license.

1 **Q. Do you belong to any professional or industry associations?**

2 A. Yes, I am a member of the American Water Works Association, the Pennsylvania
3 Chapter of the National Association of Water Companies, the American Society of Civil
4 Engineers and the Water Environmental Federation.

5 **Q. What are your duties and responsibilities in your current position?**

6 A. As Vice President of Engineering for PAWC, I am responsible for the administration of
7 engineering services, including the planning, design and construction of water and
8 wastewater capital investment projects for all of PAWC's systems and facilities.

9 **Q. Have you previously submitted testimony before the Pennsylvania Public Utility
10 Commission ("PUC" or "Commission")?**

11 A. Yes. I have testified before the Commission on several occasions in both water and
12 wastewater proceedings, including, most recently, in the Company's base rate case filed
13 on April 28, 2017 at Docket No. R-2017-2595853.

14 **Q. What is the purpose of your testimony?**

15 A. My direct testimony is being submitted in support of the Company's Petition for
16 Approval of Tariff Changes and Accounting and Ratemaking Treatment Related to
17 Replacement of Lead Customer-Owned Service Pipes ("Petition"). My testimony is
18 divided into several parts. First, I provide an overview of PAWC's operations and water
19 distribution system. Next, I discuss PAWC's efforts to protect customers from lead
20 exposure in the drinking water the Company supplies consistent with federal and state
21 regulatory standards established by the United States Environmental Protection Agency
22 ("EPA") and Pennsylvania Department of Environmental Protection ("DEP"). Third, I
23 explain why PAWC's proposed plan to replace customer-owned lead Service Pipes

1 (“Replacement Plan”) is in the public interest.¹ Finally, I describe the estimated costs of
2 lead Service Pipe replacement and the Company’s proposed budget cap for its
3 Replacement Plan.

4 **Overview Of PAWC’s Operations And Water Delivery System**

5 **Q. Please describe PAWC and the Company’s commitment to provide a high quality of**
6 **service to its customers.**

7 A. As of February 27, 2017, PAWC provides water service to 655,632 customers –
8 representing a population of approximately 2.3 million – and wastewater service to
9 54,478 customers in over 405 communities located in 36 of the 67 counties in
10 Pennsylvania. As a public utility, the Company is subject to the regulatory authority of
11 the Commission. In addition, the Company must comply with drinking water,
12 environmental and other operational standards established by the DEP and the EPA.
13 The Company’s commitment to serving its customers is organized around five key
14 principles: quality, safety, customer satisfaction, regulatory compliance and operational
15 efficiency. PAWC evaluates all aspects of its business based on those principles and
16 changes its operations to achieve continuous improvement and to deliver reliability and
17 high quality water and wastewater service to its customers.

18 **Q. Does the Company have a particular focus on quality of the drinking water it**
19 **provides to Commonwealth residents?**

¹ As explained by Mr. Cox in PAWC Statement No. 2, Rules 2.11 and 2.12, respectively, set forth at page 16 of PAWC Tariff Water-Pa. P.U.C. No 4 (“Tariff No. 4”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat part of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied.” Therefore, throughout my testimony, I use the terms “Service Line” and “Service Pipe” as they are defined in Rules 2.11 and 2.12 of Tariff No. 4.

1 A. Yes. PAWC has provided water service to its customers for over 130 years and has an
2 exceptional record of meeting regulatory standards for drinking water. The Company has
3 also been recognized for its water treatment plant optimization and water quality
4 achievements. For example, thirty-one of PAWC's thirty-six surface water treatment
5 plants earned Directors' Awards in the EPA's Partnership for Safe Drinking Water
6 program for outstanding performance with respect to meeting water quality and
7 environmental standards. As of 2016, only thirty-three water treatment surface plants in
8 the U.S. have received the program's highest honor, the Phase IV Presidents Award, and
9 nine of those recognitions were awarded to PAWC plants.

10 **Q. Please provide a general description of PAWC's water distribution system.**

11 A. The Company's water distribution system consists of water mains, hydrants and valves,
12 pumping stations, storage facilities, and meters and services. PAWC owns and operates
13 nearly 10,000 miles of water distribution mains, ranging in diameter from two inches to
14 forty-eight inches. These water mains are generally made from either ductile iron or cast
15 iron. The Company also owns and operates over 700,000 Service Lines, which I will
16 discuss in detail later in my testimony.

17 **Q. What portion of service piping is the Company's responsibility?**

18 A. Ownership and responsibility for the maintenance, repair and replacement of Service
19 Lines and Service Pipes lies with the Company and customers, respectively. Under
20 existing Rules 2.1, 2.2 and 4.9 of Tariff No. 4, the Company owns and is responsible for
21 the Service Line, which extends from the water main to the curb stop, while the customer
22 owns, and is responsible for, the Service Pipe that extends from the curb stop to the
23 customer's premises.

1 **PAWC's Approach To Mitigate Potential Lead Exposure In Drinking Water**

2 **Q. What is lead?**

3 A. Lead is a naturally occurring metal that is harmful if inhaled or swallowed, particularly to
4 children and pregnant women. Lead exposure can cause a variety of adverse health
5 effects. For example, lead exposure can cause developmental delays in babies and
6 toddlers and deficits in the attention span, hearing and learning abilities of children. Lead
7 exposure can also cause hypertension, cardiovascular disease and decreased kidney
8 function in adults. The most common sources of lead exposure are paint and dust, but
9 lead can also be found in drinking water. Recent events, including those in Flint,
10 Michigan, have heightened PAWC customers' concern about the presence of lead in
11 drinking water.

12 **Q. How can lead enter drinking water?**

13 A. PAWC's drinking water does not contain lead when it leaves the treatment plant. Lead
14 leaches into water over time through corrosion, a dissolving or wearing away of metal
15 caused by a chemical reaction between water and plumbing materials. The risk for lead
16 contamination arises when water passes through lead service lines and premise plumbing
17 fixtures and solder used to join pipes and faucets. Lead solder was banned in
18 Pennsylvania in 1991.² Congress has also set limits on the amount of lead that can be
19 used in plumbing.³

20 **Q. Does any lead piping remain in service in public water systems in the**
21 **Commonwealth?**

² See 35 P.S. §§ 723.3-723.5.

³ 42 U.S.C. § 300g-6.

1 A. Yes. Until around 1950, it was common practice for water utilities in Pennsylvania to
2 install lead service lines. The Company ceased installation of lead Service Lines by the
3 1950's. However, some lead piping remains in service in the portions of PAWC's
4 distribution system that predate this change and in systems subsequently acquired by the
5 Company.

6 **Q. Please describe PAWC's obligations under federal and state regulatory standards to**
7 **control lead levels in the drinking water at the customer's tap.**

8 A. Federal and state regulations require public drinking water providers, including the
9 Company, to regularly test for contaminants such as lead. The EPA and DEP
10 promulgated treatment technique regulations for lead and copper (the "Lead and Copper
11 Rule" or "LCR") in 1991 and 1994, respectively, which establish an action level for lead
12 of 15 parts per billion (ppb).

13 The current LCR requires public water suppliers to employ water treatment
14 methods, as necessary, to minimize the corrosive quality of the water they provide
15 because corrosion can cause lead piping and lead solder to leach lead into the water
16 drawn at the customer's tap. If, notwithstanding optimal corrosion control measures, the
17 lead "action level" is exceeded in more than 10% of the samples in a water system, LCR
18 regulations require replacement of utility-owned and customer-owned lead piping.
19 However, the applicable regulation permits the utility to replace only the segment it owns
20 if a customer is unable or unwilling to pay for replacing the portion of the service piping
21 for which the customer is responsible. In PAWC's case, its options are further limited by
22 Rule 4.9 of Tariff No. 4, which, as discussed by Mr. Cox, does not authorize the
23 Company to replace a customer's Service Pipe.

1 **Q. Please describe the Company's approach to address potential sources of lead in**
2 **drinking water at the customer's tap.**

3 A. PAWC employs a proactive, multi-faceted approach to manage the potential risks of lead
4 exposure as part of its commitment to maintain excellent water quality and protect the
5 health and safety of its customers. These layers of protection include treatment of water,
6 monitoring of key indicators of water quality, identification and inventorying of Service
7 Line materials and customer education. Most significantly, the Company implemented
8 corrosion control treatment measures and sampling protocol approved by the DEP in the
9 early 1990's, which have been optimized several times over the past two decades to
10 reflect the latest available science and best practices. In addition, the Company employs
11 a wide variety of tools to help customers understand how they can reduce the risk of lead
12 exposure from their own older plumbing, including a comprehensive lead information
13 page on PAWC's website.

14 **Q. What is the Company's track record in meeting LCR requirements?**

15 A. Notwithstanding the presence of the lead piping in its distribution system, PAWC has a
16 well-established history of LCR compliance. In the past thirty years, the Company has
17 not triggered the LCR action level requirements in any portion of its system,⁴ which is a
18 testament to the effectiveness of the Company's corrosion control measures and prudent
19 management of its distribution system.

20

⁴ In McEwensville and Wildcat Park, two small systems recently acquired by PAWC, testing during the Company's 2016 sampling period indicated a possible exceedance that, upon further analysis, was attributed to sampling irregularities. DEP agreed that testing two subsequent, properly obtained samples showing negative results would confirm that the action level had not been exceeded. The results of the first round of subsequent sampling and testing have been below the lead action level.

1 **Prudency Of PAWC's Replacement Plan**

2 **Q. Please describe PAWC's proposed Replacement Plan.**

3 A. PAWC's Replacement Plan consists of two parts. First, PAWC will proactively remove
4 and replace, with the customer's consent, lead Service Pipes that are encountered when it
5 replaces its mains and service lines ("**Replacement Plan – Part 1**"). Second, PAWC
6 will remove and replace lead Service Pipes when requested to do so by a customer,
7 subject to the conditions described later in my testimony ("**Replacement Plan – Part 2**").

8 **Q. Is the Replacement Plan an important step in assuring that PAWC will continue to**
9 **maintain compliance with applicable drinking water regulations?**

10 A. Yes. The LCR imposes an obligation on PAWC and other drinking water providers to
11 furnish water that is below the lead action level at the customer's tap even if the source of
12 lead originates within the customer-owned service pipes and the in-home piping.
13 Consequently, remaining in compliance with applicable drinking water regulations
14 necessarily requires taking steps to address possible sources of lead contamination from
15 customer-owned property. Eliminating lead Service Pipes, together with PAWC's robust
16 corrosion control water treatment measures and the Company's ongoing efforts to
17 eliminate its remaining lead Service Lines, are a prudent and effective means to maintain
18 regulatory compliance and protect public health.

19 **Q. Why is PAWC proposing, pursuant to Replacement Plan – Part 1, to remove all lead**
20 **Service Pipes that are encountered when the Company replaces its mains and**
21 **Service Lines given PAWC's full compliance with LCR requirements?**

22 A. The Company targets specific areas for its ongoing main and Service Line replacement
23 programs based on a variety of factors, including water quality concerns, age, break rates
24 and public health concerns. The opportunity to eliminate its remaining lead Service

1 Lines is another factor PAWC evaluates during planning for water main and Service Line
2 infrastructure replacements.

3 However, continuing scientific advancements complicate the issue of replacing
4 the Company's lead Service Lines as they are encountered during infrastructure project
5 work. A relatively recent and growing body of research indicates that a "partial"
6 replacement, which physically disturbs, but leaves in place, the customer's segment of a
7 service connection, potentially elevates the risk of lead exposure through drinking water
8 after the replacement occurs. For that reason, the National Drinking Water Advisory
9 Council recommended that the EPA revise the LCR regulations to require complete
10 replacement of both the utility and customer segments of service connections that contain
11 lead.

12 In light of this research suggesting that partial replacement increases the risk of
13 lead exposure, an increasing number of utilities, including the Company are
14 reconsidering or avoiding this practice where possible. For its part, PAWC has tried to
15 stage its main replacements to avoid portions of its distribution system where lead
16 Service Pipes are likely to remain in service. Nonetheless, infrastructure rehabilitation in
17 those areas is necessary and must be undertaken. This work will entail replacing mains
18 and Service Lines. Replacing lead Service Pipes when the corresponding mains or
19 Service Lines are replaced will eliminate a potential source of lead exposure following a
20 "partial" replacement for PAWC's customers.

21 **Q. Please explain how replacing only the Service Line where a lead Service Pipe is**
22 **encountered may increase the risk of lead exposure through drinking water at the**
23 **customer's tap.**

1 A. Physical disturbance of lead Service Pipes and electrochemical processes both contribute
2 to an increased risk of lead contamination following a partial replacement. Removing
3 and replacing the Service Line and curb box connection may disturb the “scale” or
4 coating that builds up naturally inside of the Service Pipe over its years in service. If an
5 insoluble and adherent scale forms, there is a physical barrier that prevents leaching of
6 lead into the water the lead Service Pipe delivers.⁵ This protective barrier, however, may
7 be susceptible to releasing lead and other accumulated material in the scales following
8 physical disturbances related to infrastructure work.

9 If a lead Service Line is replaced with a line made of another metal, conditions are
10 created for bimetallic corrosion. The lead in the Service Pipe is a sacrificial metal that
11 loses electrons to the non-lead material it adjoins. This is the cause of corrosion, which
12 affects the interior wall of the lead Service Pipe and accelerates leaching of lead into the
13 water passing through the pipe. While optimal corrosion control techniques can mitigate
14 this risk, it is still a risk that should be avoided given the health and safety concerns
15 associated with lead contamination.

16 **Q. How many lead Service Lines and Service Pipes does the Company expect to**
17 **identify and replace over a ten-year period under Part 1 of its Replacement Plan?**

18 A. PAWC is currently reviewing its distribution system materials inventory to confirm the
19 number and location of lead Service Lines. Preliminary surveys of the Company’s tap
20 cards indicate that approximately 18,000 lead Service Lines remain on its system. The
21 Company does not have records regarding the composition of the Service Pipes that are
22 installed and owned by the customer. Consequently, PAWC does not have an exact

⁵ See *Optimal Corrosion Control Treatment Evaluation Technical Recommendations for Primacy Agencies and Public Water Systems*, EPA 816-B-16-003 (Mar. 2016), pp. 9-10.

1 count of lead Service Pipes that would be replaced under the Company’s proposal. Given
2 the age of the housing stock in the areas where PAWC estimates lead Service Lines are
3 located, it is reasonable to assume that the majority of the same customer premises served
4 by the Company’s lead Service Lines will have lead Service Pipes. As I previously
5 explained, an elevation in lead concentration following a “partial” replacement is a
6 function of the lead Service Pipe remaining in place. Therefore, under its Replacement
7 Plan – Part 1, PAWC proposes to replace lead Service Pipes when they are encountered
8 in conjunction with the Company’s main and/or Service Line replacements whether or
9 not the associated Service Line that is also being replaced is made of lead or some other
10 material.

11 **Q. Is the Company also proposing to proactively address lead Service Pipes that are**
12 **not within the scope of Replacement Plan – Part 1?**

13 A. Yes. There are lead Service Pipes serving customer premises in locations that are not
14 within areas where the Company is replacing, or plans to replace, its mains and Service
15 Lines. The Company believes that its corrosion control treatment process coupled with
16 required monitoring of lead levels at customers’ taps in these areas assures that customers
17 are currently receiving water that fully complies with the LCR’s requirements. However,
18 the Company recognizes that an incremental risk can be avoided by replacing lead
19 Service Pipes (together with the Company’s Service Line if it is also lead) even in areas
20 where there is no ongoing work by the Company that would disturb the existing Service
21 Lines and adjoining Service Pipes. The best way to identify such locations is through
22 customers’ requests to have their lead Service Pipes replaced. In that way, the

1 Company's customers will play a role in developing an inventory of lead Service Pipes
2 that may remain in service.

3 **Q. How will the Company coordinate customer-requested replacements under**
4 **Replacement Plan – Part 2?**

5 A. PAWC will offer to replace a Service Pipe at a customer's request if the customer and the
6 Company verify that the customer's Service Pipe is made of lead. However, these lead
7 Service Pipes will not be replaced on a customer-by-customer basis. The Company will,
8 instead, maintain a log of customer requests grouped by relevant geographic areas. When
9 a reasonable number of requests have been received in a given area, the Company, using
10 the same qualified contractors it uses for its own distribution system work, will undertake
11 all of the replacements in an area as part of a single project. This approach allows the
12 Company to realize economies of scale. The time when the replacement occurs will be
13 determined by the Company, in its discretion, based on factors such as the number of lead
14 Service Pipes identified through customer requests in Company-designated geographic
15 areas. While customer-requested lead Service Pipe replacements may occur over a
16 longer time horizon than Part 1 replacements, Part 2 replacements do not have the same
17 elevated risk of lead exposure after the replacement occurs.

18 **Q. Are customer-requested replacements subject to any other conditions?**

19 A. Yes. Part 2 replacements are also subject to availability of funds not used for Part 1
20 replacements under the Company's budgeted allotment of \$6.0 million per year as
21 discussed in the next section of my testimony.

22 **Q. Is the Company's Replacement Plan a cost-effective initiative to address possible**
23 **sources from lead contamination from Service Lines and Service Pipes?**

1 A. Yes. As previously explained, PAWC's proposed Replacement Plan is designed to: (1)
2 avoid creating a risk of exposing customers to elevated lead levels in their drinking water
3 from PAWC's extension of its infrastructure rehabilitation program into areas where lead
4 Service Pipes are more likely to exist (Part 1); and (2) proactively remove any possible
5 risk of lead exposure from Service Pipes in other areas in a coordinated manner (Part 2).
6 However, many customers have been reluctant to replace their lead Service Pipes,
7 particularly, in older neighborhoods with populations that face economic constraints that
8 make it difficult or impossible for them to pay for replacement, which could cost
9 individual customers, on average, \$3,500. Allowing PAWC, at its sole cost, to replace
10 lead Service Pipes under its Replacement Plan is a reasonable solution to this problem.
11 Furthermore, the Company will be able to leverage economies of scale to reduce costs
12 and minimize service disruptions related to lead Service Pipe replacements. In addition
13 to these efficiencies, PAWC's ability to coordinate the replacement of Service Lines and
14 lead Service Pipes will streamline project administration and reduce overall costs.

15 **Q. Please provide an overview of PAWC's implementation strategy for its proposed**
16 **Replacement Plan.**

17 A. The Company proposes to begin replacing lead Service Pipes as they are identified in
18 conjunction with its ongoing main and Service Line replacements as soon as practicable
19 after the Commission approves the Petition. Replacements under Part 2 would begin
20 when the customer request level in a designated geographic area would support
21 undertaking a project to replace the verified lead Service Pipes identified by those
22 customer requests.

1 Under the proposed tariff changes described by Mr. Cox, prior to the initiation of
2 any work by the Company to replace a Customer's Service Pipe under Replacement Plan
3 – Part 1, the affected customer must enter into an appropriate agreement with the
4 Company, which among other things, authorizes the Company to access the customer's
5 property to undertake the replacement work and acknowledges that the ownership and
6 responsibility for the future maintenance, repair and replacement of the newly replaced
7 Service Pipe will remain with the customer. In addition, those tariff changes provide
8 that, pursuant to its Replacement Plan – Part 2, the Company will replace a lead Service
9 Pipe at a customer's request subject to the conditions I previously described.

10 To inform customers about Replacement Plan – Part 1, the Company will provide
11 a letter to all customers within the areas affected by water main and Service Line renewal
12 projects. The Company will also undertake appropriate customer education in areas that
13 align with the scope of its Replacement Plan – Part 2 to let customers in those areas know
14 that the Company is offering to replace their lead Service Pipes under the conditions
15 previously described. When a lead Service Pipe replacement is completed under both
16 Parts of the Replacement Plan, the Company will provide flushing instructions for the
17 customer and contractor, a water sampling kit and a fact sheet about lead and Service
18 Pipe replacement.

19 **Lead Service Pipe Replacement Costs And Budgetary Allotment**

20 **Q. Has the Company estimated the cost of replacement for lead Service Pipes?**

21 A. Yes. PAWC estimates that the average cost to replace a lead Service Pipe would
22 approximate \$3,500 whether the replacement is done under Parts 1 or 2 of its proposed
23 Replacement Plan. As previously noted, however, the Company will establish a budget

1 cap of \$6.0 million per year to replace lead Service Pipes under its Replacement Plan.
2 PAWC believes an allotment of \$6.0 million per full calendar year is adequate to address
3 lead Service Pipes encountered under Replacement Plan – Part 1 and provide a
4 reasonable level of funds to implement Replacement Plan – Part 2 while balancing the
5 impact of both Parts of the Replacement Plan upon customer rates. Depending on when
6 the Commission’s final Order in this proceeding is issued, the first year’s allocation may
7 be prorated on a monthly basis. If PAWC determines that the proposed annual budget no
8 longer meets the future needs of administering both Parts of the Replacement Plan, the
9 Company may seek Commission approval to modify this amount.

10 **Q. Please describe the priority of expenditures within the budget for each Part of the**
11 **Replacement Plan.**

12 A. The Replacement Plan – Part 1 will have first priority on the use of the annual budget
13 allotment. Subject to the coordination, grouping and minimum customer request levels
14 discussed previously, any funds available in the annual budgetary allotment not used for
15 the Replacement Plan – Part 1 will be applied to lead Service Pipe replacements under
16 Replacement Plan – Part 2 in that year. If, in any year, the entire budgetary allotment is
17 not expended by PAWC, it will be carried forward and added to the budgetary allotment
18 for the next subsequent year. However, the priority of use by each Part of the
19 Replacement Plan will remain the same.

20 **Q. Does PAWC intend to pursue state and federal funding sources to offset**
21 **Replacement Plan costs recovered from customers in the manner described by Mr.**
22 **Cox in PAWC Statement No. 2?**

23 A. Yes. PAWC will seek low cost state and federal funding through PENNVEST

1 (Pennsylvania Infrastructure Investment Authority) to the extent funding is available.

2 **Q. Does this conclude your direct testimony?**

3 A. Yes, it does.

4

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY
FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND
RATEMAKING TREATMENT RELATED TO REPLACEMENT
OF LEAD CUSTOMER-OWNED SERVICE PIPES

DOCKET NO. P-2017-_____

DIRECT TESTIMONY

OF

JOHN R. COX

WITH REGARD TO
PENNSYLVANIA-AMERICAN WATER COMPANY'S PROPOSAL
TO REVISE ITS TARIFF RULE PERTAINING TO CUSTOMERS' RESPONSIBILITY
TO REPLACE LEAD CUSTOMER-OWNED SERVICE PIPES; CAPITALIZATION OF
REPLACEMENT COSTS; RATEMAKING TREATMENT OF SUCH COSTS; AND
ANTICIPATED REVENUE REQUIREMENT IMPACT OF THE COMPANY'S
PROPOSAL

DATE: May 22, 2017

**PENNSYLVANIA-AMERICAN WATER COMPANY
DIRECT TESTIMONY OF JOHN R. COX**

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. What is your name and business address?**

3 **A.** My name is John R. Cox. My business address is 800 West Hersheypark Drive, Hershey,
4 Pennsylvania 17033.

5 **Q. By whom are you employed and in what capacity?**

6 **A.** I am employed by American Water Works Service Company (the "Service Company") as
7 Director of Rates and Regulations - Pennsylvania.

8 **Q. Please summarize your educational background and professional experience.**

9 **A.** I am a 1985 graduate of Shippensburg University of Pennsylvania with a Bachelor of
10 Science degree in Business Administration, with a major in accounting. In 1999, I
11 received a Master of Business Administration degree from Lebanon Valley College. I
12 have also completed the continuing education program sponsored by the National
13 Association of Regulatory Utility Commissioners (NARUC) and the University of Utah.
14 I have been employed by Pennsylvania-American Water Company ("PAWC" or the
15 "Company") or the Service Company since June 1986. From 1986 through June 1988, I
16 served as a staff accountant in the Accounting Department. In July 1988, I was
17 transferred to the Rate Department, and, in July 1989, I was promoted to Senior Rate
18 Analyst. In 1991, I was promoted to accounting supervisor and held that position until
19 December 2000 when I was promoted to Fleet and Materials Management
20 Superintendent. In July 2004 I was promoted to the position of Senior Financial Analyst
21 assigned to the Finance Department. In 2007, I was promoted to the position of Manager

1 of Rates and Regulations, and, in 2016, I was promoted to my current position of Director
2 of Rates and Regulations - Pennsylvania.

3 **Q. What are your duties as Manager of Rates and Regulations?**

4 **A.** My duties include, principally, preparing and presenting rate applications for PAWC. In
5 addition, I am responsible for various aspects of the financial, budgeting and regulatory
6 functions of the Company and general tariff administration.

7 **Q. Have you previously submitted testimony before the Pennsylvania Public Utility
8 Commission (“PUC” or the “Commission”)?**

9 **A.** Yes. I previously presented testimony on accounting and rate matters before the
10 Commission. I have also prepared water rate applications that were presented to the
11 Maryland Public Service Commission and the Virginia State Corporation Commission by
12 subsidiaries of the American Water Works Company that operate in those states.

13 **Q. What is the purpose of your testimony?**

14 **A.** My direct testimony is being submitted in support of the Company’s Petition for
15 Approval of Tariff Changes and Accounting and Ratemaking Treatment Related to
16 Replacement of Lead Customer-Owned Service Pipes (“Petition”). The purpose of my
17 direct testimony is fourfold.

18 First, I will introduce and explain PAWC’s Exhibit No. 1, which is a proposed
19 Supplement to PAWC Tariff Water-Pa. P.U.C. No. 4 (“Tariff No. 4”). The proposed
20 Supplement, if approved, will revise the Company’s Rules and Regulations to authorize
21 PAWC to replace lead customer-owned Service Pipes¹ at its sole cost, while leaving with

¹ The terms “Service Line” and “Service Pipe” are defined in Rules 2.11 and 2.12, respectively, at page 16 of Tariff No. 4. Specifically, a “Service Line” is “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” is

1 the affected customers the ownership and responsibility to maintain, repair and replace
2 the new Service Pipe after it is installed.

3 Second, I will describe the Company's proposal to capitalize the costs it incurs to replace
4 customer-owned lead Service Pipes and record the capitalized amount in Account 333 –
5 Services in the Company's regulated books of account.

6 Third, I will explain the proposed rate treatment of capitalized lead Service Pipe
7 replacement costs that the Company's Petition requests the Commission to affirm. In this
8 regard, I will explain that such replacement costs represent "eligible property" under
9 Section 1351 of the Public Utility Code.²

10 Fourth, I will explain the relatively small increase in annual revenue requirement that
11 would result from granting the approvals requested in the Petition. The revenue
12 requirement calculation is set forth in PAWC Exhibit No. 2.

13 **II. PAWC'S PROPOSED TARIFF SUPPLEMENT**

14 **Q. What does Tariff No. 4 currently provide regarding customers' ownership and
15 responsibility to maintain, repair and replace Service Pipes?**

16 **A.** As I previously noted, Rules 2.11 and 2.12 of Tariff No. 4 define a Service Line and
17 Service Pipe, respectively, as follows:

18 2.11 Service Line

19 The Company-owned piping and appurtenances which run
20 between and are connected to the Company's main and its service
21 connection.

"[t]hat part of the water line not owned by the Company" that "begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied." In my direct testimony, I will use the terms Service Line and Service Pipe as they are defined in Tariff No. 4 to refer to the Company-owned and customer-owned segments of a service line connecting a Company main with a customer's premises.

² Unless I indicate otherwise, when I refer to a "Section," I am referring to a section of the Public Utility Code.

1 2.12 Service Pipe

2 That portion of a water line not owned by the Company
3 which transmits water from the Company-owned water main to the
4 Customer's premise[s]. The water service pipe begins at the
5 Company-owned water main to the Customer's premise[s]. The
6 water service pipe begins at the Company-owned street service
7 connection and continues into the structure on the premise[s] to be
8 supplied.

9
10 Rule 2.14 is also relevant. It provides as follows:

11 2.14 Street Service Connection

12 A street service connection is hereby understood to include
13 a connection to the main pipe to and including the control valve
14 and control valve box, used to carry water from the main to the
15 curb line. The control valve and box terminates the Company's
16 responsibility for expense of the street service connection.

17
18 Additionally, Rule 4.9 of Tariff provides, in relevant part, as follows:

19 4.9 Customer Responsibility for Service Pipe

20 The Customer shall have full responsibility for the
21 installation, repair, replacement, and maintenance of all Service
22 Pipes . . .

23
24 **Q. What change to Tariff No. 4 would be made by the Supplement set forth in PAWC**

25 **Exhibit No. 1?**

26 **A.** The proposed Supplement would add Rule 4.9.1 to Tariff No. 4. The complete text of
27 Rule 4.9.1 is set forth in PAWC Exhibit No. 1. In summary, Rule 4.9.1 contains three
28 operative elements.

29 First, it provides that, notwithstanding Rules 2.12, 2.14 and 4.9, the Company may, at its
30 sole cost, replace lead Service Pipes pursuant to its proposed two-part lead Service Pipe

1 replacement plan (“Replacement Plan”), as follows: (1) when lead Service Pipes are
2 encountered as part of the Company’s on-going work to replace its mains and/or Service
3 Lines (Replacement Plan – Part 1); and (2) at a customer’s request, subject to certain
4 conditions, namely, verification of the presence of a lead Service Pipe and the
5 Company’s determination of when the replacement will occur based on the number of
6 requests in a given geographic area and the availability of funds within its budgeted
7 allotment (Replacement Plan – Part 2). Both Parts 1 and 2 will be subject to a maximum
8 budget allotment of \$6.0 million, and Part 1 will have priority in the use of the annual
9 funding allotment.

10 Second, Rule 4.9.1 provides that the customer will own and retain responsibility for the
11 maintenance, repair and replacement of its Service Pipe after it is replaced by the
12 Company.

13 Third, the proposed tariff revision provides that a customer whose lead Service Pipe is
14 replaced by the Company pursuant to Rule 4.9.1 shall enter in an appropriate agreement
15 with the Company before work to install the replacement begins, which will include
16 granting permission for the Company to enter onto the customers’ property to do the
17 replacement.

18 **Q. Why is the Company proposing to add Rule 4.9.1 to Tariff No. 4?**

19 A. The reasons for proposing Rule 4.9.1 are provided in the Petition and in PAWC
20 Statement No. 1, the direct testimony of David R. Kaufman. In summary, Rule 4.9.1 will
21 provide the authority the Company needs to replace lead Service Pipes under its proposed
22 Replacement Plan. The Petition and Mr. Kaufman’s direct testimony describe Parts 1
23 and 2 of the Replacement in more detail and also explain that customers are reluctant to

1 incur the cost to replace their lead Service Pipes, particularly in neighborhoods with older
2 housing stock where most lead Service Pipes are located and homeowners face economic
3 constraints that make it difficult or impossible for them to bear that cost. Rule 4.9.1 is a
4 reasonable solution to that problem. Additionally, as also explained in the Petition and
5 Mr. Kaufman’s direct testimony, Rule 4.9.1 is necessary to assure that PAWC continues
6 to maintain compliance with regulatory mandates that impose on the Company the
7 responsibility to avoid elevated lead levels in water at the customer’s tap even though the
8 source of lead may be the customer’s own property – not the Company’s. Finally, the
9 Petition and Mr. Kaufman’s testimony also explain that the Replacement Plan has been
10 designed to capture economies of scale and other efficiencies in order to make it more
11 cost-effective for the Company to replace Service Pipes in the manner and over the time-
12 period it proposes.

13 **III. ACCOUNTING FOR LEAD SERVICE PIPE REPLACEMENT COSTS**

14 **Q. How does the Company propose to account for the costs it incurs to replace lead**
15 **Service Pipes under the Replacement Plan?**

16 A. The Company is proposing, and asks the Commission to approve, capitalizing the costs to
17 replace lead Service Pipes pursuant to its Replacement Plan. Additionally, the Company
18 requests approval to record such capitalized costs in Account 333 – Services.

19 **Q. Why is it appropriate to capitalize the costs PAWC incurs to replace lead Service**
20 **Pipes pursuant to both Parts of the Replacement Plan?**

21 A. As explained in the Petition and by Mr. Kaufman, regulatory mandates, specifically, the
22 “Lead and Copper Rule,” impose an obligation on the Company to assure that the “action
23 level” for lead is not triggered by water furnished to customers’ taps even if the source of

1 lead originates on a customer's property, such as a lead Service Pipe. Lead Service Pipe
2 replacement costs represent a long-lived asset that has a direct and long-lasting impact on
3 PAWC's ability to comply with the primary drinking water standards of the EPA and
4 DEP. By providing a multi-year assurance that PAWC will remain below the action level
5 prescribed by the Lead and Copper Rule, the Company's investment in replacing lead
6 Service Pipes has all of the relevant characteristics of a capital asset and should be treated
7 as such for regulatory accounting purposes.

8 **Q. Why is the Company proposing to record lead Service Pipe replacement costs in**
9 **Account 333 – Services?**

10 A. The Company proposes to record the capitalized lead Service Pipe replacement costs in
11 Account 333 because those costs create property that is physically connected to its own
12 Service Lines. And, just as important, because of the obligations imposed by the Lead
13 and Copper Rule, the replacement costs are functionally part a unit of property – services
14 – that must be considered in its entirety for purposes of complying with important health
15 and safety related regulatory mandates. Account 333 has a relatively long depreciable
16 life and, therefore, capitalizing lead Service Pipe replacement costs in that account will
17 result in a relatively low annual depreciation rate (1.74%).

18 **Q. Is it appropriate to record Service Pipe replacement costs in Account 333 even**
19 **though the customer will own, and be responsible for, the new Service Pipe after the**
20 **replacement?**

21 A. Yes, it is. For the reasons I explained above, the replacement costs should properly be
22 recognized as an asset of the Company. In addition, the fact that the Service Pipes
23 installed by PAWC will not be owned or maintained thereafter by the Company does not

1 preclude the replacement costs from being recorded in Account 333. Every time the
2 Company (or any other utility) opens a public street to install, replace or rehabilitate its
3 mains, services or appurtenances, it incurs substantial roadway restoration costs. The
4 restoration costs are capitalized and booked to the utility's property account for the
5 utility's underlying capital project (such as mains or services) even though the roadway,
6 including the newly restored portion, remains the property of the municipality in that
7 location. The same is also true of restoration work performed on the premises of a
8 landowner in connection with capitalized main, service or other work performed by a
9 utility. Consequently, what PAWC is proposing is not unique or unprecedented. In fact,
10 it is consistent with approved accounting practices already in use.

11 **IV. RATE TREATMENT OF LEAD SERVICE PIPE REPLACEMENT COSTS**

12 **Q. What is the Company requesting with regard to rate treatment of lead Service Pipe
13 replacement costs?**

14 A. Because lead Service Pipe replacement costs are properly capitalized and recorded in
15 Account 333, those costs are also properly includable in the Company's rate base for base
16 rate purposes, and the Company requests that the Commission expressly affirm that such
17 will be the case. In addition, the Company requests that the Commission affirm that its
18 investments in capitalized lead Service Pipe replacements represent "eligible property" as
19 defined in Section 1351 and, therefore, under Section 1357, the fixed costs (pretax return
20 and depreciation) of such investments placed in service between base rate cases may be
21 recovered through the Company's distribution system improvement charge ("DSIC").

1 **Q. What is the basis for treating the Company’s investment in lead Service Pipe**
2 **replacements as “eligible property”?**

3 A. First, for the reasons I previously discussed in Section III, above, the Company’s
4 investment in lead Service Pipe replacements is functionally a part of one property unit –
5 namely, the entire connection from main to customer’s premises – that must be
6 considered in its entirety for purposes of complying with important primary drinking
7 water standards. Moreover, the lead Service Pipe replacement costs are analogous to
8 other costs that are properly capitalized, such as road restoration costs incurred when
9 mains or services are replaced or rehabilitated. As such, the investment is integral to the
10 Company’s distribution system.

11 Second, the definition of “eligible property” for water utilities includes “utility service
12 lines.” Given the functional integration of Service Lines and the Company’s investment
13 in lead Service Pipe replacement as well as the other factors discussed above, the
14 replacement costs should appropriately be considered part of the Company’s Account
15 333, and costs recorded in Account 333 have been considered “eligible property” for
16 DSIC recover since the DSIC was first adopted for water utilities in 1996.

17 Third, lead Service Pipe replacement costs would also qualify as “eligible costs” under
18 subsection 3(vi) of the definition for water utilities, which authorizes DSIC recovery for
19 “other related capitalized costs.” Lead Service Pipe replacement costs may also be
20 considered “other related . . . costs” that should properly be “capitalized” as part of a
21 water utility’s infrastructure improvements, for all the reasons I discussed previously in
22 this portion of my direct testimony and in Section III of my testimony, above.

1 **Q. If the Company’s proposal is approved by the Commission and PAWC began**
2 **incurring lead Service Pipe replacement costs as authorized by Rule 4.9.1, would the**
3 **associated capitalized costs cause the Company’s current DSIC rate to increase?**

4 A. No, it would not, because the Company’s DSIC rate is currently at its “ceiling” of 7.5%.
5 Therefore, implementing the Company’s proposal would not cause its DSIC rate to
6 increase at this time. Such costs would not be reflected in the Company’s DSIC rate until
7 its DSIC is “reset” following the conclusion of the base rate case the Company filed on
8 April 28, 2017 at Docket No. R-2017-2595853. And, even then, the Company’s DSIC
9 rate would not be affected until, after the end of the fully projected future test year in that
10 case (December 31, 2018), the projected DSIC-eligible plant additions included in the
11 Company’s rate base claims have been placed in service. That will likely occur after the
12 third quarter of 2019.

13 **V. REVENUE REQUIREMENT IMPACT**

14 **Q. Have you calculated the rate impact that would result if the Company’s Petition is**
15 **approved – recognizing that any increase would not affect customers’ rates until the**
16 **conclusion of the Company’s pending base rate case?**

17 A. Yes, I have. PAWC Exhibit No. 2 sets forth the calculation of the annual increase in
18 revenue requirement based upon the Company’s proposed budget allotment of \$6.0
19 million per year. For purposes of this calculation, I used the pretax return rate and the
20 depreciation rate for Account 333 – Services that were employed in the Company’s
21 calculation of its quarterly DSIC adjustment that went into effect on April 1, 2017. As
22 shown on that exhibit, the annual increase in revenue requirement associated with

1 implementing the Company's proposal approximates 10 cents per month or about \$1.24
2 per year.

3 **VI. CONCLUSION**

4 **Q. Does this conclude your direct testimony at this time?**

5 **A.** Yes, it does.

APPENDIX A

**REBUTTAL TESTIMONY OF PENNSYLVANIA-
AMERICAN WATER COMPANY**

(Statement No. 1-R – David Kauffman)

PAWC STATEMENT NO. 1-R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY
FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND
RATEMAKING TREATMENT RELATED TO REPLACEMENT
OF LEAD CUSTOMER-OWNED SERVICE PIPES
DOCKET NO. P-2017-2606100**

**REBUTTAL TESTIMONY
OF
DAVID R. KAUFMAN**

**WITH REGARD TO
PENNSYLVANIA-AMERICAN WATER COMPANY'S PLAN TO
REPLACE CUSTOMER-OWNED LEAD SERVICE PIPES**

PENNSYLVANIA-AMERICAN WATER COMPANY

**REBUTTAL TESTIMONY OF
DAVID R. KAUFMAN**

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. Please state your name and business address.**

3 **A.** My name is David R. Kaufman, and my business address is 800 West Hersheypark
4 Drive, Hershey, Pennsylvania 17033. I am employed by Pennsylvania-American Water
5 Company (“PAWC or the “Company”) as Vice President of Engineering.

6 **Q. Have you previously submitted direct testimony in this proceeding?**

7 **A.** Yes. I submitted direct testimony that is marked as PAWC Statement No 1. My
8 background and qualifications are set forth in that statement.

9 **Q. What is the purpose of your rebuttal testimony?**

10 **A.** The purpose of my rebuttal testimony is to respond to the direct testimony of witnesses
11 on behalf of the Pennsylvania Public Utility Commission (“Commission”) Bureau of
12 Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”) and
13 the Office of Small Business Advocate (“OSBA”) with regard to PAWC’s proposed plan
14 to replace customer-owned lead Service Pipes (“Replacement Plan”).¹

15

16

17

¹ As explained by Mr. Cox in PAWC Statement No. 2, Rules 2.11 and 2.12, respectively, set forth at page 16 of PAWC Tariff Water-Pa. P.U.C. No 4 (“Tariff No. 4”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat part of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied.” Therefore, throughout my rebuttal testimony, I use the terms “Service Line” and “Service Pipe” as they are defined in Rules 2.11 and 2.12 of Tariff No. 4.

1 **II. PAWC’S REPLACEMENT PLAN IS IN THE PUBLIC INTEREST**

2 **Q. Mr. Kaufman, can you please recap the key elements of the Replacement Plan**
3 **presented in your direct testimony?**

4 A. Certainly. The purpose of the Replacement Plan is to proactively eliminate both
5 Company-owned lead Service Lines and customer-owned lead Service Pipes (“LSPs”)
6 that remain in service in portions of PAWC’s system in a timely and cost effective
7 manner to protect against the adverse public health effects of a potential source of lead
8 contamination.

9 Under the Company’s two-part Replacement Plan, PAWC will first remove and
10 replace, with the customer’s consent, LSPs that are encountered when it replaces its
11 mains and Service Lines (“Replacement Plan – Part 1”). Second, PAWC will remove
12 and replace LSPs when requested to do so by a customer subject to verifying that the
13 customer, in fact, has a lead Service Pipe (“Replacement Plan – Part 2”). Under
14 Replacement Plan – Part 2, the Company will coordinate customer-requested
15 replacements. As I will discuss in more detail later in my testimony, customer requests
16 will be grouped by geographic location, and replacements will be undertaken when the
17 number of customer requests in a given location allows the Company to realize
18 reasonable economies of scale by doing those replacements as a single project. Under
19 both Parts of the Replacement Plan, the customer will own, and be responsible for, the
20 new Service Pipe after the replacement.

21 Replacing lead service lines in conjunction with main replacements (Part 1) is not
22 only the most cost-effective, efficient, and responsible way for the Company to conduct
23 its main and service replacement programs but it also addresses the health and safety

1 concerns of PAWC customers associated with lead in drinking water. Replacing lead
2 service lines based on aggregated customer requests (Part 2) is the most cost-effective,
3 efficient, and responsible way for the Company to address the health and safety concerns
4 of PAWC customers associated with lead in drinking water.

5 The Company will establish a budget cap of \$6.0 million per year to replace
6 customer-owned lead service pipes under its Replacement Plan, with a one-time, one-
7 year carryover provision of the unused budget amount from the prior year. The annual
8 budget amount of \$6.0 million is based on replacing approximately 1,800 customer-
9 owned LSPs per year at an average estimated cost of \$3,500 per each customer-owned
10 LSP replacement. It is anticipated that the Replacement Plan for both Parts could span at
11 least ten years at an overall program cost of \$63.0 million, which could fund the
12 replacement of an estimated 18,000 customer-owned LSPs. The ten-year program
13 timeline is consistent with and slightly more aggressive than the United States
14 Environmental Protection Agency's recommended 7% annual replacement rate
15 associated with systems that have exceeded the lead action level.

16 **Q. Do any witnesses support the Company's proposed Replacement Plan – Part 1?**

17 A. Yes. OCA witness Rubin and I&E witness Cline both agree that Replacement Plan – Part
18 1 is a prudent and efficient way to avoid creating a risk of exposing customers to elevated
19 lead levels in their drinking water from PAWC's extension of its infrastructure
20 rehabilitation program into areas where LSPs are more likely to exist. As explained in
21 detail on pages 5 through 12 of OCA witness Rubin's direct testimony, current best
22 practices in the water industry indicate that even with an effective corrosion control
23 program in place, lead service lines should be replaced, in their entirety, as soon as

1 possible because a “partial” lead service line replacement, which physically disturbs, but
2 leaves in places, the customer’s segment of a service connection, may increase the risk of
3 lead exposure through drinking water. Mr. Rubin concludes that the water industry is
4 moving toward a more rapid timeline for comprehensive replacement of lead service
5 lines, such as within ten years, and that such programs will likely become a legal
6 requirement in the near term, perhaps as early as next year.

7 I&E witness Cline also recognizes the public health benefits associated with the
8 Company’s proposed proactive Replacement Plan which will address conditions that may
9 increase the risk of exposure to lead at the customer’s tap. Specifically, he agrees that
10 that Replacement Plan – Part 1 will avoid the risks associated with partial replacements
11 and will ensure that customers continue to receive safe and reliable water service from
12 the Company even if they cannot afford to replace their LSP.

13 **Q. Even though he emphasizes that “it is important to remove LSPs from service to**
14 **ensure the delivery of safe water to customers,” I&E witness Cline questions**
15 **whether Replacement Plan – Part 1 is necessary to maintain compliance with LCR**
16 **requirements because the Company has not exceeded the action level in any portion**
17 **of its system. How do you respond?**

18 **A.** While PAWC’s proposed Replacement Plan is “voluntary” in the sense that the Company
19 is not required to replace customer-owned LSPs under the terms of a Consent Order
20 issued by the Pennsylvania Department of Environmental Protection (“PaDEP”), the
21 Replacement Plan would help PAWC reduce customers’ exposure to lead at the tap and
22 maintain compliance with applicable drinking water regulations. As explained in my
23 direct testimony, the LCR imposes an obligation on the Company to furnish water that is

1 below the lead action level at the customer's tap even if the source of lead originates
2 within customer-owned Service Pipes and in-home piping. Consequently, remaining in
3 compliance with LCR requirements necessarily requires taking steps to address possible
4 sources of lead contamination from customer-owned property.

5 In addition, as Mr. Cline acknowledges, even if a water system is in compliance
6 with the LCR, the Company can still adversely impact a customer's water quality by
7 disturbing the service connection during main and Service Line replacement work that
8 Mr. Cline recognizes is necessary for the provision of safe and reliable water service.
9 Replacing only a part of the lead service line may potentially increase the risk of lead
10 exposure through drinking water at the customer's tap. This is because physical
11 disturbance of lead service lines and electrochemical processes both contribute to an
12 increased risk of lead contamination following a partial replacement. Such physical
13 disturbance results when a lead service line is either physically cut or otherwise
14 disconnected, or when sufficient vibration occurs in close proximity to the line such that
15 the integrity of the interior scale may become vulnerable to breaking. Vibration concerns
16 include when excavation occurs in close proximity to the service line, such as during
17 water main replacement, other nearby underground utility work, or tree removal. By
18 removing the entire lead service line from active operation, a source of lead will be
19 removed, further reducing the potential for exposure to lead in the drinking water
20 supplied to customers.

21 LCR compliance is based on a monitoring program established by the Company
22 and approved by PaDEP which utilizes Tier One customer sample sites. These Tier One
23 locations under the LCR program are representative sites that have higher risk potential

1 for elevated lead levels at the customer's tap. However, the number of Tier One
2 sampling locations is limited compared to the number of customers that will be impacted
3 by the Company's infrastructure rehabilitation program that must be undertaken in areas
4 where lead Service Pipes are likely to remain in service. Notably, Mr. Cline does not
5 dispute that replacing LSPs when the corresponding mains or Service Lines are replaced
6 will eliminate a potential source of lead exposure following a "partial" replacement for
7 PAWC's customers.

8 **Q. Mr. Rubin recommends that, if the customer-owned LSP cannot be replaced, the**
9 **Company should not replace its Service Line. Do you agree with this**
10 **recommendation?**

11 A. No. When replacement water mains are installed in public streets, the new water main
12 does not occupy the same location as the old water main and may need to be moved to
13 the other side of the street to avoid conflicts with other utilities. This means that the
14 existing service lines will not be the correct length to connect to the new main,
15 necessitating the Company to perform both short and long-side company service
16 replacements when the replacement main is installed. Once the new replacement main
17 has been installed, routine Company-side Service Line work must be performed to restore
18 service to customers. As explained in my direct testimony, in those rare instances where
19 the customer refuses to allow the Company to replace their lead service piping, the
20 Company will utilize a dielectric coupling to establish a separation between dissimilar
21 metals of the service line (copper) and the service pipe (lead) and instruct the customer in
22 proper flushing procedures once the service line is activated.

23 **Q. Do any parties raise issues with respect to Replacement Plan – Part 2?**

1 A. Yes. I&E witness Cline raises concerns about PAWC’s proposed parameters for LSP
2 replacements under Part 2 of the Replacement Plan. Specifically, he asserts that the
3 Company has not defined the number of customers within a geographic area necessary to
4 trigger the commencement of replacement work or the length of time a customer may
5 wait for replacement of its LSP, and the Company has not addressed fairness issues if
6 certain customer requests would not ever be eligible for replacement based on geographic
7 location and economies of scale.

8 OSBA witness Kalcic, in turn, does not oppose Replacement Plan – Part 2 within
9 the parameters proposed by the Company, so long as the Company does not seek rate
10 recovery of replacement costs that exceed the greater of \$3,500 per unit of the average
11 per-unit replacement cost under Part 1. I will address Mr. Kalcic’s recommendation in
12 Section IV of my rebuttal testimony.

13 **Q. How many customer requests does the Company expect will be necessary in a**
14 **specific geographic area to achieve sufficient economies of scale to allow PAWC to**
15 **proceed with LSP replacement work?**

16 A. The scale of the Company’s response under Part 2 of the Replacement Plan will be
17 determined, in part, by the customer response to the Company’s offer. As the Company
18 evaluates higher concentrations of such requests, PAWC will first determine whether a
19 main replacement project should be considered. If main replacement work is performed
20 in conjunction with customer LSP replacement requests, the overall work will take place
21 under Part 1 of the Replacement Plan. If no main replacement is warranted, the
22 Company will consider numerous factors such as contractor proximity, the condition of
23 the paved cartway, and the number of customer requests.

1 For Part 2 replacements, the Company expects to utilize at least one contractor
2 crew per geographical region, such as Central Pennsylvania, wherein the crew can
3 replace approximately ten customer-owned LSPs per week. The number of weeks this
4 contractor crew would be utilized is dependent on the aggregate number of customer
5 requests in a geographical region and the available funding under the \$6.0 million budget
6 cap. To minimize repeated contractor mobilization/demobilization costs, the Company
7 would need to aggregate at least ten LSP replacements on the weekly schedule for the
8 contractor and another ten to twenty LSP replacements on the look-ahead schedule for
9 the following two weeks in a localized geographic area. With full implementation of
10 Replacement Plan – Part 2, the Company anticipates segmenting its service territory into
11 at least five geographical regions, and could theoretically have capacity to perform fifty
12 customer-owned LSP replacements per week. Economies of scale for Part 2 work can be
13 realized because the grouped work activity will be solely focused on LSP replacements
14 and, provided that scheduling and access to the customer’s premises is readily available,
15 efficient use of certified plumbers for the interior piping work can occur.

16 **Q. What is the average length of time that a customer may wait for its LSP**
17 **replacement after making a request under Part 2?**

18 A. The length of time that a customer may wait for a Part 2 service pipe replacement will
19 depend on the number of customer requests received in a geographical region and the
20 available funding. However, the Company will strive to maintain the wait time to under
21 one year after PAWC has the opportunity to evaluate the level of customer requests and
22 address any potential start-up issues associated with the roll-out of a new program. If the
23 customer response in a particular geographical region is significant, a second crew could

1 be added to minimize wait times. In addition, priority status will be given to a customer
2 request, coupled with Company verified water quality data, which indicates elevated lead
3 levels at the tap which exceed the action level for lead of 15 parts per billion (ppb).
4 PAWC's overall goal is to eventually replace all customer-owned LSPs based on
5 customer requests in each geographic location across the state and does not envision a
6 scenario wherein a verified customer request would be ineligible for an LSP replacement
7 under Replacement Plan – Part 2. While customer-requested LSP replacements may
8 occur over a longer time horizon than Part 1 replacements, Part 2 replacements do not
9 have the same elevated risk of lead exposure because there is no ongoing work by the
10 Company that would disturb the existing Service Lines and adjoining Service Pipes.

11 **III. RESPONSE TO THE ADMINISTRATIVE LAW JUDGE QUESTIONS AND**
12 **OPPOSING PARTY RECOMMENDATIONS REGARDING**
13 **IMPLEMENTATION OF THE REPLACEMENT PLAN**

14 **Q. Mr. Kaufman, please describe the physical replacement technique that the**
15 **Company will utilize under both Parts of the Replacement Plan.**

16 A. Once the customer-owned LSP replacement work is scheduled, a qualified contractor will
17 contact the customer to perform the work. To accomplish an LSP replacement at a
18 typical residential customer's premises, the contractor will first excavate access pits to
19 the Service Pipe near the curb stop at the property line and near the foundation of the
20 customer's house. Depending on the length of the customer-owned service pipe, an
21 intermediate access hole(s) may be needed. Typical distances between access holes can
22 range from 25-30 feet. Once the existing LSP is exposed and opened at the access holes,
23 the contractor will either pull a new copper service pipe through the existing Service Pipe
24 opening or will use a mechanical device to create a new opening underground between
25 access holes and then pull the new copper service through the newly created opening.

1 This installation method is less disruptive to the customer's property as it does not
2 involve more extensive excavation needed to replace a water main in the street.
3 However, this traditional excavation method might have to be used if site-specific
4 conditions on the customer property would preclude the use of pulling of a new service
5 pipe underground between access holes. Once the new Service Pipe is installed up to the
6 customer's foundation wall, it will be extended through a foundation wall penetration and
7 routed to the customer's indoor meter set location. In many locations, the interior Service
8 Pipe work will be performed by a certified plumber employed by the contractor. Once
9 the LSP has been replaced, the contractor will restore the customer's property to pre-
10 existing conditions. The Company will also provide flushing instructions for the customer
11 and contractor; a water sampling kit; information on how customers will be notified of
12 sample results; and a fact sheet about lead, LSP replacements, and how customers can
13 reduce exposure to lead in drinking water. Samples of those communication materials
14 are provided in Exhibit No. DRK-1R.

15 **Q. Will the customer be required to sign an agreement authorizing PAWC to enter the**
16 **customer's property to replace an LSP?**

17 **A.** Yes. As explained in my direct testimony, prior to initiation of any replacement work at
18 the customer premises, certain preconditions must be met, including Company
19 verification that the customer-owned service pipe is made of lead and execution of an
20 agreement in the form attached to my testimony as Exhibit No. DRK-2R that authorizes
21 the Company to access the customer's property to undertake the replacement work and
22 acknowledges that ownership and future maintenance, repair, and replacement of the
23 newly replaced service pipe will remain with the customer. The Company's validation of

1 lead material on the customer-owned Service Pipe is an important prerequisite to
2 preclude customers from seeking Company assistance to replace leaking non-lead Service
3 Pipes.

4 **Q. How will the Company address leaking or otherwise defective Service Pipes**
5 **composed of lead under the Replacement Plan?**

6 A. The proposed revisions to Tariff No. 4 Rule 4.9 do not change the rules regarding a
7 customer's obligation to replace or repair leaking or otherwise defective Service Pipe.
8 However, if an LSP that qualifies for a Part 1 or Part 2 replacement is leaking or
9 otherwise defective at the time it is discovered, the customer will not be required to repair
10 the LSP prior to replacement by the Company.

11 **Q. Why is it appropriate for the customer to retain ownership and responsibility for**
12 **the future maintenance, repair and replacement of the Company-installed**
13 **replacement Service Pipe?**

14 A. Once the Service Pipe has been replaced, the potential health risks associated with the
15 prior LSP are permanently eliminated. Accordingly, ownership of the Company-installed
16 Service Pipe must remain with the customer to minimize disparity among customers
17 based on the composition of their Service Pipe.

18 **Q. OCA witness Rubin recommends that the Company provide a five-year warranty to**
19 **the customer for each LSP replacement. Is this a necessary recommendation?**

20 A. No. As with other routine utility work performed by the contractor, the Company will
21 provide a one-year limited workmanship warranty to the customer on the newly installed
22 customer-owned Service Pipe.

1 **Q. Has PAWC developed a communications plan, as recommended by Mr. Rubin, to**
2 **ensure that customers are informed about the risks of lead contamination, how to**
3 **identify lead service pipes, and the benefits associated with the Replacement Plan?**

4 A. Yes. The Company's current public education efforts regarding lead service lines are
5 consistent with the National Drinking Water Advisory Council guidance Mr. Rubin
6 mentions in his direct testimony. The Company's customer education plan for the
7 Replacement Plan will include direct mailings to notify potentially affected customers of
8 the Replacement Plan, press releases, bill inserts, information on the Company's website
9 regarding the health effects of lead, and a lead information pamphlet to be distributed to
10 all customers. In addition, PAWC plans to release an educational video about lead and
11 notify customers when lead is encountered on the customer-owned segment of the service
12 line.

13 **IV. THE BUDGETARY ALLOTMENT WILL MITIGATE THE IMPACT OF THE**
14 **REPLACEMENT PLAN ON CUSTOMER RATES**

15 **Q. Mr. Kaufman, your direct testimony provided an estimate of the average cost of**
16 **LSP replacement in the amount of \$3,500. How did the Company arrive at this**
17 **figure?**

18 A. The actual cost of customer-owned LSP replacement reflects a number of site-specific
19 factors, including the length of the Service Pipe, the technique used to install the new
20 Service Pipe, and the built environment where the Service Pipe is located. The Company
21 based its \$3,500 estimate to replace the customer-owned service pipe on its experience
22 and information from several sources, including discussions with Company field
23 personnel and sample contractor pricing for Service Pipe replacements averaging 15-25
24 feet long. Table 1 provides an itemized breakdown of the \$3,500 estimate.

1

Table 1

<u>Item</u>	<u>Estimate</u>
Contractor Labor	\$2,800
Materials	\$200
Company Overhead and Inspection	\$500
Total	\$3,500

2

3 The \$3,500 average replacement figure is a composite number that reflects various
4 service pipe diameters and lengths. As such, there will be instances where the
5 Company's replacement costs are greater than the average unit cost estimate and other
6 instances where such costs will be less than \$3,500. Accordingly, the Company will
7 proceed with replacements, regardless of the actual costs up to the budget cap of \$6.0
8 million per year.

9 **Q. OSBA witness Kalcic recommends that the Commission deny PAWC cost recovery**
10 **for Replacement Plan - Part 2 expenditures that exceed \$3,500 per unit, or the**
11 **average Part 1 replacement cost. Do you agree with OSBA's approach?**

12 A. No. The OSBA's proposal is unnecessary in light of the \$6.0 million budgetary allotment
13 under which Part 1 replacements will have first priority of expenditures. As explained in
14 my direct testimony, this approach will provide a reasonable level of funds to implement
15 Replacement Plan - Part 2 while balancing the impact upon customer rates. The OSBA's
16 proposal would also create a disincentive for the Company to proactively remove any
17 possible risk of lead exposure from Service Pipes in areas where there is no ongoing main
18 and Service Line replacement work by the Company that would disturb the existing

1 service connections to avoid shouldering the risk of cost overruns that are largely driven
2 by site-specific conditions.

3 The Company will use its best efforts to competitively bid the work and
4 efficiently administer the Replacement Plan program. As previously stated, the
5 \$3,500 average cost is the Company's current best estimate for Part 1 LSP replacements.
6 This value may change once the Replacement Plan is fully implemented and the
7 Company's obtains additional competitive pricing across the multiple geographical
8 regions and for various site-specific project characteristics. The Company will
9 independently track customer-owned LSP replacement costs under both Parts of the
10 Replacement Plan program and is willing to report these costs as part of its Distribution
11 System Improvement Charge quarterly filings.

12 **Q. I&E witness Cline attempts to distinguish LSP replacement costs from roadway**
13 **restoration costs, stating that they are not required by the state or a municipality.**
14 **How do you respond?**

15 A. While the roadway restoration requirements Mr. Cline cites are dictated by state or
16 municipal regulations, the Company incurs a variety of other costs during a typical water
17 main installation that are not related to property owned by the Company or required by
18 regulations. For example, the Company makes expenditures to restore customer lawns,
19 curbs, sidewalks and driveways to their original condition following main replacement.
20 These expenditures are made with respect to property that is, and remains, in the
21 ownership of customers. Additionally, all of this work has an impact on public safety.
22 Similarly, replacing, rehabilitating and installing water mains and services – which gives

1 rise to the need to replace LSP under Part 1 of the Replacement Program – is necessary to
2 maintain safe and reliable service to the Company’s customers.

3 **Q. Mr. Cline also contends that replacement of LSPs should be distinguished from**
4 **roadway restoration work because the latter constitutes an “unavoidable” cost of**
5 **“necessary” work. Is that a valid distinction?**

6 A. No, not when the nature of the Replacement Program is properly considered. Mr. Cline
7 is arguing that restoration is “unavoidable” because to replace, rehabilitate or install a
8 main, a road surface would be excavated and, under applicable municipal requirements
9 (as well as the need to protect public safety), the road surface has to be restored. While
10 the physical relationship between the excavation and restoration may appear to be more
11 direct, the connection between the Company’s main replacements and the replacement of
12 LSPs is no less “unavoidable” when appropriate weight is given to the impact that main
13 and Company Service Line replacements have on water service furnished to a customer
14 with an LSP.

15 There is no dispute that replacing and rehabilitating existing water mains and
16 services that are at the end of their service life is essential to continue to provide safe and
17 reliable service to customers. That is the situation the Company faces in parts of its
18 service territory where LSPs are most likely to remain. These are also areas where the
19 Company has been trying to defer main replacement and rehabilitation until a workable
20 solution has been found to the LSP issue. Continuing to postpone main replacement
21 needs in a particular geographic region with known lead service lines in order to avoid
22 partial lead service line replacements will only result in an increased number of main
23 breaks and leaks over time, which can be costly and disruptive to customers and the

1 community. As I previously indicated, the ability to continue such deferrals is
2 diminishing. In order to address the need to replace and rehabilitate aging mains and
3 service, the Company has in place an extensive, well-developed and carefully designed
4 water main and Service Line replacement program. In implementing that program by
5 conducting main replacement work, the Company encounters both lead Company Service
6 Lines and customer-owned LSPs. As I explained in my direct testimony, recent studies
7 have produced evidence indicating that a “partial” (utility-side only) lead Service Line
8 replacement potentially increases the risk of lead exposure to customers with LSPs. This
9 elevated risk occurs because of the physical disturbance of the LSP and the galvanic
10 corrosion of dissimilar metals when only a partial replacement is done, as explained more
11 fully in my direct testimony. Thus, to avoid that elevated risk, the prudent course is to
12 replace the customer’s LSP. Stated another way, the work done by the Company on its
13 property (namely, its main and Company-owned Service Line) directly impacts the
14 serviceability of customer-owned property (the customer’s Service Pipe) – just as
15 excavation needed to do main work impacts the serviceability of municipally-owned
16 property (the roadway). Given that causal connection, which starts with something the
17 Company is doing to assure safe and adequate service to *all* customers (main replacement
18 and rehabilitation), the Company is certainly justified in mitigating the adverse impact its
19 work will have on the customer’s property (by replacing customer’s LSP) in the same
20 way the Company is warranted in mitigating the adverse impact of its main work on road
21 surfaces or customers’ lawns and sidewalks. The Company is, thus, preventing the
22 degradation of the customer’s water quality associated with elevated lead level exposure
23 that could result from an action taken by the Company. In addition, the Company’s

1 proposed approach also assures future compliance with regulatory requirements under the
2 LCR. All customers benefit from that future assurance of regulatory compliance because,
3 if regulatory parameters were to be exceeded in the future, non-compliance would drive
4 various increased operation and maintenance expenses and other costs that ultimately
5 would be included in revenue requirement and borne by all customers.

6 **Q. Do you agree with Mr. Rubin's recommendation that the Company should be**
7 **provided some flexibility in the implementation of its proposed \$6 million per year**
8 **cap on spending for customer-owned LSP work?**

9 A. Yes, I do. As I explained in my direct testimony, if, in any year, the entire budgetary
10 allotment for the year is not expended by the Company, it will be carried forward and
11 added to the budgetary allotment for the next subsequent year. However, any unused
12 budget funds will not carry-forward on a cumulative basis. Additionally, if the proposed
13 Replacement Plan receives Commission approval mid-year, the budgetary allotment for
14 the first year would be pro-rated accordingly. However, if the Company determines that
15 the proposed annual budget no longer meets the future needs of administering both Parts
16 of the Replacement Plan, the Company may seek Commission approval to modify the
17 \$6.0 million amount.

18 **Q. OCA witness Rubin recommends that the Company offer a sliding scale of**
19 **reimbursement to customers who replaced LSPs at their own cost between 2014 and**
20 **the first quarter of 2018. Do you agree with this recommendation?**

21 A. No. First, the OCA's proposal would add complexity to administration of the
22 Replacement Plan and the associated expense will have to be recovered from all
23 customers. Moreover, PAWC believes that the proper focus of the \$6.0 budgetary

1 allotment should be on LSPs that remain in service and that continue to pose a health
2 risk. Because the remaining LSPs are likely in areas with older housing stock and
3 vulnerable populations, the Company anticipates a small number of customers would
4 qualify for reimbursement. Likewise, there will also be some customers who replaced
5 their LSPs at their own cost prior to the four-year look back period proposed by the OCA.

6 **V. CONCLUSION**

7
8 **Q. Does this conclude your rebuttal testimony?**

9 **A. Yes, it does.**

EXHIBIT DRK-1R

FREQUENTLY ASKED QUESTIONS

Why am I receiving this information?

The water infrastructure in your street is being upgraded. If any portion of the service line from the water main to your house is made of lead, we can replace it during this work.

Why should I participate in this program?

Your decision to replace an old lead service line is an important one. The U.S. Centers for Disease Control (CDC) and the U.S. Environmental Protection Agency (EPA) recommend replacing the entire lead service line rather than only replacing a portion of the line. Because replacing only a portion of the lead service line can potentially increase the exposure to lead through drinking water, your entire service line should be replaced.

What is included?

An entire new water service line would be installed from the new water main to a valve inside your house (limited up to 5 feet inside your house). If there is no existing valve, we will install one as needed. In addition, if your household electric system is grounded through your lead service line, we will have a certified electrician check your electric system to make sure it's grounded properly.

How will this be funded?

As part of this project, we will cover the cost of replacing the customer-owned portion of the lead service line. Note: Home improvements/modifications are not covered.

How long will this take?

Generally, an entire new service line can be installed in one day. Additional time may be needed if obstacles, such as other underground piping, are in the way.

Do I need to be home?

You will need to be home for part of the work. To remove the entire lead service line, we will need to access your existing customer-owned service line as it enters your house. You also will need to be home to flush your plumbing.

How do you install a new water service line?

There are several construction methods that may be considered. Our contractor will evaluate the options and provide the best approach.

Will my water service be turned off during this work?

A short, temporary disruption may occur as we transition your water service from the old lead service line to the new service line. We will make every effort to minimize any disruption.

Why do I need to flush my household plumbing after replacement of the service line?

Flushing of your household plumbing can remove any pipe scale that broke loose during construction. Pipe scale can contain lead so it is important to flush it out.

If I choose to participate, when can you schedule this work?

We need to perform this work as we are upgrading the water infrastructure in your street. We will contact you to schedule a time that works for you. Normal hours are from 7 a.m. to 7 p.m.

Are my local officials aware of this work?

Yes. We are coordinating this work with your local municipality. They can also help direct questions to us.

Can I use a filter to remove lead instead of replacing the lead service line?

While using filters rated to remove lead can be effective if properly maintained, removing the entire lead service line pipe will remove a source of lead and help to minimize your risk of exposure to lead in drinking water.

If I'm not ready to replace my service line now, will you cover any costs if I replace it later?

At this time, this program is only offered when we are upgrading our water infrastructure. If you decide to replace your service line at a later date, we can not guarantee that we could cover the costs. You may need to pay to have a plumber and an electrician perform the work.

My household plumbing is lead. Will you replace that as well?

No, this project will only replace lead water service lines from the water main to the first valve within your household, up to 5 feet.

About Lead
 Pennsylvania American Water regularly tests for lead in drinking water at our treatment facilities and at representative sites in the distribution system, and we comply with drinking water standards. For more information, visit pennsylvaniaamwater.com. Under **Water Quality**, select **Water Quality Reports**.

What steps can I take to minimize my exposure to lead?

1. If you have a lead service line, replace it.
2. Flush your tap before drinking or cooking with water, if the water in the faucet has gone unused for more than six hours. The longer the water lies dormant in your household's plumbing, the more lead it might contain. Flush your tap with cold water for 30 seconds to two minutes before using.
3. Remove and clean the aerators or strainers from each faucet periodically.
4. Visit our website for more tips.
5. NSF International created a Consumer Guide to NSF Certified Lead Filtration Devices for Reduction of Lead in Drinking Water. Visit www.nsf.org/info/leadfiltrationguide for more information.



IMPORTANT NOTICE ABOUT YOUR WATER SERVICE AND LEAD SERVICE LINES

Pennsylvania American Water will be upgrading the water infrastructure along your street in the near future. While we're there, if the utility-owned or customer-owned portion of the service line (see diagram) is made of lead or lined with lead, we'd like to work with you to replace it.

Best of all, we'll cover a portion, and in some cases all, of the costs to replace your service line.

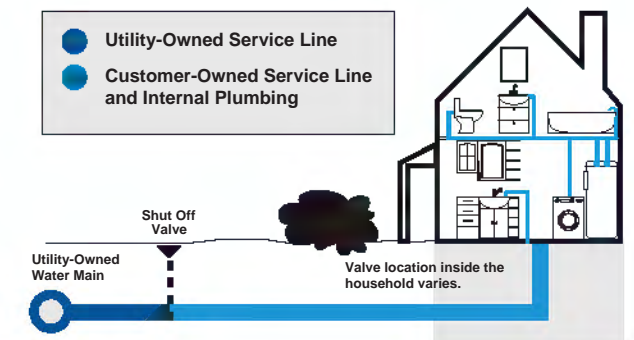
Replacing any lead service lines now helps manage the risk of exposure to lead in drinking water.

Please review the enclosed information and contact us as soon as possible, because we need your input on this important project impacting your water service.

Name _____

Phone _____

Utility-owned vs. Customer-owned portion of the service line



Note: This diagram is a generic representation. Variations may apply.

Please allow us to replace your service line at this time if it's made of lead.

Here's what to expect...



Call us.

Contact us, and we will explain the process and answer your questions.



Agree to have your service line checked.

We can check to see if your line is lead while we are working on your street.

First, we'll need your approval.



We'll check your line.

With your approval, our contractor will check to see if your service line is made of lead or lined with lead.

This may involve our contractor obtaining a mark out of underground utilities and checking your home electrical system grounding.

In addition, we may need to dig one to two small diameter test pits over your existing service line to determine your service line material.



We'll let you know if your line is lead.

We will inform you if lead pipe is found.

And, if it is, we'll need your approval to replace it. Replacing the entire service line at this time can help you better manage your risk of exposure to lead in drinking water.



Agree to have your lead service line replaced.

First, we'll meet with you to discuss the project specifics and how to prepare the work area.

Then, before we can proceed, the property owner must sign and return a release to allow our contractor to work on your property.



We'll replace the entire service line.

Our contractor will install a new water service line. This generally can be done in one day.

Any needed lawn, driveway or sidewalk restoration work may take additional days, but there's no need for you to be home while we complete the restoration.



Flush your plumbing.

Your household plumbing will need to be flushed to remove any pipe scale that may have come loose during construction.

This step should be completed BEFORE you consume tap water or use hot water. This also is a good time to clean aerators.

We'll provide you with printed instructions for initial and ongoing maintenance flushing. Our contractor will be available to assist you with the initial flush.



We'll collect a water sample.

When the work is completed, we will schedule a time to collect a water sample.

Once available, we will inform you of the results.

See FAQs on the back for more information.



LEARN MORE

CALL US Contact our project manager at the number provided on the front page. Customers can also contact our Customer Service Center at 1-800-565-7292, M-F, 7 a.m.–7 p.m. For emergencies, we're available 24/7.

ONLINE Tips on what you can do to reduce the potential for lead exposure are attached and can be found online at pennsylvaniaamwater.com. Under Water Quality, select Water Quality Reports.

For more information on drinking water in general: Call the USEPA's Safe Drinking Water Hotline at 1-800-426-4791.

Note: We are not selling any services in this program.

CHECK YOUR WATER SERVICE LINE MATERIAL



The Customer elects for the Company to investigate the Customer's water service line material to determine if it is eligible for Lead Service Line Replacement¹: CHECK HERE

The undersigned customer(s), whose name(s) appear in the signature block at the bottom of this page (the "Customer") grants to Pennsylvania-American Water Company ("the Company") and to its approved contractors and/or subcontractors a license to enter upon the Customer's property at the address shown below ("Property") for the purpose of investigating the Customer's service line material at the front of the Property to determine if it is eligible for Lead Service Line Replacement. This investigation will be at no cost to the Customer.

PROPERTY ADDRESS: _____ City _____ State _____ Zip _____

The Customer represents that the Customer is/are the sole owner(s) of the Property at the address shown above and has/have sole authority to agree to this License.

The term of this license shall be six (6) months following the date set forth below.

The Company or its approved contractors and/or subcontractors will make up to three small test borings in the Customer's yard near the Company meter or valve installation ("Installation") or along the service line in the Customer's front property. The Company will determine the location and size of the test borings and review with the Customer prior to work being performed.

Upon completion of the work necessary to check the service line material, the Company will restore the Customer's Property as nearly as practicable to its former condition. The Company warrants the workmanship of its restoration of the test boring holes for a period of 2 months following the date set forth below, with the Company's liability limited to the cost of repairing the surface above the test boring. Restoration may include filling in boring hole with soil, applying grass seed or mulch, or patching concrete. Limits of restoration will be discussed with the Customer prior to work being performed.

THE CUSTOMER ACKNOWLEDGES THAT THE CUSTOMER HAS RECEIVED THE "IMPORTANT NOTICE ABOUT YOUR WATER SERVICE AND LEAD SERVICE LINES" AND "LEAD" INFORMATION SHEETS PROVIDED BY THE COMPANY.

IN CONSIDERATION FOR PERFORMING THE WORK TO INVESTIGATE THE CUSTOMER SERVICE LINE AT THE COMPANY'S COST AND THE COMPANY'S AGREEMENT TO PROVIDE A 2-MONTH LIMITED WORKMANSHIP WARRANTY, THE CUSTOMER AGREES TO INDEMNIFY, RELEASE AND HOLD HARMLESS THE COMPANY AND ITS AFFILIATES AND AGENTS FROM AND AGAINST ALL CLAIMS, LIABILITY AND COSTS ("CLAIMS") RESULTING FROM ACTS AND OMISSIONS OF THE COMPANY AND/OR ITS APPROVED SUBCONTRACTORS IN INVESTIGATING THE CUSTOMER SERVICE LINE.

CUSTOMER(S)

Signature _____

Signature _____

Print Name _____

Print Name _____

Date _____

Date _____

Email _____

Email _____

Phone _____

Phone _____

¹ Lead Service Line Replacement may include replacing all or portions of the domestic water service line if it is made of lead pipe. The service line is defined as the pipe extending from the connection at the water main to the first shut off valve inside the Customer's premise, or as otherwise feasible due to safety constraints. This work is limited to up to 5 feet within the Customer's premise and does not include improvements to the Customer's premise plumbing. Additional details can be found in the pamphlet entitled "Important Notice about Your Water Service and Lead Service Lines."

See other side if you do NOT permit Pennsylvania American Water to investigate your service line material.

CHECK YOUR WATER SERVICE LINE MATERIAL



The Customer does not permit the Company to investigate the Customer's water service line material for the purpose of determining if it is eligible for Lead Service Line Replacement: CHECK HERE

Customer Acknowledgement

The undersigned customer(s), whose name(s) appear(s) in the signature block shown below (the "Customer"), who receives water service provided by the Company to the residence at the Property address listed below, acknowledges that the Customer has been informed by the Company that the Customer's water service line, which connects the Customer's residence to a Company water main at the front of the Property, may be made of lead pipe. The Customer does not permit the Company to investigate the Customer's water service line to determine if it is eligible for LEAD SERVICE LINE REPLACEMENT¹. The Customer acknowledges that it has received and read the "Important Notice About Your Water Service and Lead Service Lines" and "Lead" information sheets provided by the Company.

PROPERTY ADDRESS: _____ City _____ State _____ Zip _____

CUSTOMER(S)

Signature _____

Signature _____

Print Name _____

Print Name _____

Date _____

Date _____

Email _____

Email _____

Phone _____

Phone _____

¹ Lead Service Line Replacement may include replacing all or portions of the domestic water service line if it is made of lead pipe. The service line is defined as the pipe extending from the connection at the water main to the first shut off valve inside the Customer's premise, or as otherwise feasible due to safety constraints. This work is limited to up to 5 feet within the Customer's premise and does not include improvements to the Customer's premise plumbing. Additional details can be found in the pamphlet entitled "Important Notice about Your Water Service and Lead Service Lines."

See other side to permit Pennsylvania American Water to investigate your service line material.

SERVICE LINE ASSESSMENT RESULTS

Dear Valued Customer,

Thank you for allowing us to take a closer look at your service line. We care about our customers and believe this is an important step in assessing your household's exposure to lead. **Here's what we found when we checked your customer-owned service line:**

- We'd like to talk to you about your service line.**
It appears that a portion of the pipe may be made of lead or contain lead. Please contact us at the number below.
- Your service line does NOT appear to be made of lead pipe.** We will proceed with connecting your existing service line to the new water main after the new main is installed.
- BEFORE USING WATER FOR DRINKING OR COOKING:**
Your household plumbing will need to be flushed to remove any pipe scale that may have come loose in the process of checking your service line. Pipe scales may contain lead. To flush your line, please remove the aerator on the faucet(s) used for drinking or cooking, and run the water for 5 minutes before use. Then, clean and replace the aerators on the faucet(s).

We'll provide you with further details about the main replacement improvement as the project progresses. If you have questions in the meantime, please contact our customer service center at the number provided below.

Date: ____/____/20____ Time: _____ a.m. / p.m.

PA.SLR.3 10-2017



PE N S Y L V A N I A
AMERICAN WATER

CUSTOMER SERVICE

HOURS OF OPERATION: M-F, 7 a.m. to 7 p.m.
FOR EMERGENCIES: We're available 24/7.

1-800-565-7292

RESULTADOS DE LA EVALUACIÓN DE LA TUBERÍA DE SERVICIO

Estimado y preciado cliente:

Gracias por permitirnos revisar más detenidamente su tubería de servicio. Nuestros clientes son valiosos para nosotros y creemos que este es un paso importante para evaluar la exposición al plomo en su hogar. **Cuando revisamos la tubería de servicio que es de su propiedad, observamos lo siguiente:**

- Nos gustaría hablar con usted sobre su tubería de servicio.** Todo parece indicar que es posible que una parte de la tubería sea de plomo o contenga plomo. Comuníquese con nosotros al número que se indica a continuación.
- Su tubería de servicio NO parece ser una tubería de plomo.** Procederemos a conectar la tubería de servicio existente a la nueva tubería de agua principal una vez que esta se haya instalado.
- ANTES DE UTILIZAR AGUA PARA BEBER O COCINAR:** Será necesario que purgue las tuberías de su hogar para eliminar cualquier residuo que pudiera haberse desprendido mientras se revisaba la tubería de servicio. Los residuos de las tuberías podrían contener plomo. Para purgar la tubería, retire el aireador de los grifos utilizados para beber o cocinar y deje correr el agua durante 5 minutos antes de usar. Luego, limpie y vuelva a colocar los aireadores de los grifos.

Le proporcionaremos más información sobre esta obra de mejora y reemplazo de la tubería de agua principal a medida que progrese el proyecto. Mientras tanto, si tiene preguntas, comuníquese con nuestro Centro de servicio al cliente al número que se indica a continuación.

Fecha: ____/____/20____ Hora: _____ a.m. / p.m.



PE NNSYLVANIA
AMERICAN WATER

SERVICIO AL CLIENTE

HORARIOS DE ATENCIÓN:

De lunes a viernes de 7 a. m. a 7 p. m.

PARA EMERGENCIAS:

Estamos disponibles las 24 horas, los 7 días a la semana.

1-800-565-7292

**BE SAFE. SLOW
 DOWN IN WORK
 ZONES**

Your safety, as well as the safety of your neighbors and our workers, is important to us! We work hard to keep our job sites safe, and we appreciate your effort to slow down and use caution around the construction site.



QUESTIONS?

Call our project contact, listed at the right.

We can also be reached at our Customer Service Center: 1-800-565-7292

Hours: 7 a.m.-7 p.m.

For emergencies, we're available 24/7.

PA.SLR.5.10-2017

ABOUT THE PROJECT

Investment:

What:

Where:

When:

Work Hours:

Project Contact:

Our crews will work as quickly as possible to shorten the length of these temporary inconveniences. We appreciate your patience and understanding during this project.

- **Install, disinfect, test and place new main into service.** While we interconnect the new main to distribution system, customers may experience a temporary service interruption. Customers may also experience a slight discoloration of water. If this happens, run the water until it is clear.
- **Replace utility-owned service lines and transfer customers to the new main.** Once the main is installed, we'll return to connect customers to the new main. This may involve replacing utility-owned service lines. If we're replacing the utility-owned service line at your property, typically there is a 30- and 60-minute interruption of service while the contractor connects the new service line. We'll attempt to notify customers 24 hours in advance. We'll also notify you on the day the service line is replaced with instructions on how to flush your household plumbing prior to using water. It is important that you read and follow these instructions. If you're not home, we'll leave the instructions at your front door.
- **Perform final paving and any restoration of concrete, driveway, grass and landscaping.**

PROJECT OVERVIEW AND WHAT YOU CAN EXPECT

At Pennsylvania American Water, we're committed to providing our customers with safe, reliable water service. This requires investing in our treatment and distribution systems, and one of these projects is about to take place near you. The project involves replacing aging water main, as well as utility-owned service lines and fire hydrants along the pipeline route (see reverse for more information about service lines).

MAIN REPLACEMENT PROJECT TO START SOON

WE'RE INVESTING IN YOUR NEIGHBORHOOD.



ABOUT SERVICE LINES

There are two components of a service line.

Utility-owned portion of the service line: This is the portion of the service line that extends from the company's main in the street to the company shut off valve (generally located near the curb).

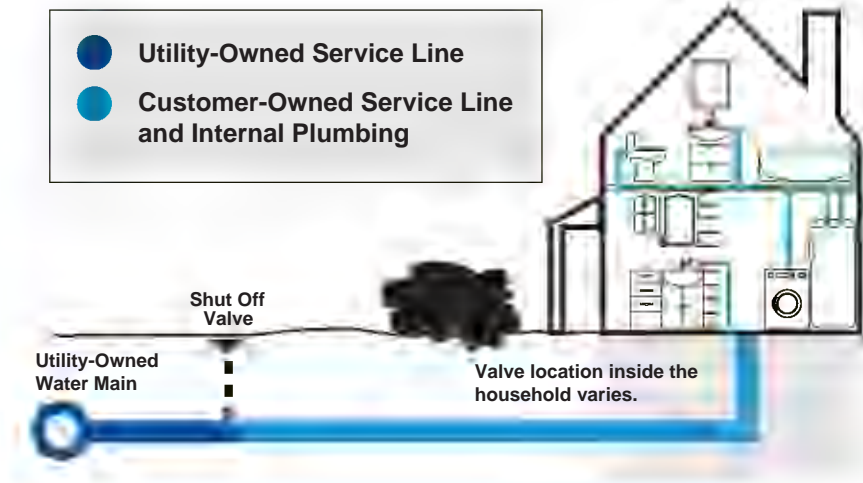
Customer-owned portion of the service line: The property owner is responsible for this portion. It extends from the company shut off valve to and including the inside plumbing.

If we replace the utility-owned service line serving your property, we'll notify you on the day the service line is replaced with further instructions on how to flush your household plumbing prior to using the water. If you're not home, we'll leave the instructions at your front door.

WHAT'S YOUR SERVICE LINE MADE OF?

Over the years, plumbers have used many different materials, including copper, PVC, lead and others. One way to find out what your service line is made of is to contact a licensed plumber. If we find lead during the course of our main replacement project, we'll contact you to discuss replacing your service line. Replacing lead service lines reduces your potential exposure to lead. To learn more, visit pennsylvaniaamwater.com. Under Water Quality, select Lead and Drinking Water.

UTILITY-OWNED VS. CUSTOMER-OWNED PORTION OF THE SERVICE LINE



Please note: This diagram is a generic representation. Variations may apply.

TRAFFIC FLOW AND ACCESSIBILITY

Sections of street where construction is taking place may be closed during work hours. All traffic control will be coordinated with local police. Motorists should use caution, obey traffic signs and follow detour routes when driving in the area.

NOISE

As with any construction project, some noise will be unavoidable with this project. We apologize for any inconvenience, and appreciate your understanding and cooperation.

SITE MAINTENANCE

The project site will be maintained and cleaned each day before contractors have completed work.

HOW SHOULD WE REACH YOU IN AN EMERGENCY?

Pennsylvania American Water uses a high-speed mass-notification system called "CodeRED" to keep customers informed about water-related emergencies and alerts. Log on to our online self-service portal (amwater.com/myaccount) to make sure your contact information is up-to-date. While you're there, tell us how you prefer to receive our notifications: by phone, text and/or email.*

*Standard text, data and phone rates may apply.

pennsylvaniaamwater.com



INFRASTRUCTURE. ONE MORE WAY WE KEEP LIFE FLOWING.

IT'S TIME TO FLUSH YOUR WATER LINE

Dear Valued Customer,

Today, we replaced the utility-owned portion of the water service line from the company's main in the street to the company shut off valve (generally located near the curb). Some sediment or debris may have come loose during removal of the pipe.

Our contractor flushed the new service line using your outside faucet. **Now, we'll need you to flush your household plumbing BEFORE you consume tap water or use hot water. For example, this includes drinking, cooking, making baby formula, filling pet bowls, or using icemakers, filtered water dispensers or appliances requiring water.**

Flushing Your Plumbing in Three Simple Steps

1. Remove faucet aerator on your kitchen faucet, and if applicable, bypass any home treatment unit.
2. Fully open the cold water tap and let the water run for at least 5 minutes. Monitor tap and drain to prevent overflows.
3. Clean and replace the faucet aerator.

For more information on your water quality, call us or visit us online at www.pennsylvaniaamwater.com. Under Water Quality, select Water Quality Reports.

Date: ____/____/20____ Time: _____ a.m. / p.m.

PA.SLR.6 09-2017



PE N N S Y L V A N I A
AMERICAN WATER

CUSTOMER SERVICE

HOURS OF OPERATION: M-F, 7 a.m. to 7 p.m.
FOR EMERGENCIES: We're available 24/7.

1-800-565-7292

ES HORA DE PURGAR LA TUBERÍA DEL AGUA

Estimado preciado cliente,

El día de hoy, reemplazamos la porción de la tubería del servicio de agua que es propiedad de los servicios públicos, y que va de la tubería principal de la compañía en la calle a la válvula de paso de la compañía (generalmente ubicada cerca de la acera). Es posible que se haya desprendido algo de sedimento y escombros durante el cambio de la tubería.

El contratista usó su grifo exterior para purgar la nueva tubería de servicio. **Ahora usted debe purgar la tubería de su casa ANTES de consumir el agua del grifo, o utilizar agua caliente. Por ejemplo, el agua para tomar, cocinar, preparar fórmula para bebés, llenar los platos de agua para las mascotas, o utilizar las máquinas de hielo, los dispensadores de agua filtrada o los electrodomésticos que requieran agua.**

Purgue la tubería en tres sencillos pasos

1. Retire el aireador del grifo de la cocina, y de ser el caso, evite cualquier unidad de tratamiento de agua para el hogar.
2. Abra completamente el grifo de agua fría y deje que el agua corra por lo menos 5 minutos. Vigile el grifo y el desagüe para evitar que el agua se desborde.
3. Limpie y vuelva a colocar el aireador del grifo.

Para más información sobre la calidad del agua, llámenos o visítenos en línea en www.pennsylvaniaamwater.com. En la pestaña de Water Quality (calidad del agua), seleccione Water Quality Reports (informes de calidad del agua).

Fecha: ____/____/20____ Hora: _____ a.m. / p.m.



PE N N S Y L V A N I A
AMERICAN WATER

CUSTOMER SERVICE

HORARIOS DE ATENCIÓN:

De lunes a viernes de 7 a. m. a 7 p. m.

PARA EMERGENCIAS:

Estamos disponibles las 24 horas, los 7 días a la semana.

1-800-565-7292

IMPORTANT NOTICE ABOUT YOUR WATER

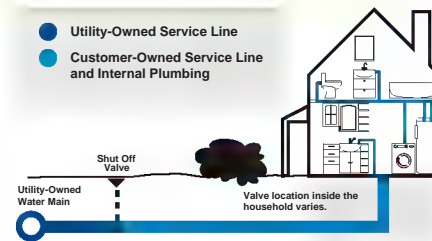


Dear Valued Customer,

Today, we replaced the following at your property:

- the utility-owned portion of the service line, which contained lead.
- the customer-owned portion of the service line, which contained lead.

Your household plumbing will need to be flushed to remove any pipe scale that may have come loose during construction. Pipe scales may contain lead.



Please note: This diagram is a generic representation. Variations may apply.

FOR MORE INFORMATION

For Questions About Lead:

Contact the Customer Service Center at 1-800-565-7292. Please request a water quality follow-up.

For Questions About Construction:

(____) _____

For all other inquiries:

Customer Service Center
1-800-565-7292
Hours: M-F, 7 a.m.–7 p.m.
For emergencies, we're available 24/7.

Pennsylvania American Water meets all drinking water standards related to lead. Basic information about lead, the steps we take—along with tips on what you can do—to reduce the potential for lead exposure, are attached and can be found online at pennsylvaniaamwater.com. Under Water Quality, select Water Quality Reports.

LEARN MORE

**USEPA's Safe
Drinking Water Hotline**
1-800-426-4791

**National Lead Information
Center: 1-800-424-LEAD**

Please take the following steps to minimize your exposure to any scale that may have been released.

Immediate Household Flushing Instructions

You should flush your household plumbing BEFORE you consume tap water or use hot water. For example, this includes drinking, cooking, making baby formula, filling pet bowls, or using icemakers, filtered water dispensers or appliances requiring water.

1. Start by finding the closest available cold water tap to where the water line comes into the home (such as an outside hose bib or laundry/utility sink). If using outside faucet, please use hose to safely direct water away from your home.
2. Remove faucet aerator, and if applicable, bypass any home treatment unit. Then fully open the cold water tap and let the water run for at least 30 minutes.

Next, flush the remainder of your household plumbing as follows¹:

3. Find all the faucets that will drain properly into a basin, tub, shower or laundry tub. Be careful to monitor all taps and drains to prevent overflows.
4. Remove faucet aerators and screens wherever possible from all cold water

taps that you plan to flush in the home (and remove any filter devices).

5. Beginning in the lowest level of the home, fully open the cold water taps throughout the home.
6. Let the water run for at least 30 minutes at the last tap you opened (top floor).
7. Turn off each tap starting with the taps in the highest level of the home. Clean and replace the aerators on faucets.

Be sure to run cold water in bathtubs, showers and faucets, and monitor all taps and drains to prevent overflows.

Daily and Monthly Maintenance for Six Months

Other steps to help manage your exposure include:

- **DAILY (for six months):** Each morning or any time the water in the faucet has gone unused for more than six hours, flush your tap for 30 seconds to two minutes before using any water for drinking, cooking or making infant formula.
- **MONTHLY (for six months):** Remove and clean your faucet aerators.

¹Source: American Water Works Association (AWWA)

There are other steps you can take to protect yourself and your family from lead in tap water, regardless of whether you have a lead service line. Plumbing fixtures like faucets, valves and solder can contain small amounts of lead, so flushing can help reduce lead exposure. Visit our website for more information. Please note: homeowners are responsible for their home plumbing.

Date: _____

Time: _____ a.m. / p.m.

NOTIFICACIÓN IMPORTANTE SOBRE EL AGUA



Estimado preciado cliente,

El día de hoy, reemplazamos lo siguiente en su propiedad:

- la parte de la tubería de servicio que es propiedad de los servicios públicos y que contenía plomo.
- la parte de la tubería de servicio que es propiedad del cliente y que contenía plomo.

Será necesario que purgue las tuberías de su casa para eliminar cualquier partícula que se haya podido desprender de las tuberías durante el arreglo. Las partículas de las tuberías pudieran contener plomo.

Se le ruega que siga las siguientes instrucciones para minimizar su exposición a cualquier partícula que pudiera haberse desprendido.

Instrucciones para purgar inmediatamente las tuberías del hogar

Debe purgar la tubería de su casa ANTES de consumir el agua del grifo, o utilizar agua caliente. Por ejemplo, el agua para tomar, cocinar, preparar fórmula para bebés, llenar los platos de agua para las mascotas, o utilizar las máquinas de hielo, los dispensadores de agua filtrada o los electrodomésticos que requieran agua.

- Para empezar localice el grifo de agua fría más cercano a la tubería por donde llega el agua a su casa (puede ser la toma para la manguera afuera de su casa, o la toma para la lavadora/el lavadero). Si utiliza un grifo localizado afuera, dirija la manguera en sentido opuesto de su casa.
- Retire el aireador del grifo, y de ser el caso, evite cualquier unidad de tratamiento de agua para el hogar. Luego, abra completamente el grifo de agua fría y deje que el agua corra por lo menos 30 minutos.

Después, purgue el resto de la plomería de su hogar de la siguiente forma¹:

- Busque todos los grifos que puedan drenarse debidamente en el lavamanos, la tina, ducha o el lavadero de la lavandería. Vigile todos los grifos y desagües para evitar que el agua se desborde.
- De ser posible, retire los aireadores y las rejillas de todos los grifos de agua fría que

Existen otras medidas que puede tomar para protegerse a usted y a su familia del plomo en el agua potable, independientemente de que tenga o no tuberías de plomo. La fontanería como por ejemplo los grifos y las válvulas y la soldadura pueden contener pequeñas cantidades de plomo, por tanto purgar las tuberías puede ayudar a reducir la exposición al plomo. Para más información, visite nuestra página web. Le rogamos que tenga en cuenta que los propietarios son responsables por la plomería de sus hogares.



Tenga en cuenta lo siguiente: Este diagrama es una representación genérica. Pueden existir variantes.

vaya a purgar en su casa (y retire cualquier dispositivo de filtros).

- Empezado en el piso más bajo en su casa, abra completamente los grifos de agua fría en toda la casa.
- Deje que el agua corra por lo menos 30 minutos a partir del momento en que abrió el último grifo (en el piso superior).
- Cierre cada grifo empezando con los que están ubicados en el piso superior de su casa. Limpie y vuelva a colocar los aireadores de los grifos.

Asegúrese de dejar correr el agua en las bañeras, duchas, y los grifos, y vigile todas las salidas de agua y los desagües para evitar desbordes de agua.

Mantenimiento diario y mensual durante seis meses

Otros pasos para ayudar a controlar la exposición son:

- DIARIAMENTE (durante seis meses):** Todas las mañanas o toda vez que no se haya usado el agua del grifo durante más de seis horas, purgue el grifo de 30 segundos a dos minutos antes de usar el agua para tomar, cocinar o preparar fórmula para bebés.
- MENSUALMENTE (durante seis meses):** Retire y limpie los aireadores de los grifos.

¹Fuente: Asociación Estadounidense de Obras Hidráulicas (American Water Works Association o AWWA)

PARA MÁS INFORMACIÓN

Para preguntas sobre el plomo:

Comuníquese con el Centro de Servicio al Cliente al 1-800-565-7292. Solicite un control de la calidad del agua.

Para preguntas sobre la reparación:

(_____) _____

Para cualquier otra pregunta:

Centro de Atención al Cliente 1-800-565-7292

Horarios: De lunes a viernes de 7 a.m. a 7 p.m. Para casos de emergencia, estamos disponibles las 24 horas del día los 7 días de la semana.

Pennsylvania American Water cumple con todos los estándares de agua potable en lo que respecta al plomo. A continuación se adjunta información básica sobre el plomo, las medidas que tomamos, junto con consejos de lo que usted puede para reducir la posible exposición al plomo, esta información también puede encontrarse en línea en pennsylvaniaamwater.com. En la pestaña de Water Quality (calidad del agua), seleccione Water Quality Reports (informes de calidad del agua).

MÁS INFORMACIÓN

Línea de ayuda de Agua Potable Segura de la USEPA: 1-800-426-4791

National Lead Information Center [Centro Nacional de Información acerca del Plomo]: 1-800-424-LEAD

Fecha: _____

Hora: _____ a.m. / p.m.

Lead Service Line Replacement & Electrical Grounding



ATTENTION CONTRACTORS

Before retiring a lead water service line:

1. Have an electrician check the premise electrical grounding and bonding.
2. DO NOT connect copper pipe to lead through conductive fittings. Any remaining lead pipe can CORRODE due to galvanic corrosion if connected to other metal pipe and fittings.
3. Always use proper Personal Protective Equipment (PPE) to prevent shocks and other hazards.
4. Discuss any needed upgrades to grounding with the project manager.

Lead water service pipes may have been used as part of the premise's electrical grounding system. This is of special concern whenever a lead water service line will be replaced. You should have a professional electrician determine the location and adequacy of the premise electrical grounding system.

REMEMBER TO ALWAYS USE PROPER PPE.

If the customer chose NOT to have their lead service line replaced:

All LEAD water service line pipe should be removed if possible during water infrastructure improvement projects that include service line work.

If it is not possible to remove the entire lead service line pipe or if the plumbing inside the premise is lead, the plumbing contractor should avoid creating galvanic corrosion of lead materials, such as connecting copper pipe to lead pipe through conductive couplings.

If any portion of a lead service line will remain, the contractor should:

1. Use non-conductive pipe for drinking water applications, or
2. if copper is used for the new portion of the water service line, use a plastic spacer or dielectric union (couplings which join together pipes of different metals preventing electrolysis).

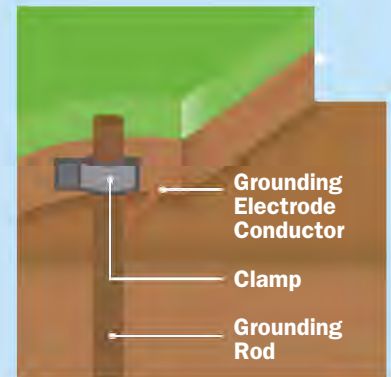
These options can lower the risk of lead corrosion, but may no longer make a reliable grounding option for the electrical system. In these cases, please have the electrician suggest an alternative means of grounding if needed.

The contractor should check the local codes and the premise's electrical grounding and bonding before retiring a lead water service pipe on public property, private property or both.

Please note that internal premise plumbing is not part of the utility's work. Customers may also want to consult a plumber to check their internal premise plumbing and fixtures.

Check Your Premise Electrical Grounding

Electrical grounding directs dangerous electrical charges away from the home and into the ground. Lightning strikes and static electricity charges are the two most common types of damaging electrical charges.



Historically, a home's metallic water service may have provided a safe ground for the electrical system as it's pipes typically extend at least 10 feet underground from the point where the pipes enter the home to the main water line.

Questions? Call

Name _____

Phone _____

Water Sampling Process for Lead



**FILL WITH
COLD**



**FILL OUT
LABEL**



SAMPLE 1

Company/Plumber takes water sample

WHEN: After whole house flush

Our company/plumber will collect a cold water sample from the kitchen tap AFTER conducting the whole house flush. Please let us know if you have a home water treatment unit, pressure reducing valve or filter attached to the plumbing system or faucet before sampling.

Sampling Instructions for Company/Plumber

1. Gently open the kitchen cold water tap and fill the bottle to the top.
2. Turn off water and tightly cap the sample bottle.
3. Fill out the bottle label: Check Plumber Box and complete Address, Sample Location, Collect Date, and Collect Time.
4. Deliver the sample to the project manager on the same day it is collected or as otherwise directed.

SAMPLE 2

Customer takes water sample

WHEN: Between 8 to 72 hours after service line is replaced

If requested by the customer, we'll analyze a second water sample for free. This sample should be collected within 72 hours (3 days) of the repair if possible.

Sampling Instructions for the Customer

1. AFTER water has sat motionless for AT LEAST 6 HOURS, gently open the kitchen cold water tap and fill the sample bottle to the top. This can be done first thing in the morning or after returning home from work, etc. NOTE: If a water treatment unit or filter is attached to the plumbing system or faucet, please remove the filter or bypass the unit before sampling.
2. Turn off water and tightly cap the sample bottle.
3. Fill out the bottle label: Check Customer Box and complete Address, Sample Location, Collect Date, and Collect Time.
4. Call us to pick up your water sample.

Name _____

Phone _____

5. We'll contact you with the results as soon as they are available.

Proceso de obtención de la muestra de agua en tuberías de plomo



**RELLENE
CON AGUA
FRÍA**



**COMPLETE
LA ETIQUETA**



MUESTRA 1

La compañía/el plomero toma una muestra de agua

CUÁNDO: Después de la purga del agua de toda la casa.

Nuestra compañía/el plomero recolectará una muestra de agua fría del grifo de la cocina DESPUÉS de realizar la purga del agua en toda la casa. Antes de que se tome la muestra, infórmenos si en su casa hay alguna unidad de tratamiento de agua, válvula reductora o filtro fijados al sistema de tuberías o al grifo.

Instrucciones de obtención de la muestra para la compañía/el plomero

1. Abra lentamente el grifo de agua fría de la cocina y rellene la botella hasta el tope.
2. Cierre el grifo y cierre bien la tapa de la botella de muestra.
3. Complete la etiqueta de la botella: marque la casilla Plomero y complete la dirección, la ubicación de la muestra, la fecha de recolección y la hora de recolección.
4. Entregue la muestra al gerente de proyecto el mismo día de la recolección o según se le indique.

MUESTRA 2

El cliente obtiene la muestra de agua

CUÁNDO: Entre las 8 y las 72 horas posteriores al reemplazo de la tubería de servicio.

Si el cliente lo solicita, analizaremos una segunda muestra de agua sin costo. Esta muestra debería recolectarse en un plazo de 72 horas (3 días) después de la reparación si es posible.

Instrucciones de obtención de la muestra para el Cliente

1. DESPUÉS de que el agua se asiente sin movimiento durante AL MENOS 6 HORAS, abra lentamente el grifo de agua fría de la cocina y rellene la botella de muestra hasta el tope. Esto puede hacerse temprano en la mañana o después de regresar a su casa del trabajo, etc. **TENGA EN CUENTA LO SIGUIENTE:** Si hay una unidad de tratamiento de agua o filtro fijado al sistema de tuberías o al grifo, retire el filtro u omita el uso de la unidad antes de obtener la muestra.
2. Cierre el grifo y cierre bien la tapa de la botella de muestra.
3. Complete la etiqueta de la botella: marque la casilla Cliente y complete la dirección, la ubicación de la muestra, la fecha de recolección y la hora de recolección.
4. Llámenos para que recojamos la muestra de agua.

Nombre _____

Teléfono _____

5. Nos comunicaremos con usted cuando estén disponibles los resultados.

72-HOUR WATER SAMPLE REMINDER

We haven't received your call to pick up your second water sample, so we thought we'd check to make sure you are still interested. If you are, the sample should be collected within 72 hours (3 days) of the repair using the kit that was provided. If you have any questions or need a replacement kit, please contact us at the number listed below.

Sampling Instructions for the Customer

1. AFTER water has sat motionless for AT LEAST 6 HOURS, gently open the kitchen cold water tap and fill the sample bottle to the top. This can be first thing in the morning or after returning home from work, etc. NOTE: If a water treatment unit or filter is attached to the plumbing system or faucet, please remove the filter or bypass the unit before sampling.
2. Turn off water and tightly cap the sample bottle.
3. Fill out the bottle label: Check Customer Box and complete Address, Sample Location, Collect Date, and Collect Time.
4. Call us to pick up your water sample.

Name _____
Phone _____

LEARN MORE

For more information on your water quality and ways to reduce your exposure to lead, call us or visit us online at www.pennsylvaniaamwater.com. Under Water Quality, select Lead and Drinking Water.

Date: ____/____/20____ Time: _____ a.m. / p.m.

PA.SLR.10 09-2017



CUSTOMER SERVICE

HOURS OF OPERATION: M-F, 7 a.m. to 7 p.m.
FOR EMERGENCIES: We're available 24/7.

1-800-565-7292

RECORDATORIO DE LA MUESTRA DE AGUA DE 72 HORAS

No hemos recibido su llamado para recoger la segunda muestra de agua, solo queremos asegurarnos de que todavía está interesado. Si lo está, la muestra debe obtenerse el kit que se proporcionó en un plazo de 72 horas (3 días) a partir de la reparación. Si tiene preguntas o necesita un kit de repuesto, comuníquese con nosotros al número de teléfono más abajo.

Instrucciones de obtención de la muestra para el Cliente

1. DESPUÉS de que el agua se asiente sin movimiento durante AL MENOS 6 HORAS, abra lentamente el grifo de agua fría de la cocina y rellene la botella de muestra hasta el tope. Esto puede hacerse temprano en la mañana o después de regresar a su casa del trabajo, etc. **TENGA EN CUENTA LO SIGUIENTE:** Si hay una unidad de tratamiento de agua o filtro fijado al sistema de tuberías o al grifo, retire el filtro u omita el uso de la unidad antes de obtener la muestra.
2. Cierre el grifo y cierre bien la tapa de la botella de muestra.
3. Complete la etiqueta de la botella: marque la casilla Cliente y complete la dirección, la ubicación de la muestra, la fecha de recolección y la hora de recolección.
4. Llámenos para que recojamos la muestra de agua.

Nombre _____

Teléfono _____

MÁS INFORMACIÓN

Para más información sobre la calidad del agua y formas de reducir la exposición al plomo, llámenos o visítenos en línea en www.pennsylvaniaamwater.com. En la pestaña de Water Quality (calidad del agua), seleccione Lead and Drinking Water (plomo y agua potable).

Fecha: ____/____/20____ Hora: _____ a.m. / p.m.



PE NNSYLVANIA
AMERICAN WATER

SERVICIO AL CLIENTE

HORARIOS DE ATENCIÓN: De lunes a viernes de 7 a. m. a 7 p. m.

PARA EMERGENCIAS: Estamos disponibles las 24 horas, los 7 días de la semana.

1-800-565-7292

LEAD

The most common source of lead in tap water is the plumbing in your home



Pennsylvania American Water regularly tests for lead in drinking water and has taken steps to minimize levels through improvements in corrosion control.

Although these tests indicate that lead is not an issue in the treated water leaving our facility, lead and/or copper levels in some homes and businesses might be detected due to customer use of lead pipes, lead solder and molded metal faucets in household plumbing.

Health effects associated with high levels of lead

The U.S. Environmental Protection Agency (EPA) sets standards related to lead in drinking water. Lead levels that exceed these standards could cause serious damage to the brain, kidneys, nervous system and red blood cells. The greatest risk, even with short-term exposure, is to young children and pregnant women.

Assessing your exposure to lead

Lead levels in drinking water are more likely to be higher if:

- your home or water system has lead pipes or has a lead service line
- a partial replacement of the lead service lines serving your home is performed
- your home has copper pipes with lead solder
- your home was built before 1986 AND
- you have soft or acidic water
- water sits in the pipes for several hours

Minimizing your exposure

You cannot see, smell or taste lead, and boiling water will not remove lead. Although our water is treated to minimize the risk of lead, you can reduce your household's exposure to lead in drinking water by following these simple steps:

- **Flush your tap before drinking or cooking with water, if the water in the faucet has gone unused for more than six hours.** The longer the water lies dormant in your home's plumbing, the more lead it might contain. Flush your tap with cold water for 30 seconds to two minutes before using. To conserve water, catch the running water and use it to water your plants.
- **Try not to cook with or drink water from the hot water faucet.** Hot water has the potential to contain more lead than cold water. When you need hot water, heat cold water on the stove or in the microwave.
- **Clean faucet aerators.** Routinely remove and clean all faucet aerators.
- **Remove loose solder and debris from plumbing.** In newly-constructed homes or homes in which the plumbing was recently replaced, remove the strainers from each faucet and run the water for 3 to 5 minutes. When replacing or working on pipes, be sure to use lead-free materials.
- **Look for the "Lead Free" Label.** When replacing or installing fixtures, look for the "lead free" label.
- **See information on page 2 related to home treatment devices.**

(Continued)

Have lead pipes, fixtures or solder?

BEFORE USING WATER FOR DRINKING OR COOKING

If water goes unused for more than 6 hours, run water for 30 seconds to 2 minutes before use.



For more information

Pennsylvania American Water Customer Service Center:

1-800-565-7292
M-F, 7 a.m. - 7 p.m.

Check us out online
pennsylvaniaamwater.com

For more information on drinking water standards:

Contact the
EPA Hotline at
1-800-426-4791





FREQUENTLY ASKED Q AND A

Is lead in water regulated and does Pennsylvania American Water comply with standards?

Yes and yes. The EPA's lead standard is an action level that requires treatment modifications if lead test results exceed 15 parts per billion (ppb) in more than 10 percent of first draw samples taken from household taps.

Pennsylvania American Water regularly tests for lead at the end of its treatment process. Testing has shown that lead is not an issue in the water exiting any of our water treatment facilities.

We also conduct tests in our distribution system in accordance with the EPA regulatory requirements. For more information on your system, visit pennsylvaniaamwater.com to view the latest consumer confidence report. Under the **Water Quality** menu, select **Water Quality Reports**.

Does that mean I do not have lead in my water?

Not necessarily. You might have lead in your drinking water if your household plumbing system has lead pipes or if lead solder was used in the joints of copper pipes.

Homes built before 1930 are more likely to have lead plumbing systems. Lead pipes are dull grey color and scratch easily revealing a shiny surface. Lead solder used to join copper pipes is a silver or grey color. If your house was built before January 1986, you are more likely to have lead-soldered joints. If you do, the chance of the lead leaching into your drinking water is greater when water has been standing in the pipes for many hours, overnight for example.

Lead kits that test for the presence of lead in solder are available at some hardware stores.

Should I flush my faucets every morning before using it to drink or use for food prep?

Yes. See Minimizing Your Exposure.

How can I tell if my water contains too much lead?

You can have your water tested for lead. Since you cannot see, taste or smell lead dissolved in water, testing is the only sure way of knowing.

Do I need a home treatment device for lead?

The need for a home treatment device is a customer-specific decision. Pennsylvania American Water takes steps to reduce the potential for lead to leach from your pipes into the water. This is accomplished by adding a corrosion inhibitor or by reducing the acidity of the water leaving our treatment facilities. Certain home treatment devices, such as water softeners for example, might increase lead levels in your water.

Always consult the device manufacturer for information on treatment device maintenance and potential impacts to your drinking water or household plumbing.

NSF International created a Consumer Guide to NSF Certified Lead Filtration Devices for Reduction of Lead in Drinking Water. Visit www.nsf.org/info/leadfiltrationguide for more information.

Will electrical grounding increase my lead levels?

Possibly. If grounding wires from electrical systems are attached to household plumbing, corrosion and lead exposure may be greater. Customers can choose to pay to have an electrician check the house wiring.

Getting your water tested for lead

Pennsylvania American Water does not provide testing for lead for individual customers who request it. Customers can choose to have their water tested at their cost at a certified laboratory.

For more information

If you are still concerned about elevated levels and want to find out where you can have your water tested by a certified laboratory:

- **Contact EPA's Safe Drinking Water Act Hotline:**
1-800-426-4791
- **Visit DEP online at**
www.dep.state.pa.us

pennsylvaniaamwater.com



PA.SLR.11 09-2017

EL PLOMO

La fuente más común de plomo en el agua potable son las tuberías de la casa



Pennsylvania American Water examina periódicamente la presencia de plomo en el agua potable y ha tomado medidas para minimizar los niveles de plomo a través de mejoras en el control de la corrosión.

Aunque estas pruebas indican que el plomo no es un problema en el agua tratada que se distribuye de nuestras instalaciones, pueden detectarse niveles de plomo y/o de cobre en algunos hogares y comercios debido al uso por parte del cliente de tuberías de plomo, soldadura de plomo y grifos de metal moldeado en las tuberías internas.

Efectos para la salud asociados con niveles elevados de plomo

La Agencia de Protección del Medio Ambiente de EE. UU. (EPA, por sus siglas en inglés) establece normas relacionadas con el plomo en el agua potable. Los niveles de plomo que exceden los niveles establecidos por estas normas podrían causar graves daños en el cerebro, los riñones, el sistema nervioso y los glóbulos rojos. El mayor riesgo, incluso aunque sea una exposición a corto plazo, es para los niños pequeños y las mujeres embarazadas.

Evaluación de su exposición al plomo

Los niveles de plomo en el agua potable son más propensos a ser mayores si:

- su hogar o sistema de abastecimiento de agua tiene tuberías de plomo o la tubería de servicio es de plomo
- se realiza una sustitución parcial de las tuberías de servicio de plomo que alimentan su hogar
- hay tuberías de cobre con soldadura de plomo en su casa
- su casa fue construida antes de 1986
- su agua es suave o ácida
- el agua permanece sin usar en las tuberías durante varias horas

Minimizar la exposición

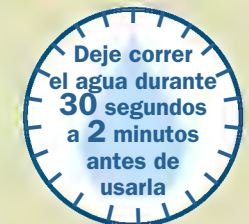
El plomo no se puede ver, oler o degustar, y hervir el agua no elimina el plomo. Aunque el agua que abastecemos es tratada para minimizar el riesgo de plomo, usted puede reducir la exposición de su familia al plomo en el agua potable siguiendo estos sencillos pasos:

- **Purgue el grifo antes de beber o cocinar con agua si el agua del grifo no se utilizó durante más de seis horas.** Cuanto más tiempo el agua permanezca estancada en las tuberías de su casa, más cantidad de plomo podría contener. Purgue el grifo con agua fría entre 30 segundos a dos minutos antes de usarla. Para conservar el agua, recoja el agua que deje correr y úsela para regar sus plantas.
- **Trate de no cocinar o beber el agua del grifo de agua caliente.** El agua caliente puede contener más plomo que el agua fría. Si necesita usar agua caliente, caliente el agua fría en la estufa o en el microondas.
- **Limpie los aireadores de los grifos.** Retire y limpie los aireadores de los grifos con frecuencia.
- **Elimine los restos de soldadura y sedimentos de las tuberías.** En las casas recién construidas o en las casas en las que las tuberías han sido sustituidas recientemente, quite los filtros de cada grifo y haga correr el agua durante 3 a 5 minutos. Cuando sustituya o haga algún trabajo en las tuberías, asegúrese de usar materiales libres de plomo.
- **Busque que en la etiqueta diga "sin plomo".** Al sustituir o instalar fontanería, busque que en la etiqueta diga "sin plomo".
- **Ver información en la página 2 relacionada con los dispositivos de tratamiento de agua en el hogar.**

¿Tiene tuberías, fontanería o soldadura de plomo?

ANTES DE USAR AGUA PARA BEBER O COCINAR:

Si no se ha usado el agua durante más de 6 horas, deje correr el agua durante 30 segundos a 2 minutos antes de usarla.



Para más información

Centro de atención al cliente de Pennsylvania American Water:

1-800-565-7292

de lunes a viernes, de 7 a.m. a 7 p.m.

Visítenos en línea:

pennsylvaniaamwater.com

Para más información sobre las normas de agua potable:

Comuníquese con la línea de ayuda de la EPA al 1-800-426-4791





RESPUESTAS A LAS PREGUNTAS MÁS FRECUENTES

¿Existen regulaciones respecto al plomo en el agua y Pennsylvania American Water cumple con las normas?

Sí y sí. Las normas de la EPA respecto al plomo son a nivel de acción y requieren que se modifique el método de tratamiento del agua si los resultados de la prueba de plomo exceden 15 partes por cada mil millones (ppb) en más del 10 por ciento de las primeras muestras tomadas de los grifos en los hogares.

Pennsylvania American Water examina regularmente el agua al final del proceso de tratamiento del agua. Las pruebas han demostrado que el plomo no es un problema con el agua que se distribuye de nuestras instalaciones de tratamiento de agua.

También realizamos pruebas en nuestro sistema de distribución de conformidad con los requisitos reglamentarios de la EPA. Para obtener más información sobre el sistema, visite pennsylvaniaamwater.com para ver los últimos informes de seguridad del consumidor. En la pestaña de Water Quality (calidad del agua), seleccione Water Quality Reports (informes de calidad del agua).

¿Eso significa que no hay plomo en mi agua?

No necesariamente. Puede que haya plomo en su agua potable si el sistema de plomería de su hogar tiene tuberías de plomo o si se usó soldadura de plomo en las uniones de las tuberías de cobre.

Las casas construidas antes de 1930 tienen más probabilidades de tener sistemas de tuberías de plomo. Las tuberías de plomo son de color gris mate y se pueden arañar fácilmente para revelar su superficie brillante. La soldadura de plomo utilizada para unir las tuberías de cobre es de color plateado o gris. Si su casa fue construida antes de enero de 1986, es más probable que tenga juntas soldadas con plomo. Si es así, tiene

mayores probabilidades de filtración del plomo al agua potable cuando el agua ha permanecido en las tuberías durante muchas horas, por ejemplo durante la noche.

En algunas ferreterías venden kits de prueba de la presencia del plomo en las soldaduras.

¿Debo purgar mis grifos cada mañana antes de usarlos para beber o para preparar alimentos?

Sí. Ver la sección Minimizar la exposición.

¿Cómo puedo saber si el agua contiene demasiado plomo?

Puede hacerle la prueba de detección del plomo al agua. Dado que el plomo disuelto en agua no se puede ver, degustar u oler, la prueba es la única forma segura de saber.

¿Necesito un dispositivo de tratamiento para el plomo en casa?

La necesidad de contar con un dispositivo de tratamiento en casa es una decisión específica del cliente. Pennsylvania American Water toma medidas para reducir la posibilidad de que el plomo se filtre de las tuberías al agua. Esto se logra mediante la adición de un inhibidor de corrosión o al reducir la acidez del agua que sale de nuestras instalaciones de tratamiento. Algunos dispositivos de tratamiento en el hogar, como los suavizadores de agua por ejemplo, pueden aumentar los niveles de plomo en el agua.

Siempre consulte con el fabricante del dispositivo para obtener información sobre el mantenimiento del dispositivo de tratamiento y las posibles consecuencias para el agua potable o la plomería doméstica.

NSF International creó una guía del consumidor para dispositivos certificados de filtración de plomo de NSF a fin de reducir el contenido de plomo en el agua potable. Visite www.nsf.org/info/leadfiltrationguide para obtener más información.

Hágale la prueba de detección del plomo al agua.

Pennsylvania American Water no proporciona pruebas del plomo a los clientes individuales que lo solicitan. Los clientes pueden elegir por su propia cuenta mandar a analizar su agua a un laboratorio acreditado.

Para más información

Si aún le preocupa la existencia de niveles elevados de plomo y desea saber dónde puede enviar su agua para ser analizada en un laboratorio acreditado:

- **Comuníquese con la Línea de ayuda de la EPA sobre la Ley de Agua Potable Segura:** 1-800-426-4791
- **Visite DEP en línea en** www.dep.state.pa.us

¿Las salidas eléctricas a tierra aumentan los niveles de plomo?

Es posible. Si los cables de puesta a tierra de los sistemas eléctricos están conectados a las tuberías de la casa, puede haber mayor corrosión y exposición al plomo. Los clientes pueden elegir pagarle a un electricista para que revise la instalación eléctrica de la casa.

pennsylvaniaamwater.com



PA.SLR.11 10-2017

**We need
to discuss
important
information
about your
water service.**

**PLEASE
CONTACT US**

Contact

Phone



**PENNSYLVANIA
AMERICAN WATER**

We need to discuss important information about your water service.



Please contact us.

Contact _____

Phone _____

See other side for contact information.

Please contact us.

PENNSYLVANIA AMERICAN WATER



We need to discuss important information about your water service.

EXHIBIT DRK-2R

LEAD WATER SERVICE LINE REPLACEMENT



Exhibit DRK-2R

The Customer elects for the Company to replace the Customer's lead water service line:

CHECK HERE

The undersigned customer(s), whose name(s) appear in the signature block at the bottom of this page (the "Customer") grants to Pennsylvania-American Water Company (the "Company") and to its approved contractors and/or subcontractors a license to enter upon the Customer's property at the address shown below ("Property") for the purpose of connecting the Customer's residence to the Company water main at the front of the Property, at no cost to the Customer.

PROPERTY ADDRESS: _____ City _____ State _____ Zip _____

The Customer represents that the Customer is/are the sole owner(s) of the Property at the address shown above and has/have sole authority to agree to this License.

The term of this license shall be six (6) months following the date set forth below.

The Company or its approved contractors and/or subcontractors will install the Company service line from the water main to a Company meter or valve installation ("Installation") at the Customer's front Property line. The Company will determine the location of the Installation. The Company's service line and the Installation will be owned and maintained by the Company.

The Company or its approved contractors and/or subcontractors will install a Customer connecting line from the Installation to the Customer's residence. The Customer connecting line is currently and will continue to be owned and maintained by the Customer.

Upon completion of the work necessary to effect the new connection, the Company will restore the Customer's Property as nearly as practicable to its former condition. The Company warrants the workmanship of its installation of the Customer service line for a period of 12 months following the date set forth below, with the Company's liability limited to the cost of repairing or replacing the Customer service line.

THE CUSTOMER ACKNOWLEDGES THAT THE CUSTOMER HAS RECEIVED THE "IMPORTANT NOTICE ABOUT YOUR WATER SERVICE AND LEAD SERVICE LINES" AND "LEAD" INFORMATION SHEETS PROVIDED BY THE COMPANY.

IN CONSIDERATION FOR PERFORMING THE WORK TO INSTALL THE CUSTOMER SERVICE LINE AT THE COMPANY'S COST AND THE COMPANY'S AGREEMENT TO PROVIDE A 12-MONTH LIMITED WORKMANSHIP WARRANTY, THE CUSTOMER AGREES TO INDEMNIFY, RELEASE AND HOLD HARMLESS THE COMPANY AND ITS AFFILIATES AND AGENTS FROM AND AGAINST ALL CLAIMS, LIABILITY AND COSTS ("CLAIMS") RESULTING FROM ACTS AND OMISSIONS OF THE COMPANY AND/OR ITS APPROVED SUBCONTRACTORS IN INSTALLING THE CUSTOMER SERVICE LINE.

CUSTOMER

Signature _____

Signature _____

Print Name _____

Print Name _____

Date _____

Date _____

COMPANY: PENNSYLVANIA-AMERICAN WATER COMPANY

Signature _____

Print Name _____

Date _____

PA.SLR.4 09-2017

LEAD WATER SERVICE LINE REPLACEMENT

Exhibit DRK-2R



The Customer does NOT elect for the Company to replace Customer's lead water service line:

CHECK HERE

Customer Acknowledgement

The undersigned customer(s), whose name(s) appear(s) in the signature block shown below (the "Customer"), who receives water service provided by the Company to the residence at the Property address listed below, acknowledges that the Customer has been informed by the Company that that Customer's water service line, which connects the Customer's residence to the Company water main at the front of the Property, is made of lead pipe. The Customer acknowledges that it elects not to permit the Company to replace the Customer's water service line. The Customer acknowledges that it has received and read the "Important Notice About Your Water Service and Lead Service Lines" and "Lead" information sheets provided by the Company.

PROPERTY ADDRESS: _____ City _____ State _____ Zip _____

CUSTOMER

Signature _____

Signature _____

Print Name _____

Print Name _____

Date _____

Date _____

PA.SLR.4 09-2017

APPENDIX A

REBUTTAL TESTIMONY OF PENNSYLVANIA- AMERICAN WATER COMPANY (Statement No. 2-R – John Cox)

PAWC STATEMENT NO. 2-R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY
FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND
RATEMAKING TREATMENT RELATED TO REPLACEMENT
OF LEAD CUSTOMER-OWNED SERVICE PIPES**

DOCKET NO. P-2017-2606100

REBUTTAL TESTIMONY

OF

JOHN R. COX

**WITH REGARD TO
ACCOUNTING AND RATEMAKING TREATMENT OF COSTS INCURRED BY
PENNSYLVANIA-AMERICAN WATER COMPANY TO REPLACE LEAD
CUSTOMER-OWNED SERVICE PIPES**

DATE: NOVEMBER 17, 2017

PENNSYLVANIA-AMERICAN WATER COMPANY
REBUTTAL TESTIMONY OF JOHN R. COX

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. Please state your name and business address.**

3 **A.** My name is John R. Cox. My business address is 800 West Hersheypark Drive, Hershey,
4 Pennsylvania 17033. I am employed by American Water Works Service Company (the
5 “Service Company”) as Director of Rates and Regulations - Pennsylvania.

6 **Q. Have you previously submitted direct testimony in this proceeding?**

7 **A.** Yes. I submitted direct testimony in support of Pennsylvania-American Water
8 Company’s (“PAWC” or the “Company”) Petition for Approval of Tariff Changes and
9 Accounting and Ratemaking Treatment Related to Replacement of Lead Customer-
10 Owned Service Pipes (“Petition”). My direct testimony is marked as PAWC Statement
11 No 2. My background and qualifications are set forth in that statement.

12 **Q. What is the purpose of your rebuttal testimony?**

13 **A.** The purpose of my rebuttal testimony is to respond to the direct testimony of witnesses
14 on behalf of the Pennsylvania Public Utility Commission (“Commission”) Bureau of
15 Investigation and Enforcement (“I&E”) and the Office of Consumer Advocate (“OCA”)
16 with respect to the accounting treatment and cost recovery mechanisms related to
17 replacement of lead customer-owned Service Pipes proposed by PAWC in the Petition.¹

¹ The terms “Service Line” and “Service Pipe” are defined in Rules 2.11 and 2.12, respectively, at page 16 of PAWC Tariff Water-Pa. P.U.C. No. 4 (“Tariff No. 4”). Specifically, a “Service Line” is “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” is “[t]hat part of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied.” In my rebuttal testimony, I will use the terms Service Line and Service Pipe as they are defined in Tariff No. 4 to refer to the Company-owned and customer-owned segments of a service line connecting a Company main with a customer’s premises.

1 **II. ACCOUNTING FOR LEAD SERVICE PIPE REPLACEMENT COSTS**

2 **Q. Do any parties oppose PAWC’s proposal to capitalize lead Service Pipe (“LSP”)**
3 **replacement costs and record those costs in Account 333 – Services?**

4 A. Yes. While I&E and the OCA both agree that it is prudent for PAWC to proactively
5 replace customer-owned LSPs at the Company’s cost, they contend that LSP replacement
6 costs are not capital expenditures eligible for inclusion in the Company’s rate base. I&E
7 witness Cline offers three principal reasons for his position: (1) LSPs are owned by the
8 customer and PAWC does not have any obligation to maintain those LSPs or mark them
9 for One Call purposes after replacement; (2) PAWC’s Replacement Plan is voluntary and
10 not legally required for compliance with the Lead and Copper Rule (“LCR”); and (3) not
11 all customers benefit from LSP replacements in contrast to main replacements and
12 associated road restoration work. OCA witness Rubin, in turn, asserts that LSP
13 replacement costs are not eligible for inclusion in Account 333 because they are not
14 owned and controlled by PAWC, and he proposes that LSP replacement costs are more
15 comparable to jobbing expenses, which are recorded in Account 416.

16 **Q. Has the Commission established a *per se* rule against capitalizing a utility’s**
17 **investment simply because the property is owned by the customer, as I&E witness**
18 **Cline and OCA witness Rubin suggest?**

19 A. No. In fact, the Commission has previously determined that it is appropriate to capitalize
20 the cost of customer-owned gas service lines where the service lines being replaced are
21 made of a vulnerable material and pose safety concerns, even though the utility would not
22 take ownership of, or maintain in the future, the replaced service lines.² Notably, and

² See *Petition of Peoples Nat. Gas Co., LLC for Approval of Limited Waivers of Certain Tariff Rules Related to Customer Service Line Replacement*, Docket Nos. P-2013-2346161 *et al* (Opinion and Order entered May 23, 2013)

1 unmentioned by Mr. Rubin, the OCA did not oppose the gas utilities’ proposals to
2 capitalize the costs to replace customer-owned service lines in those cases or, most
3 recently, York Water Company’s initial request to capitalize and earn a return on lead
4 service line replacement costs.³ In addition, in the Peoples Gas Order, the Commission
5 addressed One Call concerns by adopting I&E’s recommendation that Peoples locate and
6 mark all customer service lines it replaced.⁴

7 The Commission subsequently approved a settlement in which Peoples, the OCA and
8 other parties agreed that “investments in the replacement of customer-owned service lines
9 will be reflected in the Company’s DSIC.”⁵

10 I&E and the OCA agree that the Replacement Plan will help prevent adverse effects on
11 public health and recognize that the Company is being proactive in addressing this
12 important issue. Nonetheless, they urge the Commission to abandon findings and
13 conclusions it only recently made with regard to replacement of customer-owned service
14 lines for the gas industry and deny PAWC’s request to capitalize its LSP replacement
15 costs.

(“Peoples Gas Order”), pp. 9-10, 45 (approving gas utility’s request to capitalize the cost of replacing certain customer-owned bare steel service lines to address the same durability problems as utility-owned bare steel mains); *Petition of Peoples Natural Gas Co, LLC for Approval of its Amended Second Revised Long-Term Infrastructure Improvement Plan for its Peoples Div. and Equitable Div.*, Docket Nos. P-2013-2344596 and P-2013-2342745 (Order entered June 30, 2016) (approving Peoples’ change in policy to include replacement of all “at risk” customer owned service lines); *Petition of Columbia Gas of Pennsylvania, Inc. for Limited Waivers of Certain Tariff Rules Related to Customer Service Line Replacement*, Docket No. P-00072337 (Order entered May 19, 2008) (“Columbia Gas Order”), pp. 4-6 (same).

³ See *Peoples Gas Order*, p. 8; *Columbia Gas Order*, p. 5; *Petition of the York Water Co. For an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Cost of Certain Customer-Owned Service Line Replacements to the Co.’s Services Account*, Docket No. P-2016-2577404 (OCA Answer filed Dec. 19, 2016), p. 5.

⁴ *Peoples Gas Order*, p. 10.

⁵ *Petition of Peoples Natural Gas Co., LLC*, Docket Nos. P-2013-2344596 and C-2013-2348847 (Order entered Aug. 21, 2014 (pp. 5-6 and 42-43)).

1 **Q. I&E witness Cline contends that it is not appropriate to capitalize LSP replacement**
2 **costs because the Replacement Plan is voluntary given PAWC’s track record of full**
3 **compliance with LCR requirements. Do you agree?**

4 **A.** No. The fact that replacement of lead service lines is voluntary has no bearing on
5 whether or not it is appropriate to capitalize LSP replacement costs. Many of the
6 Company’s programs, including the Company’s main replacement programs are
7 voluntary programs. Moreover, although the Company is in compliance with the LCR, as
8 explained by Mr. Kaufman in his rebuttal testimony, replacing only a part of the lead
9 service line may potentially increase the risk of lead exposure through drinking water at
10 the customer’s tap. By removing the entire lead service line from active operation, a
11 source of lead will be removed, further reducing the potential for exposure to lead in the
12 drinking water supplied to customers.

13
14 As Mr. Cline acknowledges, even though PAWC has not triggered the LCR action level
15 in any portion of its system due to the effectiveness of its corrosion control treatment
16 protocols, lead services should be removed in their entirety to ensure that the Company
17 continues to deliver safe and reliable water service. Indeed, OCA witness Rubin
18 emphasizes that lead service line replacement, including the segment on customer
19 property, is a “best practice” in the water industry and will likely become a legal
20 requirement in the near future.

21 Furthermore, the fact that the Company has taken the initiative to develop and propose a
22 Replacement Program that is beneficially proactive and voluntary should create a sound
23 basis for the Commission *not* to put obstacles in the path of implementing it. However,

1 that is what Mr. Cline’s recommendation would do by, in effect, telling the Company –
2 and other water utilities – that, if they implement a voluntary and proactive program
3 designed to get out in front of this potential problem, their expenditures to construct new,
4 used and useful property will be treated for accounting and ratemaking purposes much
5 more adversely to them than their other capital expenditures and more adversely than
6 virtually indistinguishable investments in customer-owned service lines made by
7 Pennsylvania gas utilities. The Commission should not endorse that regulatory policy.
8 To reiterate, while the Company’s Replacement Program is voluntary (unlike York
9 Water’s, which was needed to correct pre-existing violations of the Lead and Copper
10 Rule), the fact that the Company is being proactive should create strong reasons for the
11 Commission to support the Company’s efforts – not require it to bear uncompensated
12 carrying costs (which I address later in my rebuttal testimony) and, in that way, preclude
13 PAWC from recovering its real cost to implement the Replacement Program.

14 **Q. Is the Company’s proposal to capitalize LSP replacement costs, even though the**
15 **replacements benefit individual customers with lead Service Pipes remaining in**
16 **service, unique or unprecedented, as Mr. Cline suggests?**

17 **A.** No. PAWC makes a variety of expenditures for property serving only a small number of
18 customers – or only one customer – that are capitalized, are included in rate base, earn a
19 return and are allocated across the Company’s customer base. The best examples of such
20 investments are the Company’s expenditures in main extensions requested by individual
21 homeowners whose existing non-public water sources (typically wells) are inadequate to
22 furnish adequate domestic service. Under the Commission’s line extension regulation,⁶
23 the Company invests \$12, 333 per applicant to install a main extension before any

⁶ 52 Pa. Code § 65.21.

1 contribution is required from the applicant. Significantly, where main extensions are
2 involved, the beneficiary is an applicant for service who has not previously paid rates to
3 PAWC for water service. A customer whose LSP is to be replaced is an *existing*
4 customer who (itself or a prior owner at the same property location) had been paying
5 rates for water service in the past – in all likelihood, for many years in the past.

6 Additionally, under the Commission-approved Tariff Rule 27.1(F), main extensions to
7 only a limited number (as few as one or two) customers may be made entirely at the
8 Company's cost if needed to address existing health and safety issues, such as the
9 inadequate quantity or quality of water from an applicant's well. There is also a host of
10 other instances where, for example, a booster pump or pressure reducing valve is
11 installed to enhance service to only a few (again, as few as one or two) customers.

12 Moreover, Mr. Cline's contention boils down to whether a water utility should be
13 permitted to capitalize costs that result in its investment for a particular customer (or an
14 applicant for service) exceeding its average investment per existing customer. As I
15 pointed out, in the case of main extensions, the Commission has resolved this issue.

16 Under the formula set forth in the Commission's line extension regulation, the
17 Company's investment per applicant *just for the cost of the main to serve that prospective*
18 *customer*, is more than twice its average investment in all of the plant and equipment that
19 is used to serve an existing customer.

20 Finally, to provide some perspective on, and context for, the Company's proposal to
21 invest and capitalize \$6.0 million per year under its proposed LSP Replacement Program,
22 PAWC's baseline capital expenditures for mains and services in 2017 and 2018 are more
23 than \$120 million per year.

1 **Q. Mr. Rubin asserts that LSP replacement costs are not eligible for inclusion in**
2 **Account 333 – Services because the customer will own, and be responsible for, the**
3 **new Service Pipe after the replacement. Does PAWC currently record costs for**
4 **property that the Company does not own in Account 333 – Services?**

5 **A.** Yes. Roadway restoration costs are capitalized and booked to PAWC’s property account
6 for the underlying capital project such as mains or services even though the roadway
7 remains the property of the municipality in that location. Other examples include costs
8 incurred by the Company to restore customer property, including lawns and driveways, to
9 its original condition following main and services work. This is explained in more depth
10 in Mr. Kaufman’s rebuttal testimony. Just like repaving roads or restoring lawns or
11 driveways, the utility would not own the asset when the work is completed, but the
12 investment is part of a prudent expenditure made on behalf of utility customers for the
13 purpose of maintaining public health and safety. Treating the costs of replacing LSPs the
14 same way as the costs to restore roadways or customer property that is adversely affected
15 by main and utility Service Line replacements is appropriate for the reasons discussed in
16 more detail in Mr. Kaufman’s rebuttal testimony.

17 **Q. Please address Mr. Rubin’s contention that the costs PAWC would incur to replace**
18 **LSP are akin to “jobbing expense,” which is recorded in Account 416.**

19 **A.** I disagree. As the description of Account 416 in the Uniform System of Accounts for
20 Water Utilities makes clear, Account 416 is the companion to Account 415 (where
21 *revenues* from “jobbing” are recorded). Together, these two accounts are designed to
22 reflect income (revenues less expenses) from work the utility does under bi-lateral
23 contracts with a counter-party – whether or not that party is a customer – and where the

1 utility is rendering a service or selling merchandise that is not central to furnishing
2 regulated utility service. The revenues and expenses are recorded as “Other Income and
3 Deductions” because utility resources are used and, therefore, the revenues received (fees
4 paid directly by the counter-party for the service rendered or the merchandise sold)
5 should offset the costs incurred so that regulated service does not subsidize jobbing
6 activity. If the Company were acting like a private contractor to engage in market
7 transactions with homeowners to replace their LSPs in exchange for homeowners’
8 payment of the full cost of that work, there would be some basis to argue that the utility’s
9 costs incurred and the payments the utility received should be recorded to Accounts 416
10 and 415, respectively. But that is not the case with the Replacement Program as
11 proposed by the Company.

12 Under the Company-proposed program, LSPs will be replaced at the Company’s cost,
13 and those costs would be included in its overall, regulated cost of service – not charged
14 directly to the customers whose LSPs are being replaced. Therefore, the Replacement
15 Program is conceptually far different from the relationship between utility and counter-
16 parties envisioned by Accounts 415 and 416. Even more importantly, the replacement of
17 LSP is central to a water utility’s provision of regulated water service for all of the
18 reasons explained in Mr. Kaufman’s direct and rebuttal testimony.

19
20 **III. RATE TREATMENT OF LEAD SERVICE PIPE REPLACEMENT COSTS**

21 **Q. Mr. Cox, in your direct testimony, you explain that PAWC proposes to include LSP**
22 **replacement costs in rate base for ratemaking purposes and to recover the fixed**
23 **costs of such investments placed in service between base rate cases through the**

1 **Company’s distribution system improvement charge (“DSIC”). Have any parties**
2 **opposed this proposal?**

3 A. Yes. I&E witnesses Cline and Maurer recommend that any LSP replacement costs
4 incurred by PAWC be deferred through a regulatory asset and amortized over a period of
5 ten years without a carrying charge or return. Similarly, OCA witness Rubin proposes
6 that the Commission authorize the Company to establish a regulatory asset to defer the
7 LSP replacement costs and determine the ratemaking treatment of those deferred costs in
8 PAWC’s next base rate case, but nonetheless wants the Commission to rule in this case
9 that no return or other carrying charge may be recovered.

10 **Q. Do you agree with the recommendation that the Company’s capital costs incurred**
11 **when LSPs are replaced should not be recognized or recovered?**

12 A. No. As I previously explained, the Company routinely capitalizes, and recovers a return
13 on, the costs it incurs to restore property owned by others that is adversely affected by its
14 infrastructure construction activities. Thus, although PAWC does not own the roads,
15 sidewalks, lawns or driveways that it restores, water infrastructure projects can adversely
16 affect the serviceability of that property and, in the case of excavated roadways, public
17 safety and convenience. Because of the direct causal connection between the
18 Company’s infrastructure construction activities and the impact of that work on the
19 serviceability of property owned by others, restoration costs are properly capitalized to
20 the property accounts for the infrastructure work PAWC performs. As Mr. Kaufman
21 explains in his rebuttal testimony, the same kind of causal connection exists when the
22 Company’s infrastructure construction activities disturb a customer LSP and adversely
23 affect the serviceability of that property by creating an increased risk of exposure to lead.

1 The Company’s replacement of a customer LSP under these circumstances is
2 conceptually the same as the restoration work it performs on the property of others in
3 connection with any other infrastructure construction.

4 **Q. Both I&E and the OCA contend that their proposal to deny PAWC the opportunity**
5 **to the cost of capital it incurs with regard to its investments in customer-owned**
6 **LSPs that they agreed are needed to protect the public health is consistent with the**
7 **rate treatment afforded to York Water for the same costs. Is this a valid**
8 **comparison?**

9 A. No. York Water’s agreement does not prescribe the ratemaking treatment of PAWC’s
10 replacement of customer-owned lead service lines for three reasons. First, York Water
11 needed to correct pre-existing violations of the Lead and Copper Rule and did so as part
12 of a set of interrelated compromises in a settlement that it would not earn interest or a
13 return on lead service line replacement costs. Second, the settlement approved by the
14 Commission in the York Water case expressly provides that it is not precedential.⁷ Third,
15 the York Water Settlement clearly envisions that the Commission may, in the future,
16 approve rate base treatment for the same type of replacement costs incurred by other
17 water utilities:

18 If the Commission subsequently permits any other water
19 utility in Pennsylvania to capitalize for ratemaking
20 purposes the costs of replacing customer-owned service
21 lines made of lead, York Water shall be permitted to file a
22 petition requesting that the Commission: (1) amend its

⁷ *Petition of the York Water Co. For an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Cost of Certain Customer-Owned Service Line Replacements to the Co. Services Account*, Docket No. P-2016-2577404 (Joint Petition for Settlement filed Jan. 23, 2017) (“York Water Settlement”), ¶ 44 (“This Settlement and its terms and conditions may not be cited as precedent in any future proceeding, except to the extent required to implement the Settlement.”). The York Water Settlement was approved by the Commission by its Order entered Mar. 8, 2017.

1 Order approving this Settlement only as it pertains to the
2 rate treatment of such costs to the extent not already
3 collected in rates through the amortization; and (2) permit
4 York Water to capitalize the Phase 1 replacement cost
5 and/or Phase 2 replacement costs to its services account on
6 a going-forward basis to the extent not already collected in
7 rates through the amortization.

8 York Water Settlement, ¶ 29.

9 **Q. Would allowing recovery of LSP replacement costs by “amortizing” a regulatory**
10 **asset without a return make the Company whole, as I&E witness Maurer contends?**

11 A. No. Ms. Maurer simply ignores the Company’s cost of capital. The Company’s
12 investment in LSP replacements, like any other investment of Company capital, has to be
13 funded with debt and equity financing. Given the fact that both I&E and the OCA are
14 proposing that the Company commit its capital for LSP replacements for extended
15 periods of time (ten-years in I&E’s case), those financing costs cannot be ignored. .
16 Thus, the Company would have to obtain debt and equity financing to support its annual
17 investment of \$6.0 million each year of the Replacement Program over the extended
18 recovery periods I&E and the OCA recommend, while, at the same time, it would have to
19 bear the uncompensated capital costs of the underlying financing. That certainly does not
20 make the Company “whole.”

21 While I understand that I&E (as well as Mr. Rubin) contends that the Company’s
22 investment should not be “capitalized” (a contention that is wrong for all the reasons I
23 discussed earlier in my rebuttal testimony), the uncompensated loss I described exists
24 whether or not the Company’s expenditures are capitalized or treated as an operating and
25 maintenance expense. The need to compensate utilities for committing their capital to
26 pay expenses between the time expenses are used to furnish service and the time a utility

1 recovers those expenses in revenues from customers is well-established. In fact, that
2 important concept is embodied in the cash working capital allowance that is calculated,
3 and included in rate base, in every utility base rate case. The cash working capital
4 allowance recognizes that when a utility expends funds, even for the payment of an
5 expense, before that expense is recovered in rates, there is a cost to the utility equal to its
6 pre-tax average cost of capital. Failing to adhere to that well-accepted ratemaking
7 principle – as both Ms. Maurer and Mr. Rubin propose – imposes a real and material cost
8 on the Company.

9 **Q. Mr. Cox, there are instances in which the Commission requires operating expenses**
10 **to be amortized and does not treat the unrecovered balance as imposing a cash**
11 **working capital requirement. Are those instances in any way comparable to what**
12 **I&E and OCA are proposing in this case?**

13 A. No, they are not. The Commission requires expenses to be amortized when they are
14 reasonable and prudently incurred, occur on a regular basis, but do not recur annual (i.e.,
15 they – or similar types of costs – recur over intervals that exceed – or are expected to
16 exceed – one year.) The unamortized balances of those types of expenses are not
17 included in a cash working capital allowance because the amortization is done to try to
18 match more closely the recovery period with the actual incurrence of the expense. To
19 illustrate, if a certain study may be required on an approximately five-year basis, the
20 anticipated cost would be reflected by a five-year amortization. Because the utility would
21 recover some portion of that cost in advance of when the next study is prepared and the
22 balance after the next study is completed, on balance there is an approximate match of the

1 timing of cost-incurrence and cost-recovery over the multi-year period encompassing the
2 amortization. But, that is not the case here.

3 The Replacement Program requires expenditures of approximately \$6 million each year
4 for ten years. A ten-year amortization does not, in any way, match cost-recovery with
5 cost-incurrence. Instead, for the reasons I previously discussed, the Company would
6 have to commit its funds for an extended period of time with no recognition of the capital
7 costs of the underlying financing that the amortization method of recovery would impose.
8 I would note that, *if* the Company's expenditures were to be treated entirely as an
9 operating and maintenance expense – and recognizing the long-term duration of the
10 Replacement Program – the corresponding ratemaking treatment would be to include the
11 entire annual expenditure of \$6 million in the Company's revenue requirement in its next
12 base rate case. In contrast, I&E and the OCA are trying to have it both ways. They want
13 the recovery to mimic the manner in which capital costs are treated by providing a return
14 *of* the Company's investment over a prospective, multi-year period. Yet, at the same
15 time, they want to disregard an essential element of the capital cost recovery method,
16 namely, that there must be a return (i.e., the capital carrying cost) *on* the unrecovered
17 balance. Mixing recovery methods in the way I&E and the OCA propose works a
18 significant unfairness to the Company by having it bear a material uncompensated cost
19 (i.e., the capital costs of its committed funds).

1 **Q. Have you prepared an exhibit that shows why the Company is not “made whole” by**
2 **amortizing its expenditures for LSP replacements without reflecting a reasonable**
3 **cost of capital?**

4 A. Yes, I prepared PAWC Exhibit JRC-1R, which calculates the present value of the
5 revenue streams from a five-year amortization and a ten-year amortization of an assumed
6 LSP cost of \$2,500 per customer. The five-year scenario is the same one modelled by
7 Mr. Rubin in OCA Exhibit SJR-10. The ten-year scenario reflects I&E’s recommended
8 ten-year amortization. I discounted both revenue streams to present value at the same
9 cost of capital (10%) Mr. Rubin used to calculate the “Return on Investment” column in
10 OCA Exhibit SJR-9. The present value of the revenue stream can be compared to the
11 original cost of the LSP investment to determine whether the Company will actually
12 recover its investment when proper consideration is given to the fact that dollars
13 recovered in the future do not have the same value to the Company (or to anyone else) as
14 a dollar today. PAWC Exhibit JRC-1R shows that, if a five-year amortization were
15 employed, the present value of the amortized revenue stream has a present value of only
16 \$1,895. In other words, the Company would have an uncompensated loss of \$605, or
17 approximately one-quarter of its investment. If a ten-year amortization were imposed,
18 the present value is \$1,536, and the Company’s uncompensated loss is \$964, or
19 approximately 39% of its original investment. Extrapolated to an annual investment of
20 \$6.0 million, the time value losses are approximately \$1.5 million and \$2.34 million
21 under the five-year and ten-year amortization periods, respectively. The Company would
22 experience a time value loss of those magnitudes for *each year’s* investment over the ten-
23 year duration of its proposed Replacement Program.

1 **Q. Mr. Rubin asserts that the state regulatory commissions in three other jurisdictions**
2 **where utilities propose to replace the customer-owned portion of lead service lines**
3 **“recognized that there should be some [cost] sharing.” Have you had an**
4 **opportunity to review the New York-American Water Company (“NYAW”),**
5 **Halifax Regional Water Commission (“Halifax Water”) and Missouri-American**
6 **Water Company (“MAWC”) lead service line replacement programs cited by Mr.**
7 **Rubin?**

8 **A.** Yes, and, based on my review, it is clear that the ratemaking treatment reflected in
9 decisions from other jurisdictions that Mr. Rubin relies upon for his proposed “cost
10 sharing” has either been misconstrued by him or involved lead service line replacement
11 programs that are simply not comparable to the Company’s proposed Replacement Plan.
12 First, contrary to Mr. Rubin’s contention, NYAW did not agree that its shareholders
13 should “shoulder the entire cost burden” for the first year of customer-owned lead service
14 line replacements. In fact, in its most recent base rate case proceeding, NYAW proposed
15 to replace, at its sole cost, all customer-owned lead service lines encountered in the
16 course of main replacement – an approach substantially similar to PAWC’s proposed
17 Replacement Plan (Part 1) – *and* to capitalize the associated costs and include them in its
18 rate base. As part of the settlement of all issues in that base rate case, NYAW agreed to
19 use shareholder funds totaling only \$75,000 solely for a limited one-year pilot program
20 covering the replacement of 15-30 customer lead service lines in order to develop data
21 and information for use in addressing this issue in the future. In approving the
22 settlement, the New York Public Service Commission (“NYPSC”) expressly recognized

1 that further investigation was necessary to develop a “long-term solution” to address
2 customer lead service lines in NYAW’s service territory.⁸

3 Halifax Water also does not employ cost sharing in the manner proposed by the OCA.
4 The Nova Scotia Utility and Review Board (“NSUARB”) approved a program that
5 permits Halifax Water to include the full cost of replacement of customer-owned lead
6 service lines in rate base in “unplanned or emergency circumstances.”⁹ As the NSUARB
7 observed in its findings, such circumstances appear to relate to any work by Halifax
8 Water which involves the disturbance of a lead service line.¹⁰ Accordingly, the
9 Company’s replacements under Part 1 are akin to the “unplanned” replacements
10 envisioned under Halifax Water’s program. In any event, under the ratemaking treatment
11 adopted in the Halifax Water program, *all* of the utility’s investments, even if that
12 investment is only the utility’s 25% contribution to the total cost of discretionary
13 replacements, are eligible for inclusion in rate base.¹¹

14 Finally, MAWC’s proposed accounting proposal that Mr. Rubin mentioned is limited in
15 scope and does not require the utility to forego carrying charges on its investment. If
16 approved, the Missouri Public Service Commission would authorize MAWC to record
17 and defer its customer lead service line replacement costs incurred between January 1,
18 2017 and May 31, 2018 with a carrying charge. Recovery of those deferred costs, which
19 MAWC estimates will total approximately \$9.5 million, as well as cost recovery for lead

⁸ Schedule SJR-6, pp. 6, 11.

⁹ Schedule SJR-7, pp. 11-12

¹⁰ *Id.*, p. 13.

¹¹ *Id.*, pp. 2, 15.

1 service line replacement costs going forward, will be addressed in MAWC's pending rate
2 case.¹²

3 **Q. Mr. Rubin also claims that the OCA's proposed regulatory asset treatment is**
4 **superior to DSIC recovery because the DSIC is subject to a cap. Do you agree with**
5 **Mr. Rubin's rationale?**

6 A. No. Even if PAWC does make investments in LSP replacements that, in some years,
7 would not be recoverable through the DSIC because the cap was exceeded, those
8 expenditures could be included in rate base in a future base rate case. The alleged
9 benefits Mr. Rubin claims for his cost recovery approach do not compensate PAWC for
10 the loss in time value the Company incurs by having to forego a return or carrying
11 charges on its investment.

12
13 **IV. CONCLUSION**

14 **Q. Does this conclude your rebuttal testimony at this time?**

15 A. Yes, it does.
16

DB1/ 94266864.5

¹² See *In the Matter of the Application of Missouri-American Water Co. for an Accounting Order Concerning MAWC's Lead Service Line Replacement Program*, File No. WU-2017-0296 (MAWC Initial Brief filed October 19, 2017), pp. 1-2, 7.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-	:	
AMERICAN WATER COMPANY FOR	:	
APPROVAL OF TARIFF CHANGES	:	
AND ACCOUNTING AND	:	DOCKET NO. P-2017-2606100
RATEMAKING TREATMENT	:	
RELATED TO REPLACEMENT OF	:	
LEAD CUSTOMER-OWNED SERVICE	:	
PIPES	:	

VERIFICATION

I, **John R. Cox**, hereby state that the facts set forth in the pre-marked Rebuttal Statement No. 2-R and accompanying exhibits, if any, are true and correct to the best of my knowledge, information and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: November 17, 2017



John R. Cox

EXHIBIT JRC-1-R

5-Year Amortization

Year	Expenditure	Amortization Recovery	Present Value of the Amortization Recovery
1	\$ 2,500		\$1,895
2		\$ 500	
3		500	
4		500	
5		500	
6		500	
		<u>\$ 2,500</u>	

Present Value Discount Rate = Pre-tax cost of capital 10%

10-Year Amortization

Year	Expenditure	Amortization Recovery	Present Value of the Amortization Recovery
1	\$ 2,500		\$1,536
2		\$ 250	
3		250	
4		250	
5		250	
6		250	
7		250	
8		250	
9		250	
10		250	
11		250	
		<u>\$ 2,500</u>	

Present Value Discount Rate = Pre-tax cost of capital 10%

APPENDIX A
JOINT PETITION FOR SETTLEMENT ON REMAND
(dated July 17, 2019)

Morgan Lewis

Anthony C. DeCusatis

Of Counsel
+1.215.963.5034
anthony.decusatis@morganlewis.com

July 17, 2019

VIA eFILING

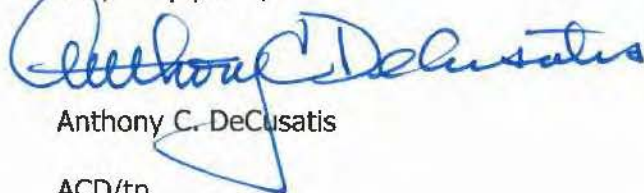
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Petition of Pennsylvania-American Water Company for Approval
of Tariff Changes and Accounting and Rate Treatment Related
to Replacement of Lead Customer-Owned Service Pipes
Docket No. P-2017-2606100**

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced matter is the **Joint Petition for Settlement on Remand**. Copies have been served on all parties of record as indicated on the attached Certificate of Service.

Very truly yours,



Anthony C. DeCusatis

ACD/tp
Enclosures

c: Per Certificate of Service (w/encls.)

Morgan, Lewis & Bockius LLP

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIA- :
AMERICAN WATER COMPANY FOR :
APPROVAL OF TARIFF CHANGES AND : Docket No. P-2017-2606100
ACCOUNTING AND RATE TREATMENT :
RELATED TO REPLACEMENT OF LEAD :
CUSTOMER-OWNED SERVICE PIPES :

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Joint Petition for Settlement on Remand** on the following persons, in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

VIA ELECTRONIC AND FIRST CLASS MAIL

The Honorable Elizabeth H. Barnes
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, L-M West
400 North Street
Harrisburg, PA 17120
ebarnes@pa.gov

Christine Maloni Hoover
Erin L. Gannon
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Respectfully submitted,



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Dated: July 17, 2019

*Counsel for
Pennsylvania-American Water Company*

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-	:	
AMERICAN WATER COMPANY	:	
FOR APPROVAL OF TARIFF	:	
CHANGES AND ACCOUNTING AND	:	DOCKET NO. P-2017-2606100
RATE TREATMENT RELATED TO	:	
REPLACEMENT OF LEAD	:	
CUSTOMER-OWNED SERVICE	:	
PIPES	:	

**JOINT PETITION FOR SETTLEMENT
ON REMAND**

July 17, 2019

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EXHIBITS AND STATEMENTS IN SUPPORT

- Exhibit 1** **PAWC Tariff Water-Pa. P.U.C. No. 5 Supplement No. __**
- Statement A** **Statement in Support of Joint Petition for Settlement of Pennsylvania-American Water Company**
- Statement B** **Statement in Support of Joint Petition for Settlement of the Office of Consumer Advocate**
- Statement C** **Statement in Support of Joint Petition for Settlement of the Bureau of Investigation and Enforcement**
- Statement D** **Statement in Support of Joint Petition for Settlement of the Office of Small Business Advocate**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-	:	
AMERICAN WATER COMPANY	:	
FOR APPROVAL OF TARIFF	:	
CHANGES AND ACCOUNTING AND	:	DOCKET NO. P-2017-2606100
RATE TREATMENT RELATED TO	:	
REPLACEMENT OF LEAD	:	
CUSTOMER-OWNED SERVICE	:	
PIPES	:	

**JOINT PETITION FOR SETTLEMENT
ON REMAND**

TO THE HONORABLE ELIZABETH H. BARNES, ADMINISTRATIVE LAW JUDGE:

Pennsylvania-American Water Company (“PAWC” or “the Company”), the Office of Consumer Advocate (“OCA”), the Bureau of Investigation and Enforcement (“I&E”) and the Office of Small Business Advocate (“OSBA”) (collectively, the “Joint Petitioners”), by their respective counsel, submit this Joint Petition For Settlement on Remand (“Settlement”) in the above-captioned proceeding and request that the Administrative Law Judge approve the Settlement without modification. In support of this Settlement, the Joint Petitioners state as follows:

I. BACKGROUND

A. Overview Of PAWC’s 2017 Replacement Plan

1. This proceeding was initiated on May 22, 2017, when PAWC petitioned the Pennsylvania Public Utility Commission (“PUC” or “Commission”) to approve its plan

(“Replacement Plan”) to replace customer-owned lead Service Pipes (“LSPs”)¹ and recover the associated costs (the “Petition”). In its Petition, PAWC requested that the Commission: (1) approve the tariff revisions set forth in the Supplement to PAWC Tariff Water-Pa. P.U.C. No. 4² provided as PAWC Exhibit No. 1 to the Petition, which would allow the Company to replace LSPs at its sole cost; (2) authorize the Company to capitalize costs incurred to replace LSPs (“LSP Replacement Costs”) and record those costs in Account No. 333 – Services for accounting and ratemaking purposes; and (3) deem the Company’s capitalized LSP Replacement Costs to constitute “eligible property” for water utilities as defined in 66 Pa.C.S. § 1351 on which it could recover its “fixed costs” through its Distribution System Improvement Charge (“DSIC”).³

2. With its Petition, PAWC filed the direct testimony and accompanying exhibits of David R. Kaufman (PAWC Statement No. 1) and John R. Cox (PAWC Statement No. 2).

3. PAWC’s Petition proposed a Replacement Plan with two parts.⁴ First, PAWC proposed to remove and replace, with the customer’s consent, LSPs that are encountered when it replaces its mains and Service Lines (“Part 1”).⁵ Second, PAWC proposed to remove and replace LSPs when requested to do so by a customer subject to verifying that the customer has a

¹ Rules 2.15 and 2.16, respectively, set forth at page 43 of PAWC Tariff Water-Pa. P.U.C. No. 5 (“Tariff No. 5”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat part of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied.” Therefore, throughout this Joint Petition for Settlement, the terms “Service Line” and “Service Pipe” are used in the manner they are defined in Rules 2.15 and 2.16 of Tariff No. 5.

² Subsequent to PAWC’s filing of the Petition, the Commission approved Tariff No. 5 in the Company’s 2017 base rate proceeding at Docket No. R-2017-2595853 effective January 1, 2018.

³ Petition, pp. 1 and 16.

⁴ *Id.*, pp. 8-10; PAWC Statement No. 1, pp. 11-12.

⁵ PAWC explained that, when it replaces a main, it typically replaces its Service Lines that are attached to that main at the same time. Petition, p. 2; PAWC Statement No. 1, p. 8. PAWC also explained that, in some locations, it replaces its Service Lines even though it is not replacing its mains. Petition, p. 2; PAWC Statement No. 1, pp. 11-12. In both of the aforementioned scenarios, PAWC would replace all of the lead Service Pipes it encounters pursuant to its Replacement Plan – Part 1. *Id.*

LSP (“Part 2”). Under Part 2, the Company would coordinate customer-requested replacements.⁶ Customer requests would be grouped by geographic location, and replacements would be undertaken when the number of customer requests in a given location would allow the Company to obtain reasonable economies of scale by doing those replacements as a single project.⁷ PAWC proposed a budget cap of \$6.0 million per year on the amounts expended to replace LSPs pursuant to Part 1 and Part 2 of the Replacement Plan.⁸

4. In the Petition and its accompanying testimony, PAWC explained that the Replacement Plan is designed to help eliminate conditions that could expose customers to lead in their drinking water and will help maintain compliance with applicable drinking water regulations.⁹ PAWC witness Kaufman testified that PAWC currently complies with the Lead and Copper Rule¹⁰ (“LCR”) by implementing various measures, including corrosion control treatment of the water it supplies.¹¹ Mr. Kaufman also explained that replacing LSPs in conjunction with the Company’s main replacement program would be a cost-effective way to continue PAWC’s main replacement program while avoiding the health and safety concerns associated with partial lead service line replacements.¹² In addition, Mr. Kaufman testified that replacing LSPs is a reasonable and cost-effective way to assure that a source of potential water-borne lead exposure would be eliminated.¹³

⁶ Petition, p. 9; PAWC Statement No. 1, p. 12.

⁷ *Id.*

⁸ Petition, p. 11; PAWC Statement No. 1, p. 12; PAWC Statement No. 2, pp. 5 and 10-11.

⁹ Petition, p. 3; PAWC Statement No. 1, pp. 8-12.

¹⁰ 25 Pa. Code §§ 109.1101 through 109.1108.

¹¹ PAWC Statement No. 1, p. 7.

¹² PAWC Statement No. 1, pp. 8-12.

¹³ *Id.*

B. Procedural History Leading Up To The Commission's January 2019 Order

5. The Petition was served on the OCA, I&E, OSBA, and all parties of record in PAWC's Long-Term Infrastructure Improvement Plan proceeding at Docket No. P-2017-2585707. On June 12, 2017, I&E and the OCA each filed an Answer to the Petition. A Notice of Appearance and Notice of Intervention were filed by the OSBA on June 15, 2017.

6. A Prehearing Conference was held on August 8, 2017 before Administrative Law Judge ("ALJ") Elizabeth H. Barnes to whom this matter was assigned, and a schedule was established for submitting written testimony, holding evidentiary hearings and filing briefs. *See* Procedural Order (August 9, 2017). Thereafter, written direct, rebuttal and surrebuttal testimony was submitted by the Company, I&E, the OCA and OSBA on the dates previously established for each submission.

7. The evidentiary hearings scheduled for January 17-18, 2018 were cancelled because the parties waived cross-examination of their respective witnesses. On January 22, 2018, the parties moved into evidence, by motion and stipulation, their respective witnesses' written direct, rebuttal and surrebuttal testimony and associated exhibits. *See* Order Admitting Testimony and Exhibits Into the Evidentiary Record (January 25, 2018).

8. Pursuant to the established litigation schedule, Main and Reply Briefs were submitted by the parties on March 1, 2018 and March 15, 2018, respectively. In their briefs, the parties supported the Company's proposal to replace customer-owned LSPs in order to eliminate potential sources of lead exposure and protect public health and safety. However, I&E and OCA proposed that PAWC book its LSP Replacement Costs as a "regulatory asset" and, in its next base rate case, begin to amortize that regulatory asset over a prospective ten-year period without a return on the unamortized balance.

9. On May 15, 2018, the Commission issued the Recommended Decision of ALJ Barnes. The Recommended Decision found that PAWC's proposal to replace customer-owned LSP is in the public interest¹⁴ and, therefore, recommended that the Commission approve PAWC's proposed Tariff revisions and authorize the Company to move forward with the replacement of customer-owned LSPs.¹⁵

10. The ALJ did not approve the Company's proposal to capitalize its expenditures to replace LSPs; record those expenditures in a capital account; amortize or depreciate its LSP replacements costs over a reasonable estimated service life; and recover its weighted cost of debt and equity capital on those expenditures.¹⁶ The ALJ recommended accepting proposals made by witnesses for the OCA and I&E that would allow the Company to defer the costs it incurs to replace LSPs, amortize those costs over a period of up to ten years beginning in its next base rate case,¹⁷ and not recover a return on the unamortized balance during the recovery period.¹⁸

11. PAWC filed Exceptions to the Recommended Decision on June 4, 2018. I&E, the OCA and the OSBA filed Replies to Exceptions on June 14, 2018.

C. Act 120 Of 2018 And The Commission's January 2019 Order

12. In October 2018, while PAWC's Exceptions to the Recommended Decision were pending, Governor Wolf signed into law Act 120 of 2018 ("Act 120"), which became effective on December 23, 2018. Act 120 amended Section 1311(b) of the Public Utility Code, 66 Pa. C.S. § 1311(b) in order, *inter alia*, to authorize investor-owned water utilities to pursue

¹⁴ See, e.g., R.D., p. 30.

¹⁵ *Id.*, p. 30.

¹⁶ *Id.*, pp. 21-25.

¹⁷ The ALJ did not recommend a particular amortization period, but rather stated that the amortization period should be established in PAWC's next rate base proceeding. R.D., p. 2.

¹⁸ *Id.*, pp. 21-25.

comprehensive replacement of lead service lines that remain in service across the Commonwealth subject to budget caps approved by the Commission.¹⁹

13. Act 120 provides that replacing a LSP does not make the utility the owner of the new service line on the customer's property.²⁰ Act 120 also directs the PUC to establish standards to ensure a warranty on the utility's replacement work and reimburse customers who replaced lead service lines at their own cost.²¹ Additionally, Act 120 establishes the accounting and ratemaking treatment of lead service line replacement costs by providing that the customer-owned portion of lead service lines (and damaged wastewater service laterals also covered by the law) may be included in a regulated utility's rate base upon which it is authorized to earn a return.²²

14. On January 4, 2019, in response to Act 120, the Commission set aside the portions of the Recommended Decision dealing with accounting and ratemaking treatment of Replacement Plan Costs.²³ The Commission found that Act 120 prescribes the cost recovery for LSP Replacement Costs and addresses other contested issues in this proceeding such as warranties for the work performed.²⁴ The Commission remanded this proceeding to evaluate PAWC's Petition under Act 120 and develop a solution that might become a model for other Pennsylvania water utilities to address customer-owned LSPs in accordance with Act 120.²⁵

¹⁹ 66 Pa.C.S. § 1311(b)(2)(v)-(vi).

²⁰ *Id.* at § 1311(b)(2)(i).

²¹ *Id.* at § 1311(b)(2)(vii).

²² *Id.* at §§ 1311(b)(2)(i)-(iii).

²³ *Petition of Pennsylvania-American Water Co. For Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Serv. Pipes*, Docket No. P-2017-2606100 (Opinion and Order entered Jan. 4, 2019) ("January 2019 Order").

²⁴ See January 2019 Order, p. 13.

²⁵ *Id.*, pp. 14-15.

D. Procedural History On Remand

15. In the January 2019 Order, the Commission directed PAWC to conform its Petition to Act 120 and supplement the record in this proceeding as necessary or to file a revised Petition at a new docket.²⁶ On January 11, 2019, the Joint Petitioners advised the ALJ that the Company elected to proceed at this docket and requested an opportunity to collaborate to enhance the previously-proposed Replacement Plan before initiating further formal proceedings. On January 14, 2019, the ALJ approved the Joint Petitioners request to explore the possibility of amicably resolving any outstanding remaining issues among the parties in light of Act 120 without the need for further litigation.

16. Through various telephone conferences and correspondence, the Joint Petitioners attempted to reach agreement on a revised Replacement Plan consistent with the terms of the January 2019 Order and Act 120. As a result, the parties were able to agree to the Settlement set forth herein. The Joint Petitioners notified the ALJ of the Settlement on June 7, 2019.

II. TERMS AND CONDITIONS OF SETTLEMENT

17. The Settlement consists of the following terms and conditions:

A. Nature Of Replacement Plan And Tariff Revisions

18. Notwithstanding Rules 2.12, 2.14 and 4.9 of Tariff No. 5, PAWC shall, provided that the customer consents, replace LSPs: (1) encountered as part of the Company's ongoing main and/or Service Line replacement work; and (2) at a customer's request, subject to certain conditions, including verification of the presence of an LSP and the Company's determination of when the replacement will occur based on various factors such as the number of customer requests, site conditions, contractor proximity, the annual cap described in Paragraph 35 below

²⁶ *Id.*, p. 14.

and availability of funds within the budgeted allotment of \$6.0 million per year. The costs PAWC incurs as a result of replacing LSPs shall be subject to cost recovery as outlined in Section F.

19. Under both Parts of the Replacement Plan, the customer will own and retain responsibility for the maintenance, repair and replacement of its Service Pipe after it is replaced by the Company.

20. The Company will not replace a customer-owned LSP unless the customer enters into an agreement, in a form provided by the Company, that includes granting permission for the Company to enter onto the customer's property to do the replacement. If a customer refuses to enter into such an agreement with the Company, the Company will replace only the Company-owned portion of such customer's lead service line if the location of the Company's new main precludes connecting it to the existing Company-owned Service Line. The potential health risks associated with a partial lead service line replacement will be outlined in a communication to the homeowner.

21. The Joint Petitioners agree that PAWC shall be permitted to implement Rule 4.9.1 set forth in the Supplement to Tariff No. 5 attached to the Joint Petition as Exhibit 1.

22. The tariff revisions reflected in Rule 4.9.1 do not change the rules regarding a customer's obligation to replace or repair a leaking or otherwise defective Service Pipe, but the customer will not be required to repair an LSP prior to replacement by the Company.

23. In light of the annual cap provisions in Act 120, the Company's Replacement Plan does not specify an initial or any renewal terms. As discussed in Paragraph 41 below, the Company is providing information that will enable the parties to assess the operation of the program and will meet with the parties to discuss the program and its implementation if

requested. The Joint Petitioners, however, reserve the right to review and challenge the Company's Replacement Plan in future proceedings.

B. Implementation Of Part 2 Of The Replacement Plan

(1) Coordination of Customer-Requested Lead Service Pipe Replacements

24. Customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale described in the Rebuttal Testimony of David R. Kaufman (PAWC Statement No. 1-R, pp. 7-8) by doing those replacements as a single project. With full implementation of Part 2, PAWC anticipates segmenting its service territory into at least five geographic regions.

(2) Wait Time for Part 2 Replacements

25. PAWC will strive to maintain the wait-time following a customer request under Part 2 to less than one year after the Company has the opportunity to evaluate the level of customer requests and address any program start-up issues.

26. The Company will verify whether the property for which a Part 2 replacement was requested has a LSP, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from the customer or property owner, as applicable. The Company will notify the customer occupying such property within three days of obtaining the test results. The Company also agrees that all customers will be informed of the use of a water filter while awaiting the replacement of a customer-owned LSP.

27. The Company will provide a 10-cup filtered water container to low-income residential customers who request (or if the customer occupies a rental property, the property-

owner has made, or has authorized the customer to make, such request) that the Company replace their LSPs under Part 2 of the Company's Replacement Plan, provided that:

a. The customer's household income is at or below 150% of the Federal Poverty Income Guidelines as determined by the Dollar Energy Fund, which PAWC will engage to make this determination based on information available to, or obtained by, Dollar Energy Fund in the same manner Dollar Energy Fund determines residential customers' low-income status for other low-income programs of the Company;

b. The Company has verified that the customer has a lead Service Pipe; and

c. The Company's testing of water from the customer's tap shows that the water has a lead level above the action level established by the Pennsylvania Department of Environmental Protection under the Environmental Protection Agency's LCR.

28. The Company agrees that its customer service representatives will be performing affirmative outreach to low-income customers making them aware of the offer of the water filter.

(3) Cost of Part 2 Lead Service Pipe Replacements

29. The actual costs of a customer-owned LSP replacement reflects a number of site-specific factors, including the length of the Service Pipe. Therefore, the Company will proceed with replacements at the actual costs of such replacement up to the budget amount of \$6.0 million per year.

30. The Company will independently track customer-owned LSP replacement costs under both Parts of the Replacement Plan and will report these costs as part of its DSIC quarterly filings.

C. Warranty

31. The Company will provide a two-year warranty on workmanship and materials for customer Service Pipes that it replaces.

D. Reimbursement To Customers Who Recently Paid For Their Own Lead Service Pipe Replacement

32. If PAWC, at the request of a customer or property-owner (as applicable), visits a customer's site and determines that the Service Pipe has been replaced at or within one-year of the date PAWC commenced a project to replace lead Service Pipes and the customer or property-owner (as applicable) provides the Company with a paid invoice, a certification from a certified plumber, and other documentation determined by the Company to be appropriate to verify the replacement, the Company will reimburse the customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized service in the project area. A lead Service Pipe project will commence on the date the Company begins physical main replacement work in the project area that includes the customer's site or when PAWC deploys a contractor crew to the geographic area of a Part 2 project to perform grouped work activity, whichever is sooner.

E. Customer Outreach And Communications Plan

33. PAWC's customer outreach and communications plan for the Replacement Plan will include, but is not limited to, direct mailings to notify potentially affected customers of the Replacement Plan, press releases, bill inserts, information on the Company's website regarding the health effects of lead, and a lead information pamphlet to be distributed to all customers. In addition, PAWC plans to release an educational video about lead and notify customers when lead is encountered on the customer-owned segment of the service line.

34. The Company will share with the statutory advocates the communications materials to be used in its customer outreach plan. Some of these materials have already been provided as exhibits to Mr. Kaufman's testimony. PAWC agrees to work with the statutory advocates on the communication plan for how it intends to roll-out to customers the approved PAWC-specific elements of its Replacement Plan.

F. Cost Recovery

(1) Annual Cap, Budgetary Allotment and Priority of Expenditures

35. Upon full implementation of the plan, PAWC will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary amount of approximately \$6 million per year. As the Replacement Plan is rolled-out during the first year of implementation, the Company expects that the number of LSP replacements will be less than the annual maximum of 1,800.

36. LSP replacements under Part 1 will have priority on the use of the annual budgetary allotment as they address conditions that pose relatively greater risks of raising lead levels for the affected customers. If the Company does not expend the entire budgetary allotment for any given year under the Replacement Plan, the excess budgetary allotment will carry forward to the subsequent year, subject to the cap on number of LSP replacements per year. If the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carryforward on a cumulative basis, subject to the cap on the number of LSP replacements per year.

(2) Accounting and Ratemaking Treatment of Lead Service Pipe Replacement Costs

37. The Company will capitalize LSP replacement costs and record those costs in Account 333 – Services.

38. PAWC agrees to create a separate sub-account in Account 333 – Services to record LSP replacement costs. Only customer-side replacement costs will be included in this sub-account.

39. The Company will include its actual LSP replacement costs in the Company's rate base in a subsequent base rate case and will recover the fixed costs of such investments in property placed in service between base rate cases through the Company's existing DSIC.

(3) Cost Allocation

40. LSP Replacement Costs will be allocated to all water customers.

G. Reporting

41. PAWC shall provide to I&E, OCA, and OSBA an annual report on the number of customer-owned LSPs replaced, and the cost of replacements, broken down by customer rate class and, secondarily, geographic location.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

42. PAWC, the OCA, I&E and OSBA have prepared, and attached to this Joint Petition, Statements in Support identified as Statements A through D, respectively, setting forth the bases on which they believe the Settlement is in the public interest.

43. The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

- ***The Settlement Provides a Framework To Implement Act 120.*** The Settlement represents the collaborative effort of the parties to develop an approach to facilitate comprehensive replacement of customer-owned lead service lines in PAWC's service territory in the Commonwealth consistent with Act 120. The Replacement Plan, as set forth in the Settlement, should provide a way to eliminate a possible risk of lead exposure at the customer's tap from Service Pipes.
- ***Substantial Litigation And Associated Costs Will Be Avoided.*** The Settlement resolves a number of important and contentious issues that were litigated before the Commission.
- ***The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements.*** The Joint Petitioners arrived at the Settlement terms after conducting extensive discovery and engaging in in-depth discussions over several weeks. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the Settlement is consistent with the Commission's rules and practices encouraging negotiated settlements (*see* 52 Pa. Code §§ 5.231, 69.391 and 69.401), and is supported by substantial record evidence.

IV. ADDITIONAL TERMS AND CONDITIONS

44. The Commission's approval of the Settlement shall not be construed as approval of any party's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement. Accordingly, this Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

45. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise and does not necessarily represent the position(s) that would be advanced by any party in this or any other proceeding, if it were fully litigated.

46. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner that is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings, except to the extent necessary to effectuate the terms and conditions of this Settlement.

47. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission should disapprove the Settlement or modify the terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all active parties within five business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect. In the event that the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw as provided above, the Joint Petitioners reserve their respective rights to fully litigate this remanded case, including but not limited to presentation of

witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

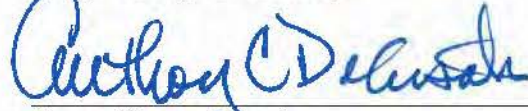
48. If the ALJ, in her Recommended Decision on this Joint Petition, recommends that the Settlement be adopted as herein proposed without modification, the Joint Petitioners agree to waive the filing of Exceptions. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by the Administrative Law Judge in her Recommended Decision. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judge Barnes enter a Recommended Decision and the Commission enter an Order approving the Settlement on Remand embodied in this Joint Petition, including all terms and conditions thereof without modification.

2. That the Commission approve the Replacement Plan as set forth herein and grant the Company permission to file the Tariff Supplement attached hereto as Exhibit 1 to become effective on one day's notice.

Respectfully submitted,



Susan Simms Marsh
Pennsylvania-American Water Company

Dated: July 17, 2019

Anthony C. DeCusatis
Brooke E. McGlenn
Morgan, Lewis & Bockius LLP

Counsel for Pennsylvania-American Water Company

Christine Maloni Hoover
Phillip D. Demanchick, Jr.
Office of Consumer Advocate

Counsel for Office of Consumer Advocate

Sharon E. Webb
Erin K. Fure
Office of Small Business Advocate

Counsel for Office of Small Business Advocate

Carrie A. Wright
Bureau of Investigation & Enforcement

Counsel for Bureau of Investigation & Enforcement

2. That the Commission approve the Replacement Plan as set forth herein and grant the Company permission to file the Tariff Supplement attached hereto as Exhibit 1 to become effective on one day's notice.

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Dated: July 17, 2019

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Pennsylvania-American Water Company

Anthony C. DeCusatis
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*Counsel for Pennsylvania-American Water
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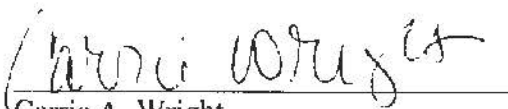
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EXHIBIT 1

Pennsylvania-American Water Company

4.9.1 Replacement of Lead Service Pipes

4.9.1.1 Notwithstanding Rules 2.11, 2.12, 2.14 and 4.9, the Company shall, provided that the customer consents, replace lead Service Pipes pursuant to Parts 1 and 2 of its lead Service Pipe replacement plan (Replacement Plan), subject to the budgeted allotment of \$6.0 million per year for all lead Service Line replacements under its Replacement Plan. Pursuant to its Replacement Plan – Part 1, the Company will replace lead Service Pipes it encounters when replacing its mains and/or Service Lines up to 1,800 lead Service Pipe replacements per year within a maximum amount of approximately \$6.0 million per year. Pursuant to its Replacement Plan – Part 2, the Company will replace a lead Service Pipe at a Customer's request subject to the following conditions: (1) verification that the Customer has a lead Service Pipe; (2) the time when the replacement occurs will be determined by the Company based on factors determined by the Company including, without limitation, the number of customer requests for Service Pipe replacements in Company-designated geographic areas; (3) the annual cap of 1,800 lead Service Pipe; and (4) availability of funds not used for Part 1 replacements under the Company's budgeted allotment of \$6.0 million per year. Lead Service Pipe replacements performed pursuant to Replacement Plan – Part 1 will have priority on the use of funds under the annual budget allotment and, therefore, in any year, funds will be used for lead Service Pipe replacements under Replacement Plan – Part 2 only to the extent that funds are available within the budget allotment and are not allocated to Part 1 replacements planned for that year. Portions of the annual budget allotment of \$6.0 million that are not expended on lead Service Pipe replacements under Part 1 or Part 2 of the Replacement Plan in a year will roll-over to the next subsequent year, but use of the roll-over funds will still be subject to the requirement that priority be given to Part 1 replacements. If the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carryforward on a cumulative basis, subject to the cap on the number of lead Service Pipe replacements per year. The Company may, but shall not be required, to petition the Commission for approval to modify its annual budget allotment of \$6.0 million if the Company, in its sole discretion, determines that its annual budget allotment no longer meets the future needs of administering both Parts of the Replacement Plan. However, no change may be made without prior Commission approval. Costs the Company incurs to replace lead Service Pipes under the Company's Replacement Plan shall be subject to the accounting and rate treatment approved by the Order of the Pennsylvania Public Utility Commission (Commission) entered [date] and Settlement at Docket No. P-2017-2606100 (Approval Order). After a lead Service Pipe is replaced by the Company, the Customer shall own the Service Pipe and shall have full responsibility for the repair, replacement and maintenance of the new Service Pipe, which, upon installation, shall thereafter be subject to the terms of Rules 2.12, 2.14 and 4.9.

4.9.1.2 The Customer shall enter into an Agreement for Replacement of Lead Service Pipe, in a form provided by the Company, prior to the initiation of any work by the Company to replace a Customer's Service Pipe. The Company will provide a two-year warranty on workmanship and materials for any Customer lead Service Pipes it replaces.

Issued:

Effective:

Pennsylvania-American Water Company

4.9.1.3 The Company will verify whether the property for which a Replacement Plan - Part 2 replacement was requested has a lead Service Pipe, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from a Customer or property owner, as applicable. The Company will notify the Customer occupying such property within three days of obtaining the test results.

4.9.1.4 The Company will provide a 10-cup filtered water container to low-income residential Customers who request (or if the Customer occupies a rental property, the property-owner has made, or has authorized the Customer to make, such request) that the Company replace their LSPs under Part 2 of the Company's Replacement Plan, provided that:

1. The Customer's household income is at or below 150% of the Federal Poverty Income Guidelines as determined by the Dollar Energy Fund, which the Company will engage to make this determination based on information available to, or obtained by, Dollar Energy Fund in the same manner Dollar Energy Fund determines a residential Customer's low-income status for other low-income programs of the Company;
2. The Company has verified that the Customer has a lead Service Pipe; and
3. The Company's testing of water from the Customer's tap shows that the water has a lead level above the action level established by the Pennsylvania Department of Environmental Protection under the Environmental Protection Agency's Lead and Copper Rule.

4.9.1.5 If the Company, at the request of a Customer or property-owner (as applicable), visits a Customer's site and determines that the Service Pipe has been replaced at or within one-year of the date the Company commenced a project to replace lead Service Pipes and the Customer or property-owner (as applicable) provides the Company with a paid invoice, a certification from a certified plumber, and other documentation determined by the Company to be appropriate to verify the replacement, the Company will reimburse the Customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized Service Pipe in the project area. A lead Service Pipe project will commence on the date the Company begins physical main replacement work in the project area that includes the Customer's site or when the Company deploys a contractor crew to the geographic area of a Replacement Plan - Part 2 project to perform grouped work activity, whichever is sooner.

Issued:

Effective:

STATEMENT A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-	:	
AMERICAN WATER COMPANY FOR	:	
APPROVAL OF TARIFF CHANGES AND	:	
ACCOUNTING AND RATE	:	DOCKET NO. P-2017-2606100
TREATMENT RELATED TO	:	
REPLACEMENT OF LEAD CUSTOMER-	:	
OWNED SERVICE PIPES	:	

**VERIFIED STATEMENT OF PENNSYLVANIA-AMERICAN WATER COMPANY
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT ON REMAND**

July 17, 2019

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND RATE TREATMENT RELATED TO REPLACEMENT OF LEAD CUSTOMER-OWNED SERVICE PIPES	: : : : : : :	DOCKET NO. P-2017-2606100
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**VERIFIED STATEMENT OF PENNSYLVANIA-AMERICAN WATER COMPANY
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT ON REMAND**

I. INTRODUCTION

On July 17, 2019, Pennsylvania-American Water Company (“PAWC” or “the Company”), the Office of Consumer Advocate (“OCA”), the Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Investigation and Enforcement (“I&E”) and the Office of Small Business Advocate (“OSBA”) (collectively, the “Joint Petitioners”) filed with the Commission a Joint Petition For Settlement on Remand (“Joint Petition”) in the above-captioned proceeding. The Joint Petition contains a statement of the factual background and procedural history of this case, which is incorporated herein by reference. This Statement in Support (the “Statement”) is filed pursuant to Paragraph 42 of the Joint Petition.

The settlement set forth in the Joint Petition (the “Settlement”) was reached after an extensive investigation by the parties of PAWC’s voluntary initiative to proactively eliminate customers’ potential risk of exposure to lead from customer-owned lead Service Pipes (“Replacement Plan”),¹ which included substantial discovery and the submission of direct,

¹ Rules 2.15 and 2.16, respectively, set forth at page 43 of PAWC Tariff Water-Pa. P.U.C. No. 5 (“Tariff No. 5”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat portion of the water line not owned by the Company” that “begins at the Company-owned street service connection and continues into the

rebuttal and surrebuttal written testimony. In addition, the parties engaged in discussions and negotiations about the terms of the Settlement over an extended period.

PAWC is in full agreement with each of the reasons the Joint Petitioners stated the Settlement is in the public interest. In this Statement, PAWC offers additional reasons why the Settlement is in the public interest and should be approved.

II. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND FACILITATES COMPREHENSIVE REPLACEMENT OF LEAD SERVICES REMAINING IN THE COMMONWEALTH AS ENVISIONED BY ACT 120 OF 2018

Lead in drinking water presents significant health risks. While the Company ceased installing lead Service Lines by the 1950's, some remain in service in portions of PAWC's system that predate that change or were acquired from other water utilities. The Company employs a proactive approach to protect customers from lead exposure in the drinking water the Company supplies consistent with federal and state regulatory standards established by the United States Environmental Protection Agency ("EPA") and the Pennsylvania Department of Environmental Protection ("DEP"), including the Lead and Copper Rule ("LCR"). PAWC has, thus far, complied with the LCR by implementing a number of measures, including effective corrosion control treatment of the water it supplies.

The current LCR requires utilities, among other things, to test drinking water inside older homes for lead and take additional action if more than 10% of tap water samples exceed the lead concentration limit (i.e., 15 parts per billion),² including replacement of utility-owned and customer-owned lead piping. Consequently, remaining in compliance with applicable drinking water regulations necessarily requires taking steps to address possible sources of lead contamination from customer-owned property. In addition, as recognized by the Commission,

structure on the premise[s] to be supplied." Therefore, throughout this Statement in Support, the terms "Service Line" and "Service Pipe" are employed in the manner they are defined in Rules 2.15 and 2.16 of Tariff No. 5.

² See 40 C.F.R. §§ 141.80 *et seq.*; 25 Pa. Code §§ 109.1101 *et seq.*

physical replacement of the entire lead service line is emerging as a best practice in the water utility industry to improve public health protection from lead in drinking water.³ However, applicable LCR regulations permit the utility to replace only the segment it owns if a customer is unable or unwilling to pay for replacing the portion of the service piping for which the customer is responsible. In PAWC's case, its options are further limited by Rule 4.9 of Tariff No. 5, which does not authorize the Company to replace a customer's Service Pipe.

In its original filing on May 22, 2017 ("2017 Petition"), PAWC proposed tariff changes to implement a two-part plan to replace, at its expense, customer-owned lead Service Pipes ("LSPs"): (1) encountered as part of the Company's ongoing main and/or Service Line replacement work ("Part 1"); and (2) at a customer's request, subject to certain conditions, including verification of the presence of an LSP and the Company's determination of when the replacement will occur based on various factors ("Part 2"). In the 2017 Petition, the Company also requested approval to capitalize the LSP replacements for accounting purposes and recover a return on, and a return of, the capital PAWC invests in that property.

Under the Settlement, PAWC's Replacement Plan maintains the core parameters and goals originally proposed in the 2017 Petition with several enhancements to conform to Act 120 of 2018 ("Act 120") enacted on October 24, 2018 – after Administrative Law Judge ("ALJ") Elizabeth H. Barnes issued her Recommended Decision ("R.D.") in this proceeding – to facilitate comprehensive replacement of lead water services in the Commonwealth. Act 120 adds a new provision to Section 1311(b) of the Public Utility Code and expressly authorizes water utilities to include investments in replacing customer-owned LSPs under a Commission-approved program in rate base in a subsequent base rate case or the utility's DSIC for property

³ *Petition of Pennsylvania-American Water Company For Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Service Pipes*, Docket No. P-2017-2606100 (Opinion and Order entered Jan. 4, 2019) ("January 2019 Order"), pp. 6-7.

placed in service between base rate cases. *See* 66 Pa.C.S. § 1311(b)(2)(i)-(iii). The rate recovery authorized by Act 120 requires prior Commission approval of a tariff or supplement with a cap on the number of customer-owned lead water service lines that will be replaced annually. *Id.* at § 1311(b)(2)(i), (v), (vi). In addition, Act 120 directs the Commission to establish rules to ensure:

- A warranty on the work performed by a public utility to replace a customer-owned lead water service line that the Commission determines appropriate.
- Reimbursement to customers who replaced their own lead water service line within one year of commencement of a utility project.

Id. at § 1311(b)(2)(vii).

As described in the Settlement and in this Statement, PAWC's Replacement Plan is consistent with Act 120, will proactively eliminate a source of lead in drinking water, and will help PAWC maintain compliance with important drinking water standards. Key elements of the Settlement are discussed in more detail below.

A. PAWC's Replacement Plan, As Modified By The Settlement Is A Reasonable And Prudent Approach To Eliminate The Risk of Exposure To Lead In Drinking Water Through Service Pipes

The Commission, ALJ, and all parties to this proceeding have recognized the public health benefits associated with both Parts of the Company's originally proposed Replacement Plan to address conditions that may increase the risk of exposure to lead at the customer's tap. Specifically, Part 1 will avoid creating a risk of exposing customers to elevated lead levels in their drinking water from PAWC's extension of its infrastructure rehabilitation program into areas where LSPs are more likely to exist. This risk arises from a "partial" replacement, which physically disturbs, but leaves in place, the customer's segment of a service connection. Part 2 of the Replacement Plan will proactively remove any possible risk of lead exposure from Service

Pipes in areas where the stability of the existing LSPs will not be disturbed by main replacements. *See* January 2019 Order, pp. 4-6, 13; R.D., p. 30; OCA St. No. 1, pp. 5-13; I&E St. Nos. 1, p. 9 & 1-SR, p. 4; *see also* PAWC St. Nos. 1, pp. 8-12 & 1-R, pp. 2-3.

While fully supporting the purpose and goals of the Company’s original proposal, the OCA recommended programmatic changes to a few discrete components of the Replacement Plan. Those recommendations include: (1) a five-year – instead of one-year – warranty for each newly installed customer-owned Service Pipe in light of the long useful life of the property; (2) a sliding scale of reimbursement to customers who paid for their own LSP replacement between 2014 and the first quarter of 2018; and (3) a customer outreach and communications plan developed in consultation with the statutory advocates. The OSBA also generally supported the Replacement Plan, subject to its concern about the Company’s proposal to recover what the OSBA characterized as “excessive” Part 2 LSP replacement costs. OSBA St. Nos. 1, pp. 3-4 & 1-SR, pp. 2-3.

The Settlement adopts the Company’s original proposed parameters for both Parts of the Replacement Plan with the revisions discussed below to conform to Act 120 and address the concerns raised by the OCA and OSBA, while preserving the Company’s fundamental goals of reducing customers’ exposure to water-borne sources of lead. Under the Settlement, the Joint Petitioners agree that PAWC shall be permitted to file the Supplement to Tariff No. 5, which is attached to the Joint Petition as Exhibit No. 1, which is necessary to implement the Replacement Plan as modified by the Settlement.

1. The Settlement Provides an Appropriate Warranty For LSP Replacement Work

Under the Settlement, PAWC commits to a two-year limited workmanship warranty to the customer on the newly installed customer-owned Service Pipe. Joint Petition, ¶ 30. Act 120 does not prescribe the length of the warranty that water utilities or their contractors must provide

to replace customer-owned LSPs concurrent with a scheduled main replacement project or under a Commission-approved program. PAWC believes that a two-year warranty is appropriate because such commitment is consistent with other routine utility work performed by its contractors and addresses the OCA's concern about the length of the warranty.

2. The Settlement Establishes a Reasonable Implementation Plan for Part 2 of the Replacement Plan

Under the Settlement, customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale as described in the Rebuttal Testimony of David R. Kaufman (PAWC St. No. 1-R, pp. 7-8) by doing those replacements as a single project. With full implementation of Part 2, PAWC anticipates segmenting its service territory into at least five geographic regions. Joint Petition, ¶ 24.

Under the Settlement, PAWC will strive to maintain the wait-time following a customer request under Part 2 to less than one year after the Company has the opportunity to evaluate the level of customer requests and address any program start-up issues. The Company will verify whether the property for which a Part 2 replacement was requested has a LSP, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from the customer or property owner, as applicable. The Company will also provide water filters to low-income residential customers who satisfy the criteria in Paragraph No. 27 of the Joint Petition.

3. The Settlement Appropriately Incorporates a Customer Outreach Plan and Reporting Requirements to Inform Future Evaluations of the Replacement Plan

In his testimony in this proceeding, PAWC witness Kaufman explained that the Company's current public education efforts regarding lead service lines are consistent with the National Drinking Water Advisory Council's recommendations. He also described PAWC's communications plan for the Replacement Plan, which will include direct mailings to notify

potentially affected customers of the Replacement Plan, press releases, bill inserts, information on the Company's website regarding the health effects of lead, and a lead information pamphlet to be distributed to all customers. PAWC St. Nos. 1, p. 14 & 1-R, p. 12.

Under the Settlement, PAWC will share its communications materials to be used in its customer outreach plan with the statutory parties and will work with them to implement the PAWC-specific elements of that plan. Joint Petition, ¶ 23. This commitment ensures that the Company will collaborate with the statutory advocates to develop a robust outreach and communications plan as recommended by the OCA.

The Settlement also addresses the OSBA's concern about Part 2 LSP replacement costs. Under the Settlement the Company committed to provide to the Joint Petitioners an annual report on the number of customer-owned LSPs replaced, and the cost of replacements, broken down by customer rate class. Joint Petition, ¶ 41. Based on those reports, the issue of whether costs of specific investments in LSP replacements are reasonable and prudently-incurred can be reviewed and addressed in base rate cases or DSIC filings when actual LSP replacement costs are claimed for recovery. In addition, the information provided by the Company in the annual reports will enable the Commission and interested parties to assess the operation of the Replacement Plan on an ongoing basis.

B. The Annual Cap And Budgetary Allotment Under The Settlement Will Mitigate The Impact Of The Replacement Plan On Customer Rates

PAWC originally proposed to set a budget cap of \$6.0 million per year on the amounts expended to replace LSPs in order to mitigate the impact of the Replacement Plan on customer rates. The Company also proposed the following priority of expenditures within the budgetary allotment: (a) LSP replacements under Replacement Plan – Part 1 will have priority on the use of the \$6.0 million annual budgetary allotment as they address conditions that pose relatively greater risks of raising lead levels for the affected customers; (b) if the Company does not

expend the entire budgetary allotment for any given year under the Replacement Plan, the excess budgetary allotment will carry forward to the subsequent year; and (c) if the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carry forward on a cumulative basis. PAWC St. No. 1, pp. 14-15 & 1-R, p. 17. No party objected to PAWC's proposed budgetary allotment, but the OCA asserted that the Company should offer a sliding scale of reimbursement to customers who recently replaced LSPs at their own cost. OCA St. Nos. 1, pp. 23-24 & 1-SR, pp. 3-4.

Act 120 provides that a Commission-approved lead service line replacement plan shall be subject to an annual cap on replacements. 66 Pa.C.S. §1311(b)(2)(v). Under the Settlement, PAWC will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary amount of approximately \$6 million per year with the same priority of expenditures originally proposed by the Company. Joint Petition, ¶¶ 35-36.

In addition, to address the OCA's concerns and consistent with Act 120, the Settlement provides reimbursement to customers who replaced LSPs at their own cost within one year of commencement of a project under the Replacement Plan. Specifically, subject to the eligibility and verification requirements outlined in Paragraph 32 of the Joint Petition, the Company will reimburse the customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized service in the project area.

C. The Accounting and Ratemaking Treatment of the Company's Investments In Customer-Owned Lead Service Pipes That Are Needed To Protect The Public Health Established By The Settlement Is Consistent With Act 120

In its 2017 Petition, PAWC proposed to capitalize LSP replacement costs up to the annual budget cap of \$6.0 million and include such investment in the Company's rate base in a

subsequent base rate case or the Company's existing DSIC for property placed in service between base rate cases. As demonstrated in the direct testimony of PAWC's Director of Rates and Regulations, John R. Cox, under the Company's proposed accounting and ratemaking treatment, the LSP Replacement costs would have a negligible effect on customers' bills for water service (i.e., an annual increment of less than 10 cents per month). PAWC St. No. 2, pp. 10-11; PAWC Exhibit No. 2. The Company's testimony also explained that such proposed accounting and ratemaking treatment is appropriate because PAWC's investment in replacing customer-owned LSPs provides a multi-year assurance that it can continue to comply with important drinking water standards, including the LCR. PAWC St. Nos. 2, pp. 7-8 & 1-R, pp. 14-15.

Despite emphasizing that proactive investments in customer-owned LSPs are needed to protect the public health, I&E and the OCA both opposed the Company's cost recovery proposal, asserting that any LSP replacement costs incurred by PAWC should be deferred through a regulatory asset and amortized without a return or carrying charge. I&E St. No. 1, pp. 7-8; OCA St. No. 1, pp. 18-20. The ALJ recommended that the Commission approve the cost recovery proposals offered by I&E and the OCA. R.D., pp. 21-25, 37.

Act 120 was enacted after the Commission issued the ALJ's Recommended Decision. Act 120 establishes a clear mandate for the accounting and ratemaking treatment of LSP replacement costs. Section 1311(b) of the Public Utility Code provides in relevant part:

(2)(i) The value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral performed concurrent with a scheduled utility main replacement project or under a commission-approved program, notwithstanding that the customer shall hold legal title to the replacement water service line or wastewater lateral.

(ii) The original cost of the replacement water service line or wastewater lateral shall be deemed other related capital costs that are part of the public utility's distribution system.

(iii) For the purpose of calculating the return of and on a public utility's prudently incurred cost for the replacement of a water service line and for the replacement of a wastewater lateral that is recovered in a public utility's base rates or distribution system improvement charge, the commission shall employ the equity return rate for water and wastewater public utilities calculations set forth in section 1357(b)(2) and (3) (relating to computation of charge).

66 Pa.C.S. § 1311(b)(2)(i)-(iii).

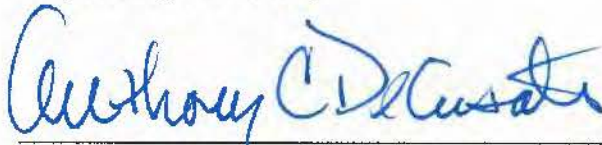
Accordingly, the Settlement adopts PAWC's original proposed accounting and ratemaking treatment for LSP replacement costs and provides that PAWC will record LSP replacement costs in a separate subaccount in Account 333 - Services. Joint Petition, ¶¶ 37-39. In addition, consistent with Act 120, under the Settlement, the Company will allocate LSP replacement costs to all water customers. Joint Petition, ¶ 40.

III. CONCLUSION

For the reasons set forth above and in the Joint Petition, the Replacement Plan, as enhanced by the Settlement, is a prudent and efficient approach to eliminate any possible risk of lead exposure at the customer's tap from Service Pipes consistent with Act 120. Moreover, the Settlement terms have been carefully designed to resolve, in a reasonable fashion, the issues and concerns that were raised by the testimony in this case without the need for additional costly

litigation. Accordingly, the Settlement is in the public interest and should be approved without modification.

Respectfully submitted,



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Dated: July 17, 2019

DB1/ 104568911.2

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA-	:	
AMERICAN WATER COMPANY FOR	:	
APPROVAL OF TARIFF CHANGES	:	
AND ACCOUNTING AND RATE	:	DOCKET NO. P-2017-2606100
TREATMENT RELATED TO	:	
REPLACEMENT OF LEAD	:	
CUSTOMER-OWNED SERVICE PIPES	:	

VERIFICATION

I, David R. Kaufman, Vice President of Engineering of Pennsylvania-American Water Company, hereby state that the facts set forth in the foregoing **Statement of Pennsylvania-American Water Company in Support of the Joint Petition for Settlement** are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing if held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Dated: July 17, 2019



David R. Kaufman
Vice President of Engineering

STATEMENT B

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pennsylvania-American Water :
Company for Approval of Tariff Changes :
And Accounting and Rate Treatment Related : Docket No. P-2017-2606100
To Replacement of Lead Customer-Owned :
Service Pipes :

STATEMENT OF THE OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR
SETTLEMENT ON REMAND

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement on Remand (Settlement) in the above-referenced proceeding, finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On May 22, 2017, Pennsylvania-American Water Company (PAWC or the Company) filed its Petition for an Expedited Order Authorizing Limited Waivers of Certain Tariff Provisions and Granting Accounting Approval to Record Costs of Certain Customer-Owned Service Line Replacements to the Company's Service Account (Petition). Through its Petition, the Company sought approval from the Pennsylvania Public Utility Commission (Commission) to revise its tariff in order to replace customer-owned Lead Service Pipes (LSPs). Petition at 1. Further, the Company proposed that costs it incurs to replace customer-owned LSPs shall be subject to the specific accounting and rate recovery treatment proposals contained in its Petition. Id. Specifically, the Company proposed to capitalize the costs incurred and record those costs in Account No. 333 - Services for accounting purposes, recover the fixed costs of the replacements placed in service between base rate cases through the Company's existing Distribution System

Improvement Charge (DSIC), and include all actual replacement costs incurred in the Company's rate base in a subsequent base rate proceeding. Petition at 1-2.

In response to the Petition, the Bureau of Investigation and Enforcement (I&E) and the OCA each filed an Answer and the Office of Small Business Advocate (OSBA) filed a Notice of Intervention. Generally, the statutory advocates supported the Company's proposal to replace customer-owned LSPs in order to avoid partial lead service-line replacements and reduce lead exposure in communities that still utilize lead service lines. OCA St. 1 at 13; See also I&E St. 1 at 9; OSBA St. 1 at 3-4. The OCA and I&E, however, challenged the Company's proposed accounting and ratemaking treatment as it would have allowed the Company to earn a return on customer-owned property, violating fundamental ratemaking principles. OCA St. 1 at 16-17; see also I&E St. 1 at 7-8. Rather, the OCA and I&E proposed that the Company be permitted to create a deferred regulatory asset through which it can track the expenses it incurs and recover its expenses over a reasonable amortization period to be determined in PAWC's next base rate proceeding. OCA St. 1 at 21-22; see also I&E St. 2 at 2-4. In addition, the OCA recommended that the Company provide a five-year warranty on all customer-owned LSPs it replaces as part of the program, implement a partial compensation plan to reimburse customers that replaced their lead service line prior to implementation of the Company's Replacement Plan, and develop a thorough education and outreach program to inform customers. OCA St. 1 at 23-25.

On January 22, 2018, a joint Motion for Admission of Testimony and Exhibits (Motion) was filed by all the parties, wherein the OCA requested to enter into evidence the written direct and surrebuttal testimony of its witness, Scott J. Rubin¹, in addition to the testimony and

¹ Mr. Rubin is an independent attorney and public utility industry consultant under contract with the OCA who has testified as an expert witness before utility commissions and courts in seventeen states and the District of Columbia and province of Nova Scotia. OCA St. 1 at 1-3. Since 1984, Mr. Rubin has provided legal and consulting

evidence of the other parties. On January 25, 2018, an Order was issued granting the Motion. Subsequently, in March 2018, the OCA submitted its Main Brief and Reply Brief extensively advocating for its position in this matter.

On May 15, 2018, the Presiding Officer issued the Recommended Decision, granting the Company's proposal to replace customer-owned LSPs in accordance with the Company's proposed Replacement Plan as it is in the public interest. R.D. at 18. The Presiding Officer, however, rejected the Company's proposed accounting and rate recovery proposals. R.D. at 18-21. Instead, the Presiding Officer adopted the proposal advocated by the OCA and I&E. That is, the Company would establish a regulatory asset to record the costs incurred and amortize those costs over a reasonable period to be determined in the Company's next base rate proceeding. R.D. at 21. Additionally, the Company would not be able to earn a return on the unamortized balance during the amortization period. Id. The Recommended Decision also adopted the OCA's proposed partial compensation program, which would provide reimbursement to customers that replaced their LSPs at their own expense within four years prior to the effective date of the Company's proposed Replacement Plan. R.D. at 27-28. Lastly, the Recommended Decision stated that the Company should provide a one-year warranty for all customer-owned LSPs that it replaces as part of the Replacement Plan. R.D. at 26.

After the issuance of the Recommended Decision, while the matter was awaiting a decision from the Commission, Act 120 of 2018 was signed into law by Governor Wolf on October 24, 2018. Act 120 became effective on December 23, 2018, and amended Section 1311(b) of the Public Utility Code. 66 Pa. C.S. § 1311(b). Section 1311(b), as amended, states in relevant part:

services to a variety of parties interested in public utility regulatory proceedings. A complete description of Mr. Rubin's qualifications is provided in OCA Statement 1, Appendix A.

§ 1311. Valuation of and return on the property of a public utility.

* * *

(b) Method of Valuation.

(2) (i) The value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for the replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral, performed concurrent with a scheduled utility main replacement project or under a commission-approved program, notwithstanding that the customer shall hold legal title to the replacement water service line or wastewater lateral.

(ii) The original cost of the replacement water service line or wastewater lateral shall be deemed other related capitalized costs that are part of the public utility's distribution system.

* * *

(vi) A new tariff or supplement to an existing tariff approved by the commission under subparagraph (v) shall include a cap on the maximum number of customer-owned lead water service lines or customer-owned damaged wastewater laterals that can be replaced annually.

(vii) The commission shall, by regulation or order, establish standards, processes and procedures to:

(A) Ensure that work performed by a public utility or the public utility's contractor to replace a customer-owned lead water service line or a customer-owned damaged wastewater lateral is accompanied by a warranty of a term that the commission determines appropriate and the public utility and the public utility's contractor has access to the affected customer's property during the term of the warranty.

(B) Provide for a reimbursement to a customer who has replaced the customer's lead water service line or customer-owned damaged wastewater lateral within one year of commencement of a project in accordance with a commission-approved tariff.

66 Pa.C.S. § 1311(b).

Act 120 authorizes public utilities providing water and/or wastewater service to, *inter alia*, replace customer-owned LSPs, include the costs incurred between base rate proceedings in the DSIC, and, upon the filing of a base rate case, include the costs in rate base thereby earning a return of and on the costs to replace customer-owned LSPs. Additionally, Act 120 provides that

there shall be a cap on the number of customer-owned LSPs replaced annually, that a reasonable warranty accompany the replacement, and that any customer that previously replaced their LSP within one year of commencement of a Commission-approved project to replace a customer-owned LSP shall be reimbursed. Id.

On January 4, 2019, the Commission entered its Opinion and Order noting that Act 120 of 2018 demonstrates a “clear mandate” from the General Assembly “for the accounting and cost-recovery for expenses related to the replacement of customer-owned lead service pipes.” Opinion and Order at 13-14. Accordingly, the Commission set aside the Recommended Decision and remanded the case to the Office of Administrative Law Judge to evaluate the Company’s Petition under Act 120. Id., at 14.

On January 11, 2019, the Company requested that, prior to filing a revised Petition to address Act 120, it be allowed to consult with the statutory advocates to explore the possibility of amicably resolving or minimizing any issues that might remain outstanding among the parties. The parties were granted leave to do so and began engaging in settlement negotiations. On June 7, 2019, after extensive settlement negotiations, the parties informed the Presiding Officer that the parties had reached a settlement in principle on all issues.

Subsequently, on June 11, 2019, an Order on Remand was issued granting the parties leave until July 17, 2019, to file a Joint Petition for Approval of Settlement and a Joint Stipulation for Admission of Evidence and Copies of Statements and Exhibits. In accordance with the Order on Remand, the OCA submits that the Settlement is in the public interest for the following reasons.

II. STATEMENT IN SUPPORT

A. Nature of Replacement Plan and Tariff Revisions (Settlement ¶¶ 18-23)

The Settlement provides that, upon Commission approval, the Company will be allowed to replace customer-owned LSPs pursuant to the Company's proposed Replacement Plan. Settlement ¶ 18. The Replacement Plan will allow the Company to replace customer-owned LSPs encountered as part of the Company's ongoing main and/or service line replacement program (Replacement Plan – Part 1) and, in addition, replace customer-owned LSPs upon request, subject to certain conditions (Replacement Plan – Part 2), as described in more detail below. Id.

The Settlement also provides that the Customer will retain ownership of the new service pipe and responsibility for maintenance, repair and replacement after the Company replaces the LSP. Settlement ¶ 19. Additionally, the Settlement states that the Customer must enter into an agreement granting the Company permission to replace the customer-owned LSP. Settlement ¶ 20. Otherwise, it will not replace the customer-owned LSP and, if the existing Company-owned service line is made of lead, will have to perform a partial lead service line replacement to remove the Company's portion of the lead service line. Id.

As the OCA has recognized throughout this proceeding, lead in water service lines creates major safety and reliability concerns for customers. OCA St. 1 at 5-6. For example, lead exposure can cause a range of health effects including permanent cognitive impairment in infants and children. Id. Current protections against lead exposure such as corrosion control, however, may be insufficient. OCA St. 1 at 6. Additionally, while replacing the entire portion of the entire lead service line, including both the Company portion and the customer portion, is best practice within the water utility industry, replacing only a portion of the lead service line can create just

as much lead exposure as it seeks to eliminate. OCA St. 1 at 10-11. By providing the Company with the ability to replace customer-owned LSPs, the Commission will limit partial lead service line replacements thereby protecting customers from significant lead exposure. See OCA St. 1 at 8 (detailing the problematic nature of partial lead service line replacements). For these reasons, the OCA supports the Company's Replacement Plan and request for limited waivers of its tariff provisions allowing the Company to replace customer-owned LSPs.

The Settlement also provides additional measures for continued development and improvement of the Company's Replacement Plan. By way of example, the Settlement provides that the Company will meet with the parties, if requested, to discuss the program and its implementation. Settlement ¶ 23. Furthermore, each party reserves the right to review and challenge the Company's Replacement Plan in future proceedings. Id. The OCA submits that a program of this nature may be an iterative process that develops over time. The Settlement allows for continued discussions and forums for further refinement of the program, if necessary.

B. Implementation of Part 2 of the Replacement Plan (Settlement ¶¶ 24-30)

Replacement Plan - Part 2 addresses remaining customer-owned lead Service Pipes that the Company does not encounter during its ongoing main and service line replacement program. Petition at 8. For Part 2 replacements, PAWC will replace the customer-owned LSP at the customer's request if the Company verifies that the customer's service pipe is made of lead. Petition at 9. The Settlement contains numerous provisions detailing the parameters of Replacement Plan – Part 2, considering the logistical issues that may arise.

First, the Settlement indicates that customer requests for Part 2 replacements will be grouped by geographic location and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of

scale by doing those replacements as a single project. Settlement ¶ 24. In other words, the Company seeks to minimize repeated contractor mobilization/demobilization costs by aggregating ten to twenty LSP replacements for a given week in a geographic region, with a similar amount planned for the following two weeks. PAWC St. 1-R at 7-8. PAWC will segment its service territory into at least five geographic regions. Settlement ¶ 24.

The parties indicated in the underlying proceeding that the Company's proposal could lead to extended wait times for Part 2 replacements, which would be imprudent considering those customers have lead service lines. I&E St. 1 at 4. To that end, the Settlement provides several provisions that protects the interest of customers. First, the Settlement states that PAWC will strive to undertake Part 2 replacements less than one year after the Company has had an opportunity to evaluate the customer requests and address any program start-up issues. Settlement ¶ 25. Secondly, the Settlement provides that once a Part 2 replacement request is placed, the Company will test lead levels in the water at the customer's tap within four weeks and will notify the customer within three days of receiving test results. Settlement ¶ 26. Lastly, for low-income customers, the Company will provide a 10-cup filtered water container provided that the customer is at or below 150 percent of the Federal Poverty Income Guidelines and has a lead level at the tap that exceeds the lead action level established by the Lead and Copper Rule. Settlement ¶ 27.

These above provisions provide numerous conditions and parameters for the Company as it undertakes Replacement Plan – Part 2. These additional conditions serve to protect customers during the time the Company requires to reach economies of scale for Part 2 replacements.

C. Warranty (Settlement ¶ 31)

The Settlement states that the Company will provide a two-year warranty on workmanship and materials for customer-owned LSPs that it replaces. Settlement ¶ 31. In the underlying proceeding, the OCA recommended that the Company provide a five-year warranty to each customer that had an LSP replaced by the Company. OCA St. 1 at 23. A five-year warranty would give the customer assurance that the work was performed properly. Id. In response, the Company was willing to provide a one-year limited warranty on workmanship and materials. PAWC St. 1-R at 11. The OCA, however, noted that a one-year warranty was not reasonable, given that faulty replacements may only be affected by extreme occurrences in weather, which might take a few years to occur. OCA St. 1-SR at 2-3. The Recommended Decision, however, agreed with the Company adopting a one-year limited warranty. R.D. at 26.

Accordingly, in an effort to reach a compromise, the Settlement provides for a two-year limited warranty on workmanship and materials. While this is not the five-year period that the OCA initially requested, two years should be sufficient to expose the replacements to extreme weather conditions and/or substantial usage, which would allow the customer to assess whether the work was performed properly.

D. Reimbursement Program (Settlement ¶ 32)

The Settlement also requires the Company to provide reimbursements for customers that have replaced their LSP at their own expense. Settlement ¶ 32. Specifically, the Settlement states that the customer must have replaced their LSP within one-year of the date PAWC begins physical main replacement work in the project area that includes the customer's site or when PAWC deploys a contractor crew to the geographic area of a Part 2 project, whichever is sooner. Id.

This provision is in response to the OCA's recommendation in the underlying proceeding. The OCA initially recommended that the Company provide reimbursements to customers that have replaced their LSP within four years of the effective date of the Company's Replacement Plan. OCA St. 1 at 23. Further, the customer would be reimbursed a percentage of the costs to replace the LSP depending on how recently the customer-owned LSP was replaced. OCA St. 1 at 24. The OCA advocated for the reimbursement program because failure to provide reimbursements would lead to equity concerns, considering that these customers had replaced their own LSP at their expense, but would now be expected to pay the costs to replace other customer-owned LSPs. OCA St. 1-SR at 3-4. As a result, the Recommended Decision adopted the OCA's proposal on the basis that failure to reimburse these customers would result in undue discrimination for the reasons previously stated. R.D. at 27-28.

While this proceeding was pending a decision before the Commission, the General Assembly passed Act 120 of 2018, which included a provision requiring a utility providing water/wastewater service to:

Provide [] a reimbursement to a customer who has replaced the customer's lead water service line or customer-owned damaged wastewater lateral within one year of commencement of a project in accordance with a commission-approved tariff.

66 Pa.C.S. § 1311(b)(vii)(B). In other words, the amended statute provides a statutory period of a one-year reimbursement program for customers that previously replaced their LSP at their own expense.

Accordingly, while the Settlement does not adopt the OCA's initial position in this matter, the reimbursement program complies with the framework of Act 120. These reimbursements partially address the OCA's equity concerns and provides a meaningful approach to ensure that more customers with LSPs can benefit from this program.

E. Customer Outreach and Communications Plan (Settlement ¶¶ 33-34)

The Settlement provides that the Company will perform customer outreach and implement a communication plan to notify potentially affected customers through various means, including direct mailings, bill inserts, information on the Company's website, and an educational video. Settlement ¶ 33. Additionally, the Company has agreed to share its communications with the statutory advocates and work with them to develop certain communications sent to customers. Settlement ¶ 34.

These provisions allow for a collaborative effort between the parties to ensure that affected customers receive accurate, timely, and detailed information concerning the Replacement Plan.

F. Cost Recovery (Settlement ¶¶ 35-40)

The following provisions of the Settlement deal with several issues raised in the underlying proceeding and were specifically addressed by Act 120 of 2018, including limits on the Company's annual replacements, accounting and ratemaking treatment of the costs the Company incurs as part of the Replacement Plan, and cost allocation.

1. Annual Cap, Budgetary Allotment and Priority of Expenditures (Settlement ¶¶ 35-36)

The Settlement provides that the Company will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary allotment of approximately \$6 million per year. Settlement ¶ 35. This provision is consistent with Act 120, which requires that any lead service line replacement program have an annual cap. See 66 Pa. C.S. § 1311(b)(vi). Additionally, PAWC has provided evidence demonstrating that there are approximately 18,000 company-owned lead service lines, indicating that there could likely be a similar amount of customer-owned LSPs in the Company's water system. PAWC St. 1 at 10-11. Accordingly, a replacement cap of 1,800 customer-owned LSPs and an annual budget of approximately \$6

million will allow the Company to replace a significant majority, if not all, customer-owned LSPs over a period of 10 years.

The Settlement also states that replacements under Replacement Plan – Part I will have priority on the use of the annual budgetary allotment. Settlement ¶ 36. This is critical as it ensures that as the Company performs its ongoing main and service line replacement program, the Company will have enough funds to replace the customer-portion of a lead service line if it encounters one. If funds were not available, that would either result in the Company having to seek additional waivers for more funds, require the customer to pay for the replacement creating equity concerns, or undergoing a partial lead service line replacement, which can cause a spike in lead levels at the tap.

Lastly, the Settlement provides that any excess budgetary allotment that is not used in a given year will roll over to the subsequent year. Settlement ¶ 36. Any rollover funds not used in the subsequent year, however, will not carry over into the following year. Id. That is, excess budgetary allotments will not carry forward on an indefinite, cumulative basis. Id. This provision prevents the Company from making a significant amount of expenditures in a single year, but rather promotes consistent and gradual replacement of customer-owned LSPs.

2. Accounting and Ratemaking Treatment of Lead Service Pipe Replacement Costs (Settlement ¶¶ 37-39)

The following Settlement provisions set forth the recovery of costs the Company incurs to replace customer-owned LSPs. Specifically, the Settlement, in accordance with Act 120, allows the Company to capitalize the replacement costs. The Company has agreed to record those costs in a sub-account of the Company's Account 333 – Services (this account generally tracks the costs associated with installation of services pipes and accessories leading to the customer's premises). Settlement ¶ 37-38. The Settlement, in accordance with Act 120, also

allows the Company to include the actual costs of replacing customer-owned LSPs in the Company's rate base in a subsequent base rate proceeding, thereby allowing the Company to earn a return of and on those costs. Settlement ¶ 39. Additionally, pursuant to the Settlement, the Company will be allowed to recover the fixed costs of those replacements placed in service between base rate cases through the Company's existing DSIC. Id.

Cost recovery was a contentious issue in the underlying proceeding. The Settlement outlined above reflects the initial proposal of PAWC. The OCA and I&E, however, argued that it would be inappropriate for the Company to earn a return on the costs associated with customer-owned property not for public use. OCA St. 1 at 16-17; see also I&E St. 1 at 7-8. Rather, the OCA and I&E recommended that the Company establish a regulatory asset to record the costs incurred and amortize those costs over a reasonable period to be determined in the Company's next base rate proceeding. OCA St. 1 at 21-22; see also I&E St. 2 at 2-4. The Recommended Decision agreed adopting the recommendation of the OCA and I&E. R.D. at 21.

Subsequently, Act 120 of 2018 was signed into law, which states that "[t]he value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for the replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral," that is replaced pursuant to a Commission-approved program. 66 Pa. C.S. § 1311(b). Furthermore, Act 120 states that "[t]he original cost of the replacement water service line or wastewater lateral shall be deemed other related capitalized costs that are part of the public utility's distribution system. Id. In other words, pursuant to Section 1351 of the Public Utility Code, such costs would be eligible for recovery under the Company's existing DSIC. See 66 Pa. C.S. §§ 1351, 1357(a).

Notwithstanding the problematic nature of earning a return on customer-owned property, the OCA understands that the Commission and regulated utilities are bound by statutory law. See 66 Pa. C.S. § 501. Considering that Section 1311 of the Public Utility Code, as amended, allows for utilities to include in rate base, and in the DSIC between rate cases, the actual costs to replace customer-owned LSPs, the Settlement reflects that newly-enacted amendment to the Public Utility Code. 66 Pa. C.S. § 1311(b). The OCA would, however, continue to encourage utilities to minimize costs and the impacts to ratepayers in undertaking plans to remove lead service lines from water systems.

3. Cost Allocation (Settlement ¶ 40)

The Settlement provides that the costs to replace customer-owned LSPs shall be recovered from water customers. Settlement ¶ 40. This is a reasonable allocation of the costs as all water customers, regardless of rate class, will be able to benefit from this program.

G. Reporting (Settlement ¶ 41)


The Settlement provides that the Company shall provide to the statutory advocates an annual report on the number of customer-owned LSPs replaced and the costs of those replacements, separated by rate class and geographic region. Settlement ¶ 41. This provision is helpful for the parties to continue to monitor the program and ensure that it is operating effectively and efficiently.

STATEMENT B

III. CONCLUSION

The OCA submits that the terms and conditions of the proposed Settlement, taken as a whole, represent a fair and reasonable resolution of the issues raised by the OCA in this matter. Therefore, the OCA submits that the Settlement should be approved by the Commission without modification as being in the public interest.

Respectfully Submitted,



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Tanya J. McCloskey
Acting Consumer Advocate

DATE: July 17, 2019
274581

STATEMENT C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA	:	
AMERICAN WATER COMPANY FOR	:	DOCKET NO.
APPROVAL OF TARIFF CHANGES AND	:	P-2017-2606100
ACCOUNTING AND RATE TREATMENT	:	
RELATED TO REPLACEMENT OF LEAD	:	
CUSTOMER-OWNED SERVICE PIPES	:	

**THE BUREAU OF INVESTIGATION AND ENFORCEMENT'S
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGE ELIZABETH H. BARNES:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Carrie B. Wright, hereby respectfully submit that the terms and conditions of the foregoing *Joint Petition For Settlement* (“Joint Petition” or “Settlement Agreement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interests of Pennsylvania American Water Company (“PAWC” or “Company”) and its customers. The parties to this Settlement Agreement have conducted extensive discovery and negotiations which have resulted in the submission of the attached Joint Petition. The request for acceptance of the

Joint Petition for Settlement is based on I&E's conclusion that the Settlement Agreement is in the public interest, which is the "prime determinant in the consideration of a proposed Settlement."¹

A. Legal Landscape Regarding Public Utilities

A business may acquire "public utility status" when that business is the sole organization that maintains the infrastructure utilized in providing an essential service to the public for compensation.² In order to protect consumers, the public utility's rates and services are regulated.³ Price regulation strives to replicate the results of effective competition.⁴ A public utility is entitled to a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers and allows the utility an opportunity to obtain a reasonable rate of return on its investment.⁵ A public utility shall also provide safe and reliable service by furnishing and maintaining adequate facilities and reasonable services and by making the necessary improvements thereto.⁶

B. I&E's Role

Through its bureaus and offices, the Commission has the authority to take appropriate enforcement actions that are necessary to ensure compliance with the Public Utility Code and Commission regulations and orders.⁷ The Commission established

¹ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

² James C. Bonbright, *Principles of Public Utility Rates*, Columbia University Press: New York (1961) at 3-14; 66 Pa.C.S. § 102.

³ *Principles of Public Utility Rates*, at 3-14; 66 Pa.C.S. §§ 1301, 1501.

⁴ See *Cantor v. Detroit Edison*, 428 U.S. 579, 595-6, fn. 33 (1976).

⁵ *City of Lancaster v. Pennsylvania Public Utility Commission*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002); see also *Hope*, 320 U.S. at 602-603.

⁶ 66 Pa.C.S. § 1501.

⁷ Act 129 of 2008, 66 Pa.C.S. § 308.2(a)(11); 66 Pa.C.S. § 101 *et seq.*; 52 Pa.Code § 1.1 *et seq.*

I&E to serve as the prosecutory bureau to represent the public interest in ratemaking and utility service matters and to enforce compliance with the Public Utility Code.⁸ By representing the public interest in rate related proceedings before the Commission, I&E works to balance the interest of customers, utilities, and the regulated community as a whole to ensure that a utility's rates are just, reasonable, and nondiscriminatory.⁹

C. Procedural History

I&E adopts, for purposes of this Statement in Support, the procedural history as set forth in paragraphs B.5 through D.16 of the *Joint Petition for Settlement*.

II. DISCUSSION

During the pendency of this proceeding Act 120 of 2018 was signed into law and became effective on December 23, 2018. The Settlement is intended to represent an approach to replace customer-owned lead service lines in PAWC's service territory in compliance with Act 120.

The adverse health effects of ingesting lead are well known and significant. Further, it is well known that partial replacement of lead service lines can lead to elevated levels of lead in drinking water. While there still may be lead present in the customer's plumbing or fixtures, replacement of the entire service line serves to eliminate a major source of lead contamination. Therefore, I&E believes that it is important to have these lines replaced before a significant problem occurs.

⁸ *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

⁹ *See* 66 Pa.C.S. §§ 1301, 1304.

Per the settlement, PAWC will replace customer-owned lead service lines encountered as part of its ongoing main or service line replacement work, or, under certain conditions, at the customer's request. PAWC will perform a maximum of 1,800 replacements per year with a budgetary cap of \$6 million per year. This is in the public interest as it allows PAWC to quickly and efficiently remove customer-owned lead service lines while not exposing ratepayers to an untenable cost.

The customer-owned lead service line replacement costs will be capitalized and recorded in Account 333 – Services. The Company has agreed as part of this settlement to create a separate sub-account in Account 333 – Services in which it will record lead service line replacement costs. This is in the public interest as it allows for interested parties to quickly and easily determine which portion of Account 333 – Services is related to lead service line replacement. It also aids in the ease of determining whether the costs associated with lead service line replacement were accurate and proper.

Under the replacement plan part 2, customers will be grouped by geographic location. Once the number of requests for replacement in a certain location allows the Company to realize reasonable economies of scale, the Company will begin to undertake these replacements as a single project. PAWC has agreed that it will attempt to maintain a wait-time of less than a year once the level of customer requests and program start up issues have been evaluated. The wait-time limit ensures customers are not waiting an inordinate amount of time for their lead service line replacement. By agreeing to wait until the number of requests in a certain area will allow the Company to realize

reasonable economies of scale, the Company will be able to undertake these replacements in a fiscally responsible manner.

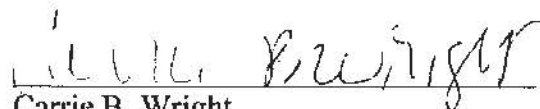
Overall, I&E agrees that the terms of the settlement are consistent with the requirements of Act 120 and will result in customer-owned lead service lines being replaced in an acceptable manner. In addition, the settlement furthers the Commission's goal of promoting negotiated settlements. It lessens the time and expense of continued litigation of these issues.

III. CONCLUSION

Based on I&E's analysis, acceptance of this proposed Joint Petition is in the public interest. Resolution of these provisions by settlement rather than continued litigation will avoid the additional time and expense involved in formally pursuing all issues in this proceeding and will help PAWC in its swift removal of both Company owned and customer owned lead service lines. I&E further submits that acceptance of this agreement will protect ratepayers interests by allowing regulatory oversight while still ensuring that PAWC appropriately recovers the associated costs.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the *Joint Petition for Settlement* as being in the public interest and respectfully requests that Administrative Law Judge Elizabeth Barnes recommend, and the Commission subsequently approve, the foregoing Settlement Agreement, including all terms and conditions contained therein.

Respectfully submitted,



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Prosecutor
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Dated: July 10, 2019

STATEMENT D

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

**Petition of Pennsylvania-American Water Company :
for Approval of Tariff Changes and Accounting and :
Rate Treatment Related to Replacement of Lead : Docket No. P-2017-2606100
Customer-Owned Services Pipes :**

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT
ON REMAND**

I. Introduction and Procedural History

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

On May 22, 2017, the Pennsylvania-American Water Company (“PAWC” or the “Company”) filed a petition to approve tariff changes that will allow PAWC to replace customer-owned lead “Service Pipes” (as defined in Rule 2.12 of PAWC Tariff-Water Pa. P.U.C. No.4) and recover associated costs (“Petition”).

Answers to the Petition were filed by the Office of Consumer Advocate (“OCA”) and the Commission’s Bureau of Investigation and Enforcement (“I&E”) on June 12, 2017.

On June 15, 2017, the OSBA filed a Notice of Intervention and Public Statement.

A telephonic Prehearing Conference on this case was held on June 19, 2017, before presiding officer Administrative Law Judge (“ALJ”) Elizabeth H. Barnes, at which time a procedural schedule and discovery modifications were established.

The OSBA submitted the Direct and Surrebuttal Testimony of Brian Kalcic on October 23, 2017 and November 30, 2017, respectively.

Despite good faith settlement discussions throughout this proceeding, the parties were unable to resolve this matter. However, the parties agreed that the evidentiary hearings scheduled for January 17 and 18, 2018, were not necessary and waived cross-examination of witnesses. On January 16, 2018, ALJ Barnes canceled the scheduled hearings and instructed the parties to submit testimony to be entered into the record by motion and stipulation. Such motion was granted by order dated January 25, 2018.

On March 1, the OSBA, PAWC, OCA and I&E all filed Main Briefs. The OSBA filed a Main Brief on the limited issue of cost recovery for the Company's proposed Replacement Plan-Part 2 ("Part 2"). The OSBA, OCA, I&E and PAWC all filed Reply Briefs on March 15, 2018.

On May 15, 2018, the Commission issued the Recommended Decision ("RD") of ALJ Barnes. The RD, while approving the Company's proposal to replace customer-owned lead service pipes, did not approve the Company's request relative to the recovery and treatment of excessive costs from all rate payers.¹

The Company filed Exceptions to the RD on June 4, 2018. The OSBA, the OCA and I&E filed Replies to Exceptions on June 14, 2018.

In October 2018, while PAWC's Exceptions to the Recommended Decision were pending in the underlying proceeding, Governor Wolf signed into law Act 120 of 2018 ("Act 120"), which became effective on December 23, 2018. Act 120 amended Section 1311(b) of the Public Utility Code, 66 Pa. C.S. § 1311(b) in order, *inter alia*, to authorize investor-owned water

¹ Recommended Decision, pp. 25-26.

utilities to pursue comprehensive replacement of lead service lines that remain in service across the Commonwealth subject to budget caps approved by the Commission.²

Subsequently on January 4, 2019, in response to Act 120, the Commission remanded the portions of the underlying case dealing with cost recovery of customer owned lead service pipes (“LSPs”). The parties worked collaboratively to reach agreement on a revised replacement plan which is consistent with the terms of the Commission’s January 2019 Order, and also the requirements of Act 120. The parties’ collaborative efforts culminated in the submission of the *Joint Petition for Settlement on Remand* (“Settlement”) on July 17, 2019. The OSBA is a signatory to the Settlement.

II. Summary of the OSBA’s Principal Concerns

The OSBA generally supported PAWC’s Replacement Plan-Part 1, whereby PAWC plans to replace customer-owned lead service lines encountered in connection with scheduled main replacement projects (“Part 1”). The OSBA agreed that Part 1 projects should have priority due to the relatively greater risk of raising lead levels for affected customers when replacing mains.

OSBA’s concerns remained with the Company’s proposal to recover potentially excessive costs from ratepayers in connection with Replacement Plan-Part 2 (“Part 2”).³

² 66 Pa. C.S. § 1311(b)(2)(v)-(vi).

³ OSBA Statement No. 1 at 1-4.

III. Settlement

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. Specifically, the Joint Petition for Settlement continues the annual program budgeted allotment of \$6.0 million per year.⁴ Further, the Company will track customer-owned LSP replacement costs, report those costs as part of its quarterly DSIC filings, and also provide to the OSBA, the OCA and I&E an annual report on the number of customer-owned LSPs replaced, and the cost of those replacements broken down by customer rate class, as well as geographic location.⁵ The annual reporting requirements, coupled with the retention of PAWC's proposed maximum budgetary cap of \$6.0 million per year, should help mitigate against the Company incurring excessive costs in connection with its Part 2 replacement plan in any given year.

⁴ Settlement, Para. 18

⁵ Settlement, Para. 41.

WHEREFORE, the OSBA respectfully requests that the Administrative Law Judge and the Commission approve the Settlement without modification.

Respectfully submitted,

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Attorney I.D. 73995

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July 17, 2019

APPENDIX A
RECOMMENDED DECISION ON REMAND
(dated August 7, 2019)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Pennsylvania-American Water Company :
For Approval of Tariff Changes and Accounting : P-2017-2606100
and Rate Treatment Related to Replacement :
of Lead Customer-Owned Service Pipes :

RECOMMENDED DECISION ON REMAND

Before
Elizabeth H. Barnes
Administrative Law Judge

INTRODUCTION

This decision recommends granting a Petition of Pennsylvania-American Water Company (PAWC or “the Company”) for Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Service Pipes¹ (LSPs) at Docket No. P-2017-2606100 (Petition) as modified by a Joint Petition for Settlement on Remand (Settlement).

HISTORY OF THE PROCEEDINGS

On May 22, 2017, PAWC filed the instant Petition seeking approval from the Commission to revise its tariff in order to: 1) replace customer-owned lead service lines at its sole cost, subject to accounting and rate recovery treatment proposals; 2) capitalize such costs incurred and to record those costs in Account No. 333 – Services (Services Account) for

¹ Rules 2.15 and 2.16, respectively, set forth at page 43 of PAWC Tariff Water-Pa. P.U.C. No. 5 (“Tariff No. 5”), define a “Service Line” as “[t]he Company-owned piping and appurtenances which run between and are connected to the Company’s main and its street service connection,” and a “Service Pipe” as “[t]hat portion of a water line not owned by the Company which transmits water from the Company-owned water main to the Customer's premise. The water service pipe begins at the Company-owned street service connection and continues into the structure on the premise to be supplied.”

accounting purposes; and 3) affirm that the costs are “eligible property” for water utilities under Section 1351, a recoverable cost under its Distribution System Improvement Charge (DSIC) pursuant to 66 Pa. C.S. § 1357. PAWC is proactively planning to comply with drinking water standards, including the Lead and Copper Rule (LCR) at 25 Pa. Code §§ 109.1101 through 109.1108.

On June 12, 2017, the Commission’s Bureau of Investigation and Enforcement (I&E) and the Office of Consumer Advocate (OCA) filed separate Answers. On June 15, 2017, the Office of Small Business Advocate (OSBA) filed a Notice of Intervention. On August 8, 2017, a prehearing conference was held and a procedural schedule was adopted scheduling an evidentiary hearing on January 17, 2018. Written testimony was pre-submitted by the parties and the hearing was cancelled upon request of the parties as they had no cross-examination for any of the witnesses. On January 22, 2018, the parties filed a joint Motion for Admission of Testimony and Exhibits, stipulating as to the authenticity of the statements and exhibits as well as waiving any cross examination of witnesses sponsoring their statements and exhibits. On January 25, 2018, an Order was issued granting the Motion and admitting testimony, exhibits and schedules into the record. The parties filed main briefs on March 1, 2018 and reply briefs on March 15, 2018.

On May 15, 2018, the Commission issued my Recommended Decision, which found that PAWC’s proposal to replace customer-owned LSPs is in the public interest² and, therefore, recommended that the Commission approve PAWC’s proposed Tariff revisions and authorize the Company to move forward with the replacement of customer-owned LSPs.³ However, I did not approve the Company’s proposal to capitalize its expenditures to replace LSPs; record those expenditures in a capital account; amortize or depreciate its LSP replacements costs over a reasonable estimated service life; and recover its weighted cost of debt and equity capital on those expenditures.⁴ I recommended accepting proposals made by witnesses for the OCA and I&E that would allow the Company to defer the costs it incurs to

² See, e.g., Recommended Decision dated May 15, 2018 (R.D.), p. 30.

³ *Id.*, p. 30.

⁴ *Id.*, pp. 21-25.

replace LSP, amortize those costs over a period of up to ten years beginning in its next base rate case,⁵ and not recover a return on the unamortized balance during the recovery period.⁶

PAWC filed Exceptions to the Recommended Decision on June 4, 2018. I&E, the OCA and the OSBA filed Replies to Exceptions on June 14, 2018. In October 2018, while PAWC's Exceptions to the Recommended Decision were pending, Governor Thomas W. Wolf signed into law Act 120 of 2018 ("Act 120"), which became effective on December 23, 2018. Act 120 amended Section 1311(b) of the Public Utility Code, 66 Pa. C.S. § 1311(b), in order, *inter alia*, to authorize investor-owned water utilities to pursue comprehensive replacement of lead service lines that remain in service across the Commonwealth subject to budget caps approved by the Commission.⁷

Act 120 provides that replacing a LSP does not make the utility the owner of the new service line on the customer's property.⁸ Act 120 also directs the Commission to establish standards to ensure a warranty on the utility's replacement work and reimburse customers who replaced lead service lines at their own cost.⁹ Additionally, Act 120 establishes the accounting and ratemaking treatment of lead service line replacement costs by providing that the customer-owned portion of lead service lines (and damaged wastewater service laterals also covered by the law) may be included in a regulated utility's rate base upon which it is authorized to earn a return.¹⁰

On January 4, 2019, in response to Act 120, the Commission set aside the Recommended Decision dealing with accounting and ratemaking treatment of Replacement Plan Costs.¹¹ The Commission found that Act 120 prescribes the cost recovery for LSP Replacement Costs and addresses other contested issues in this proceeding such as warranties for the work

⁵ The decision did not recommend a particular amortization period, but rather stated that the amortization period should be established in PAWC's next rate base proceeding. R.D., p. 2.

⁶ *Id.*, pp. 21-25.

⁷ 66 Pa.C.S. §§ 1311(b)(2)(v)-(vi).

⁸ *Id.* at § 1311(b)(2)(i).

⁹ *Id.* at § 1311(b)(2)(vii).

¹⁰ *Id.* at §§ 1311(b)(2)(i)-(iii).

¹¹ *Petition of Pennsylvania-American Water Co. For Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Serv. Pipes*, Docket No. P-2017-2606100 (Opinion and Order entered Jan. 4, 2019) ("January 2019 Order").

performed.¹² The Commission remanded this proceeding for further consideration of the Petition under the new Act 120 and to develop a solution that might become a model for other Pennsylvania water utilities to address customer-owned LSPs in accordance with Act 120.¹³ The Commission neither dismissed the Petition nor directed PAWC to file a new Petition.

Instead, the Commission directed PAWC to either conform its Petition to Act 120 and supplement the record in this proceeding as necessary or to file a revised Petition at a new docket.¹⁴ On January 11, 2019, the parties advised the Administrative Law Judge (ALJ) that the Company elected to continue proceeding at this docket rather than withdrawing the Petition and filing a new Petition. The parties requested an opportunity to collaborate to enhance the previously proposed Replacement Plan before initiating further formal proceedings.

On January 14, 2019, I approved the parties' request to explore the possibility of amicably resolving any outstanding remaining issues among the parties in light of Act 120 without the need for further litigation with the caveat that monthly status reports of the settlement negotiations would be provided to the presiding officer.

After several months of negotiations, the parties reached a settlement in principle on June 7, 2019 and notified me. On June 12, 2019, I issued an Interim Order on Remand pursuant to 52 Pa. Code § 5.224, giving the parties leave until July 17, 2019 within which time to submit a Joint Stipulation for Admission of Evidence and Copies of Statement and Exhibits as well as a Joint Petition for Approval of Settlement with verified statements in support. On July 17, 2019, the Joint Petition for Settlement on Remand with a proposed tariff supplement to Tariff Water – PA PUC No. 5, and verified Statements in Support of PAWC, OCA, I&E and OSBA (collectively, the “Joint Petitioners”) were filed. The Petition as modified by a Joint Petition for Settlement on Remand is ripe for a decision.

¹² See January 2019 Order, p. 13.

¹³ *Id.*, pp. 14-15.

¹⁴ *Id.*, p. 14.

FINDINGS OF FACT

1. PAWC is a public utility engaged in the business of supplying water and wastewater services to approximately 655,632 customers in 36 of the 67 counties in Pennsylvania. PAWC St. 1 at 3.
2. PAWC provides wastewater service to approximately 54,478 customers. PAWC St. 1 at 3.
3. A “partial lead service line” replacement may not significantly reduce the lead level at the customer’s tap but may temporarily increase lead at the customer’s tap due to disturbing the customer-owned service line during the partial replacement. OCA Exhibit SJR-1 at 5.
4. Dislodging of particulate lead from the remaining service line and galvanic corrosion have been shown to be causes of elevated lead observed after partial replacement. Galvanic corrosion will occur at the connection of the old lead service pipe on the private side of the home and then newly installed copper service line on the public side. However, a decrease in lead release can occur over time with both full and partial replacement. OCA Exhibit SJR-1 at 5.
5. PAWC has not failed any water sampling tests and is compliant with the LCR. PAWC R. B. at 6.
6. The average cost of lead service pipe replacement is approximately \$3,500. PAWC St. Nos. 1, p. 14 & 1-R, pp. 12-13.
7. By providing PAWC with the ability to replace customer-owned LSPs, the Commission will limit partial lead service line replacements thereby protecting customers from significant lead exposure. OCA St. 1 at 8.

TERMS AND CONDITIONS OF SETTLEMENT

The Settlement consists of the following terms and conditions – subsections and paragraph numbers are listed as they appear in the original settlement filed with the Commission:

A. Nature of Replacement Plan and Tariff Revisions

18. Notwithstanding Rules 2.12, 2.14 and 4.9 of Tariff No. 5, PAWC shall, provided that the customer consents, replace LSPs: (1) encountered as part of the Company's ongoing main and/or Service Line replacement work; and (2) at a customer's request, subject to certain conditions, including verification of the presence of an LSP and the Company's determination of when the replacement will occur based on various factors such as the number of customer requests, site conditions, contractor proximity, the annual cap described in Paragraph 35 below and availability of funds within the budgeted allotment of \$6.0 million per year. The costs PAWC incurs as a result of replacing LSPs shall be subject to cost recovery as outlined in Section F.

19. Under both Parts of the Replacement Plan, the customer will own and retain responsibility for the maintenance, repair and replacement of its Service Pipe after it is replaced by the Company.

20. The Company will not replace a customer-owned LSP unless the customer enters into an agreement, in a form provided by the Company, that includes granting permission for the Company to enter onto the customer's property to do the replacement. If a customer refuses to enter into such an agreement with the Company, the Company will replace only the Company-owned portion of such customer's lead service line if the location of the Company's new main precludes connecting it to the existing Company-owned Service Line. The potential health risks associated with a partial lead service line replacement will be outlined in a communication to the homeowner.

21. The Joint Petitioners agree that PAWC shall be permitted to implement Rule 4.9.1 set forth in the Supplement to Tariff No. 5 attached to the Joint Petition as Exhibit 1.

22. The tariff revisions reflected in Rule 4.9.1 do not change the rules regarding a customer's obligation to replace or repair a leaking or otherwise defective Service Pipe, but the customer will not be required to repair an LSP prior to replacement by the Company.

23. In light of the annual cap provisions in Act 120, the Company's Replacement Plan does not specify an initial or any renewal terms. As discussed in Paragraph 41 below, the Company is providing information that will enable the parties to assess the operation of the program and will meet with the parties to discuss the program and its implementation if requested. The Joint Petitioners, however, reserve the right to review and challenge the Company's Replacement Plan in future proceedings.

B. Implementation of Part 2 of the Replacement Plan

(1) Coordination of Customer-Requested Lead Service Pipe Replacements

24. Customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale described in the Rebuttal Testimony of David R. Kaufman (PAWC Statement No. 1-R, pp. 7-8) by doing those replacements as a single project. With full implementation of Part 2, PAWC anticipates segmenting its service territory into at least five geographic regions.

(2) Wait Time for Part 2 Replacements

25. PAWC will strive to maintain the wait-time following a customer request under Part 2 to less than one year after the Company has the opportunity to evaluate the level of customer requests and address any program start-up issues.

26. The Company will verify whether the property for which a Part 2 replacement was requested has an LSP, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from the customer or property owner, as applicable. The Company will notify the customer occupying such property within three days of obtaining the test results. The Company also agrees that all customers will be informed of the use of a water filter while awaiting the replacement of a customer-owned LSP.

27. The Company will provide a 10-cup filtered water container to low-income residential customers who request (or if the customer occupies a rental property, the property-owner has made, or has authorized the customer to make, such request) that the Company replace their LSPs under Part 2 of the Company's Replacement Plan, provided that:

(a) The customer's household income is at or below 150% of the Federal Poverty Income Guidelines as determined by the Dollar Energy Fund, which PAWC will engage to make this determination based on information available to, or obtained by, Dollar Energy Fund in the same manner Dollar Energy Fund determines residential customers' low-income status for other low-income programs of the Company;

(b) The Company has verified that the customer has a lead Service Pipe; and

(c) The Company's testing of water from the customer's tap shows that the water has a lead level above the action level established by the Pennsylvania Department of Environmental Protection under the Environmental Protection Agency's LCR.

28. The Company agrees that its customer service representatives will be performing affirmative outreach to low-income customers making them aware of the offer of the water filter.

(3) Cost of Part 2 Lead Service Pipe Replacements

29. The actual costs of a customer-owned LSP replacement reflects a number of site-specific factors, including the length of the Service Pipe. Therefore, the Company will proceed with replacements at the actual costs of such replacement up to the budget amount of \$6.0 million per year.

30. The Company will independently track customer-owned LSP replacement costs under both Parts of the Replacement Plan and will report these costs as part of its DSIC quarterly filings.

C. Warranty

31. The Company will provide a two-year warranty on workmanship and materials for customer Service Pipes that it replaces.

D. Reimbursement to Customers Who Recently Paid for Their Own Lead Service Pipe Replacement

32. If PAWC, at the request of a customer or property-owner (as applicable), visits a customer's site and determines that the Service Pipe has been replaced at or within one-year of the date PAWC commenced a project to replace lead Service Pipes and the customer or property-owner (as applicable) provides the Company with a paid invoice, a certification from a certified plumber, and other documentation determined by the Company to be appropriate to verify the replacement, the Company will reimburse the customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized service in the project area. A lead Service Pipe project will commence on the date the Company begins physical main replacement work in the project area that includes the customer's site or when PAWC deploys a contractor crew to the geographic area of a Part 2 project to perform grouped work activity, whichever is sooner.

E. Customer Outreach and Communications Plan

33. PAWC's customer outreach and communications plan for the Replacement Plan will include, but is not limited to, direct mailings to notify potentially affected customers of the Replacement Plan, press releases, bill inserts, information on the Company's website regarding the health effects of lead, and a lead information pamphlet to be distributed to all customers. In addition, PAWC plans to release an educational video about lead and notify customers when lead is encountered on the customer-owned segment of the service line.

34. The Company will share with the statutory advocates the communications materials to be used in its customer outreach plan. Some of these materials have already been provided as exhibits to Mr. Kaufman's testimony. PAWC agrees to work with the statutory advocates on the communication plan for how it intends to roll-out to customers the approved PAWC-specific elements of its Replacement Plan.

F. Cost Recovery

(1) Annual Cap, Budgetary Allotment and Priority of Expenditures

35. Upon full implementation of the plan, PAWC will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary amount of approximately \$6 million per year. As the Replacement Plan is rolled-out during the first year of implementation, the Company expects that the number of LSP replacements will be less than the annual maximum of 1,800.

36. LSP replacements under Part 1 will have priority on the use of the annual budgetary allotment as they address conditions that pose relatively greater risks of raising lead levels for the affected customers. If the Company does not expend the entire budgetary allotment for any given year under the Replacement Plan, the excess budgetary allotment will carry forward to the subsequent year, subject to the cap on number of LSP replacements per year. If the Company does not use the excess budgetary allotment in the subsequent year, the excess

budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carryforward on a cumulative basis, subject to the cap on the number of LSP replacements per year.

(2) Accounting and Ratemaking Treatment of Lead Service Pipe Replacement Costs

37. The Company will capitalize LSP replacement costs and record those costs in Account 333 – Services.

38. PAWC agrees to create a separate sub-account in Account 333 – Services to record LSP replacement costs. Only customer-side replacement costs will be included in this sub-account.

39. The Company will include its actual LSP replacement costs in the Company’s rate base in a subsequent base rate case and will recover the fixed costs of such investments in property placed in service between base rate cases through the Company’s existing DSIC.

(3) Cost Allocation

40. LSP Replacement Costs will be allocated to all water customers.

G. Reporting

41. PAWC shall provide to I&E, OCA, and OSBA an annual report on the number of customer-owned LSPs replaced, and the cost of replacements, broken down by customer rate class and, secondarily, geographic location. Settlement at 7-13.

Public Interest

PAWC, the OCA, I&E and OSBA agree that the Settlement is in the public interest for the following additional reasons:

The Settlement Provides a Framework to Implement Act 120. The Settlement represents the collaborative effort of the parties to develop an approach to facilitate comprehensive replacement of customer-owned lead service lines in PAWC's service territory in the Commonwealth consistent with Act 120. The Replacement Plan, as set forth in the Settlement, should provide a way to eliminate a possible risk of lead exposure at the customer's tap from Service Pipes.

Substantial Litigation and Associated Costs Will Be Avoided. The Settlement resolves a number of important and contentious issues that were litigated before the Commission.

The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements. The Joint Petitioners arrived at the Settlement terms after conducting extensive discovery and engaging in in-depth discussions over several weeks. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the Settlement is consistent with the Commission's rules and practices encouraging negotiated settlements (*See* 52 Pa. Code §§ 5.231, 69.391 and 69.401), and is supported by substantial record evidence. Settlement at 14.

The Joint Petitioners stipulate that if the ALJ recommends that the Settlement be adopted without modification, the Joint Petitioners agree to waive the filing of Exceptions. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by the ALJ in her Recommended Decision. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed. Settlement at 15-16.

PAWC's Proposed Tariff Rule 4.9.1

PAWC requests leave to file the following Tariff Supplement effective with one day's notice from filing:

4.9.1 Replacement of Lead Service Pipes

4.9.1.1 Notwithstanding Rules 2.11, 2.12, 2.14 and 4.9, the Company shall, provided that the customer consents, replace lead Service Pipes pursuant to Parts 1 and 2 of its lead Service Pipe replacement plan (Replacement Plan), subject to the budgeted allotment of \$6.0 million per year for all lead Service Line replacements under its Replacement Plan. Pursuant to its Replacement Plan – Part 1, the Company will replace lead Service Pipes it encounters when replacing its mains and/or Service Lines up to 1,800 lead Service Pipe replacements per year within a maximum amount of approximately \$6.0 million per year. Pursuant to its Replacement Plan – Part 2, the Company will replace a lead Service Pipe at a Customer's request subject to the following conditions:

(1) verification that the Customer has a lead Service Pipe;

(2) the time when the replacement occurs will be determined by the Company based on factors determined by the Company including, without limitation, the number of customer requests for Service Pipe replacements in Company-designated geographic areas;

(3) the annual cap of 1,800 lead Service Pipe; and

(4) availability of funds not used for Part 1 replacements under the Company's budgeted allotment of \$6.0 million per year. Lead Service Pipe replacements performed pursuant to Replacement Plan – Part 1 will have priority on the use of funds under the annual budget allotment and, therefore, in any year, funds will be used for lead Service Pipe replacements under Replacement Plan – Part 2 only to the extent that funds are available within the budget allotment and are not allocated to Part 1 replacements planned for that year. Portions

of the annual budget allotment of \$6.0 million that are not expended on lead Service Pipe replacements under Part 1 or Part 2 of the Replacement Plan in a year will roll-over to the next subsequent year, but use of the roll-over funds will still be subject to the requirement that priority be given to Part 1 replacements. If the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carryforward on a cumulative basis, subject to the cap on the number of lead Service Pipe replacements per year. The Company may, but shall not be required, to petition the Commission for approval to modify its annual budget allotment of \$6.0 million if the Company, in its sole discretion, determines that its annual budget allotment no longer meets the future needs of administering both Parts of the Replacement Plan. However, no change may be made without prior Commission approval. Costs the Company incurs to replace lead Service Pipes under the Company's Replacement Plan shall be subject to the accounting and rate treatment approved by the Order of the Pennsylvania Public Utility Commission (Commission) entered [date to be determined] and Settlement at Docket No. P-2017-2606100 (Approval Order). After a lead Service Pipe is replaced by the Company, the Customer shall own the Service Pipe and shall have full responsibility for the repair, replacement and maintenance of the new Service Pipe, which, upon installation, shall thereafter be subject to the terms of Rules 2.12, 2.14 and 4.9.¹⁵

4.9.1.2 The Customer shall enter into an Agreement for Replacement of Lead Service Pipe, in a form provided by the Company, prior to the initiation of any work by the Company to replace a Customer's Service Pipe. The Company will provide a two-year warranty on workmanship and materials for any Customer lead Service Pipes it replaces.

4.9.1.3 The Company will verify whether the property for which a Replacement Plan - Part 2 replacement was requested has a lead Service Pipe, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from a Customer or property owner, as applicable. The Company will notify the Customer occupying such property within three days of obtaining the test results.

¹⁵ Joint Petitioners may have meant to also include Rule 2.11.

4.9.1.4 The Company will provide a 10-cup filtered water container to low-income residential Customers who request (or if the Customer occupies a rental property, the property-owner has made, or has authorized the Customer to make, such request) that the Company replace their LSPs under Part 2 of the Company's Replacement Plan, provided that:

(1) The Customer's household income is at or below 150% of the Federal Poverty Income Guidelines as determined by the Dollar Energy Fund, which the Company will engage to make this determination based on information available to, or obtained by, Dollar Energy Fund in the same manner Dollar Energy Fund determines a residential Customer's low-income status for other low-income programs of the Company;

(2) The Company has verified that the Customer has a lead Service Pipe; and

(3) The Company's testing of water from the Customer's tap shows that the water has a lead level above the action level established by the Pennsylvania Department of Environmental Protection under the Environmental Protection Agency's Lead and Copper Rule.

4.9.1.5 If the Company, at the request of a Customer or property-owner (as applicable), visits a Customer's site and determines that the Service Pipe has been replaced at or within one-year of the date the Company commenced a project to replace lead Service Pipes and the Customer or property-owner (as applicable) provides the Company with a paid invoice, a certification from a certified plumber, and other documentation determined by the Company to be appropriate to verify the replacement, the Company will reimburse the Customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized Service Pipe in the project area. A lead Service Pipe project will commence on the date the Company begins physical main replacement work in the project area that includes the Customer's site or when the Company deploys a contractor crew to the geographic area of a Replacement Plan – Part 2 project to perform grouped work activity, whichever is sooner. Settlement Exhibit 1.

DISCUSSION

The Commission's policy is to encourage settlements and in the Commission's judgment, settlement rates are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code §§ 5.231, 69.401. However, the Commission must review proposed settlements to determine whether the terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, M-00031768 (January 7, 2004); *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767 (1991); *Warner v. GTE North, Inc.*, C-00902815 (April 1, 1996); *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); 52 Pa. Code § 69.1201.

A proposed settlement satisfies the "public interest" standard by a preponderance of evidence and benefits that show a likelihood or probability of public benefits that need not be quantified or guaranteed. *Powpowsky v. Pa. Pub. Util. Comm'n*, 594 Pa. 583, 937 A.2d 1040 (2007)(*Popowsky*). The Commission has traditionally defined the public interest as including ratepayers, shareholders, and the regulated community. *Pa. Pub. Util. Comm'n v. Bell Atlantic-Pennsylvania, Inc.*, Docket No. R-00953409 (Order entered September 29, 1995).

Act 120 became effective on December 23, 2018, and amended Section 1311(b) of the Public Utility Code, 66 Pa. C.S. § 1311(b). Section 1311(b), as amended, states in relevant part:

§ 1311. Valuation of and return on the property of a public utility.

* * *

(b) Method of valuation.

(2)(i) The value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for the replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral, performed concurrent with a scheduled utility main replacement project or under a commission-approved program, notwithstanding that the customer shall hold legal title to the replacement water service line or wastewater lateral.

(ii) The original cost of the replacement water service line or wastewater lateral shall be deemed other related capitalized costs that are part of the public utility's distribution system.

* * *

(vi) A new tariff or supplement to an existing tariff approved by the commission under subparagraph (v) shall include a cap on the maximum number of customer-owned lead water service lines or customer-owned damaged wastewater laterals that can be replaced annually.

(vii) The commission shall, by regulation or order, establish standards, processes and procedures to:

(A) Ensure that work performed by a public utility or the public utility's contractor to replace a customer-owned lead water service line or a customer-owned damaged wastewater lateral is accompanied by a warranty of a term that the commission determines appropriate and the public utility and the public utility's contractor has access to the affected customer's property during the term of the warranty.

(B) Provide for a reimbursement to a customer who has replaced the customer's lead water service line or customer-owned damaged wastewater lateral within one year of commencement of a project in accordance with a commission-approved tariff.

66 Pa.C.S. § 1311(b)(2).

Act 120 authorizes public utilities providing water and/or wastewater service to, *inter alia*, replace customer-owned LSPs, include the costs incurred between base rate proceedings in the DSIC, and, upon the filing of a base rate case, include the costs in rate base thereby earning a return of and on the costs to replace customer-owned LSPs. Additionally, Act 120 provides that there shall be a cap on the number of customer-owned LSPs replaced annually, that a reasonable warranty accompany the replacement, and that any customer that previously replaced their LSP within one year of commencement of a Commission-approved project to replace a customer-owned LSP shall be reimbursed. *Id.*

This is the first petition of its kind under the new Act 120. The Petition as modified by the proposed Settlement filed on July 17, 2019, is in compliance with the plain meaning of Section 1311, 66 Pa. C.S. § 1311. 1 Pa. Code § 1.7 (Statutory Construction Act of

1972 applicable). Words and phrases in a statute must be construed according to rules of grammar and their common and approved usage. *Martin Media v. Dept. of Transportation*, 641 A.2d 630 (1994); *Velazquez v. East Stroudsburg*, 949 A.2d 354, 358-359 (Pa. Cmwlth. 2008). Administrative interpretations of a statute are entitled to some deference, particularly where a statute is technical or complex, but such deference will exist only where the reviewing court is satisfied that the regulation tracks the meaning of the statute and does not violate the intent of the legislation. *Commonwealth v. Gilmour Mfg. Co.*, 822 A.2d 676, 679 (Pa. Cmwlth. 2003), order aff'd, 384 A.2d 1103 (Pa. 2003).

PAWC is a public utility engaged in the business of supplying water and wastewater services to approximately 655,632 customers in 36 of the 67 counties in Pennsylvania. The company also provides wastewater service to approximately 54,478 customers. 66 Pa. C.S. § 102. PAWC St. 1 at 3.

On April 28, 2017, PAWC filed tariffs requesting an increase in its total annual operating revenues using a calendar year 2018 projected test year at Docket No. R-2017-2595853. The Commission approved a Joint Petition for Settlement allowing an increase in annual operating revenues of \$61.85 million, or approximately a 9.41% increase, in lieu of the \$107.9 million, or approximately 16.4%, increase originally requested. *Pa. Pub. Util. Comm'n, et al. v. Pennsylvania American Water Company*, R-2017-2595853 (Final Order entered December 7, 2017). PAWC did not include costs associated with the replacement of customer-owned service pipes in its rate-case projections.

On January 20, 2017, PAWC filed a Petition seeking approval of its Water Long-Term Infrastructure Improvement Plan (LTIP). On May 18, 2017, the Commission held PAWC's LTIP to be compliant with Act 11 and the Commission's Final Implementation Order and approved an infrastructure replacement schedule. *Petition of Pennsylvania American Water Company for Approval of their Long-Term Infrastructure Improvement Plan*, P-2017-2585707 (Opinion and Order entered May 18, 2017). This plan prioritized removal of an estimated 18,000 company-owned lead service lines over the next 10 years in combination with the ongoing main replacement program. *Id.* at 9. PAWC noted that if it discovered a customer-owned

lead service pipe during main or service line replacement, it would also replace the customer-owned pipe.

PAWC's instant Petition is prompted by recent events in Flint, Michigan and heightened customer concern about lead levels in water. PAWC St. No. 1, p. 5. The Company claims it ceased installing lead Service Lines by the 1950's; however, some remain in service that predate that change or were acquired from other water utilities. The Company is not currently in violation of federal or state regulatory standards established by the United States Environmental Protection Agency ("EPA") or the Pennsylvania Department of Environmental Protection ("DEP"), including the LCR. The Company has implemented a variety of proactive measures, including: 1) corrosion control treatment and research; 2) customer education; and 3) elimination of lead Service Lines. PAWC has not triggered the LCR action level requirements in any portion of its system, which is a testament to the effectiveness of the Company's corrosion control measures and management of its distribution system. PAWC St. No. 1, pp. 5-7.

The current LCR requires utilities, among other things, to test drinking water inside older homes for lead and take additional action if more than 10% of tap water samples exceed the lead concentration limit (i.e., 15 parts per billion),¹⁶ including replacement of utility-owned and customer-owned lead piping. Consequently, remaining in compliance with applicable drinking water regulations necessarily requires taking steps to address possible sources of lead contamination from customer-owned property. However, PAWC can only replace the segment it owns. If a customer is unable or unwilling to pay for replacing the portion of the service piping for which the customer is responsible, the Company cannot replace the customer's pipe and capitalize the cost of replacement. PAWC St. No. 1, p. 6.

PAWC claims its options are further limited by Rule 4.9 of Tariff No. 4, which does not authorize the Company to replace a customer's Service Pipe.¹⁷ Under Rules 2.15 and 2.16 of Tariff No. 5, the Service Line extends from the water main to the curb stop street service

¹⁶ See 40 C.F.R. § 141.80 *et seq.*; 25 Pa. Code § 109.1101 *et seq.*

¹⁷ Tariff No. 4 was in effect at the time PAWC filed the instant Petition; however, Tariff No. 4 was later replaced with Tariff No. 5, effective January 1, 2018.

connection and the Service Pipe extends from the curb stop to the customer's premises. Rule 4.9 of Tariff No. 5 provides, in relevant part, as follows:

4.9 Customer Responsibility for Service Pipe

The Customer shall have full responsibility for the installation, repair, replacement, and maintenance of all Service Pipes . . .

PAWC St. No. 2, pp. 3-4. Supplement No. 2 to Tariff Water-PA PUC No. 5 at 43, Rules 2.15 and 2.16, effective January 1, 2018.

The Company's proposed Supplement to Tariff No. 5, if approved, will revise the Company's Rules and Regulations to authorize PAWC to replace lead customer-owned service pipes at its sole cost, within the parameters of the Replacement Plan as agreed upon between PAWC and the Statutory Advocates in this proceeding, while leaving with the affected customers the ownership and responsibility to maintain, repair and replace the new Service Pipe after it is installed. *See* PAWC St. No. 2, pp. 4-5; PAWC Exhibit No. 1, Settlement.

Although it is noted that the Commission has not yet issued an Implementation Order or initiated a proposed rulemaking proceeding per Section 1311(b)(2)(vii), the proposed Settlement generally complies with the framework of Section 1311, and approval of the Settlement and accompanying Tariff Supplement prior to the promulgation of regulations is not in conflict with and represents a reasonable interpretation of Section 1311. In the event a regulation should become effective that is in conflict with the proposed tariff supplement, another supplement may be filed in the future. For example, if it is determined after a rulemaking procedure that a different warranty period other than a 2-year warranty on construction of LSPs should become a standard to the industry, then PAWC would be subject to that regulatory requirement. Further, each party reserves the right to review and challenge the Company's Replacement Plan in future proceedings.

In the interest of expediting a deployment of lead-free service lines to the public in PAWC's service territory during its own lead service line replacement schedule, and because the material terms in the Replacement Plan and the treatment of customer-owned service lines

for accounting purposes are in compliance with 66 Pa. C.S. § 1311, it is in the public's interest to approve the Settlement.

A. Nature of Replacement Plan and Tariff Revisions (Settlement ¶¶ 18-23)

Lead in drinking water presents health risks and the use of lead pipes has been prohibited by the EPA. Replacing a lead customer-owned service pipe at the same time as a lead Company-owned service line is replaced is in the public interest. The Company has access to determine the composition of the customer-owned line and will only realize an incremental cost to replace both lines. Replacing both parts of the service line at the same time makes economic sense and greatly simplifies the replacement process. There is a reduction in coordination requirements between customer and Company as well as an elimination of a costly financial burden to the customer.

The Joint Petitioners recognize lead in water service lines creates major safety and reliability concerns for customers. OCA St. 1 at 5-6. For example, lead exposure can cause a range of health effects including permanent cognitive impairment in infants and children. *Id.* Current protections against lead exposure such as corrosion control, however, may be insufficient. OCA St. 1 at 6. Additionally, while replacing the entire portion of the entire lead service line, including both the Company portion and the customer portion, is best practice within the water utility industry, replacing only a portion of the lead service line can create just as much lead exposure as it seeks to eliminate. OCA St. 1 at 10-11. By providing the Company with the ability to replace customer-owned LSPs, the Commission will limit partial lead service line replacements thereby protecting customers from significant lead exposure. *See* OCA St. 1 at 8 (detailing the problematic nature of partial lead service line replacements).

The Settlement also provides additional measures for continued development and improvement of the Company's Replacement Plan. By way of example, the Settlement provides that the Company will meet with the parties, if requested, to discuss the program and its implementation. Settlement ¶ 23. Furthermore, each party reserves the right to review and

challenge the Company's Replacement Plan in future proceedings. *Id.* The Settlement allows for continued discussions and forums for further refinement of the program, if necessary.

B. Implementation of Part 2 of the Replacement Plan (Settlement ¶¶ 24-30)

Replacement Plan - Part 2 addresses remaining customer-owned lead Service Pipes that the Company does not encounter during its ongoing main and service line replacement program. Petition at 8. For Part 2 replacements, PAWC will replace the customer-owned LSP at the customer's request if the Company verifies that the customer's service pipe is made of lead. Petition at 9. The Settlement contains numerous provisions detailing the parameters of Replacement Plan – Part 2, considering the logistical issues that may arise.

First, the Settlement indicates that customer requests for Part 2 replacements will be grouped by geographic location and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale by doing those replacements as a single project. Settlement ¶ 24. In other words, the Company seeks to minimize repeated contractor mobilization/demobilization costs by aggregating ten to twenty LSP replacements for a given week in a geographic region, with a similar amount planned for the following two weeks. PAWC St. 1-R at 7-8. PAWC will segment its service territory into at least five geographic regions. Settlement ¶ 24.

The parties indicated in the underlying proceeding that the Company's proposal could lead to extended wait times for Part 2 replacements, which would be imprudent considering those customers have lead service lines. I&E St. 1 at 4. To that end, the Settlement provides several provisions that protects the interest of customers. First, the Settlement states that PAWC will strive to undertake Part 2 replacements less than one year after the Company has had an opportunity to evaluate the customer requests and address any program start-up issues. Settlement ¶ 25. Second, the Settlement provides that once a Part 2 replacement request is placed, the Company will test lead levels in the water at the customer's tap within four weeks and will notify the customer within three days of receiving test results. Settlement ¶ 26. Lastly, for low-income customers, the Company will provide a 10-cup filtered water container provided

that the customer is at or below 150 percent of the Federal Poverty Income Guidelines and has a lead level at the tap that exceeds the lead action level established by the Lead and Copper Rule. Settlement ¶ 27. These above provisions provide numerous conditions and parameters for the Company as it undertakes Replacement Plan – Part 2. These additional conditions serve to protect customers during the time the Company requires to reach economies of scale for Part 2 replacements.

Under the Settlement, customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale by doing those replacements as a single project, as described in the Rebuttal Testimony of David R. Kaufman (PAWC St. No. 1-R, pp. 7-8). With full implementation of Part 2, PAWC anticipates segmenting its service territory into at least five geographic regions. Joint Petition, ¶ 24.

Under the Settlement, PAWC will strive to maintain the wait-time following a customer request under Part 2 to less than one year after the Company has the opportunity to evaluate the level of customer requests and address any program start-up issues. The Company will verify whether the property for which a Part 2 replacement was requested has an LSP, and if so, will test water from the tap of the dwelling within four weeks after receiving such a request from the customer or property owner, as applicable. The Company will also provide water filters to low-income residential customers who satisfy the criteria in Paragraph No. 27 of the Joint Petition.

The OSBA generally supported PAWC's Replacement Plan-Part 1, whereby PAWC plans to replace customer-owned lead service lines encountered in connection with scheduled main replacement projects ("Part 1"). The OSBA agreed that Part 1 projects should have priority due to the relatively greater risk of raising lead levels for affected customers when replacing mains. OSBA's concerns remained with the Company's proposal to recover potentially excessive costs from ratepayers in connection with Replacement Plan-Part 2 ("Part 2").

C. Warranty (Settlement ¶ 31)

Under the Settlement, PAWC commits to a two-year limited workmanship warranty to the customer on the newly installed customer-owned Service Pipe. Settlement ¶ 31. In the underlying proceeding, the OCA recommended that the Company provide a five-year warranty to each customer that had an LSP replaced by the Company. OCA St. 1 at 23. A five-year warranty would give the customer assurance that the work was performed properly. *Id.* In response, the Company was willing to provide a one-year limited warranty on workmanship and materials. PAWC St. 1-R at 11. The OCA, however, noted that a one-year warranty was not reasonable, given that faulty replacements may only be affected by extreme occurrences in weather, which might take a few years to occur. OCA St. 1-SR at 2-3. In my initial Recommended Decision, I agreed with the Company and adopted a one-year limited warranty. R.D. at 26.

The Joint Petitioners have compromised and the Settlement provides for a two-year limited warranty on workmanship and materials. While this is not the five-year period that the OCA initially requested, two years should be sufficient to expose the replacements to extreme weather conditions and/or substantial usage, which would allow the customer to assess whether the work was performed properly. Act 120 does not prescribe the length of the warranty that water utilities or their contractors must provide to replace customer-owned LSPs concurrent with a scheduled main replacement project or under a Commission-approved program. As the Joint Petitioners have agreed to a two-year warranty, I recommend the Commission adopt this as it appears to comply with the plain meaning of Act 120 and is appropriate because such commitment is consistent with other routine utility work performed by its contractors and addresses the OCA's concern about the length of the warranty.

D. Reimbursement Program (Settlement ¶ 32)

The Settlement also requires the Company to provide reimbursements for customers that have replaced their LSP at their own expense. Settlement ¶ 32. Specifically, the Settlement states that the customer must have replaced their LSP within one-year of the date

PAWC begins physical main replacement work in the project area that includes the customer's site or when PAWC deploys a contractor crew to the geographic area of a Part 2 project, whichever is sooner. *Id.*

This provision is in response to the OCA's recommendation in the underlying proceeding. The OCA initially recommended that the Company provide reimbursements to customers that have replaced their LSP within four years of the effective date of the Company's Replacement Plan. OCA St. 1 at 23. Further, the customer would be reimbursed a percentage of the costs to replace the LSP depending on how recently the customer-owned LSP was replaced. OCA St. 1 at 24. The OCA advocated for the reimbursement program because failure to provide reimbursements would lead to equity concerns, considering that these customers had replaced their own LSP at their expense, but would now be expected to pay the costs to replace other customer-owned LSPs. OCA St. 1-SR at 3-4. As a result, the Recommended Decision adopted the OCA's proposal on the basis that failure to reimburse these customers would result in undue discrimination for the reasons previously stated. R.D. at 27-28.

While this decision was pending before the Commission, the General Assembly passed Act 120 of 2018, which addresses reimbursement of customers who replaced their LSPs. This provision requires that the Commission shall, by regulation or order, establish a process to:

Provide for a reimbursement to a customer who has replaced the customer's lead water service line or customer-owned damaged wastewater lateral within one year of commencement of a project in accordance with a commission-approved tariff.

66 Pa.C.S. § 1311(b)(vii)(B). This amended statute provides a statutory period of a one-year reimbursement program for customers that previously replaced their LSP at their own expense.

Accordingly, while the Settlement does not adopt the OCA's initial position in this matter, the reimbursement program complies with the express and unambiguous language of Section 1311(b)(vii)(B) and the general framework of Act 120. These reimbursements partially

address the OCA's equity concerns and provides a meaningful approach to ensure that more customers with LSPs can benefit from this program.

E. Customer Outreach and Communications Plan (Settlement ¶¶ 33-34)

The Settlement provides that the Company will perform customer outreach and implement a communication plan to notify potentially affected customers through various means, including direct mailings, bill inserts, information on the Company's website, and an educational video. Settlement ¶ 33. Additionally, the Company has agreed to share its communications with the statutory advocates and work with them to develop certain communications sent to customers. Settlement ¶ 34. These provisions allow for a collaborative effort between the parties to ensure that affected customers receive accurate, timely, and detailed information concerning the Replacement Plan.

In his testimony in this proceeding, PAWC witness Kaufman explained that the Company's current public education efforts regarding lead service lines are consistent with the National Drinking Water Advisory Council's recommendations. He also described PAWC's communications plan for the Replacement Plan, which will include direct mailings to notify potentially affected customers of the Replacement Plan, press releases, bill inserts, information on the Company's website regarding the health effects of lead, and a lead information pamphlet to be distributed to all customers. PAWC St. Nos. 1, p. 14 & 1-R, p. 12.

Under the Settlement, PAWC will share its communications materials to be used in its customer outreach plan with the statutory parties and will work with them to implement the PAWC-specific elements of that plan. Joint Petition, ¶ 23. This commitment ensures that the Company will collaborate with the statutory advocates to develop a robust outreach and communications plan as recommended by the OCA.

The Settlement also addresses the OSBA's concern about Part 2 LSP replacement costs. Under the Settlement the Company committed to provide to the Joint Petitioners an annual report on the number of customer-owned LSPs replaced, and the cost of replacements,

broken down by customer rate class. Joint Petition, ¶ 41. Based on those reports, the issue of whether costs of specific investments in LSP replacements are reasonable and prudently incurred can be reviewed and addressed in base rate cases or DSIC filings when actual LSP replacement costs are claimed for recovery. In addition, the information provided by the Company in the annual reports will enable the Commission and interested parties to assess the operation of the Replacement Plan on an ongoing basis.

F. Cost Recovery (Settlement ¶¶ 35-40)

The Settlement provides that the Company will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary allotment of approximately \$6 million per year. Settlement ¶ 35. This provision is consistent with Act 120, which requires that any lead service line replacement program have an annual cap. *See* 66 Pa. C.S. § 1311(b)(vi). Additionally, PAWC has provided evidence demonstrating that there are approximately 18,000 company-owned lead service lines, indicating that there could likely be a similar amount of customer-owned LSPs in the Company's water system. PAWC St. 1 at 10-11. Accordingly, a replacement cap of 1,800 customer-owned LSPs and an annual budget of approximately \$6 million will allow the Company to replace a significant majority, if not all, customer-owned LSPs over a period of 10 years.

The Settlement also states that replacements under Replacement Plan – Part I will have priority on the use of the annual budgetary allotment. Settlement ¶ 36. This is critical as it ensures that as the Company performs its ongoing main and service line replacement program, the Company will have enough funds to replace the customer-portion of a lead service line if it encounters one. If funds were not available the Company would have to seek additional waivers for more funds, require the customer to pay for the replacement creating equity concerns, or undergo a partial lead service line replacement, which can cause a spike in lead levels at the tap.

Lastly, the Settlement provides that any excess budgetary allotment that is not used in a given year will roll over to the subsequent year. Settlement ¶ 36. Any rollover funds not used in the subsequent year, however, will not carry over into the following year. *Id.* That is,

excess budgetary allotments will not carry forward on an indefinite, cumulative basis. *Id.* This provision prevents the Company from making a significant amount of expenditures in a single year, but rather promotes consistent and gradual replacement of customer-owned LSPs.

The annual cap and budgetary allotment under the Settlement will mitigate the impact of the Replacement Plan on customer rates. PAWC originally proposed to set a budget cap of \$6.0 million per year on the amounts expended to replace LSPs in order to mitigate the impact of the Replacement Plan on customer rates. The Company also proposed the following priority of expenditures within the budgetary allotment: (a) LSP replacements under Replacement Plan – Part 1 will have priority on the use of the \$6.0 million annual budgetary allotment as they address conditions that pose relatively greater risks of raising lead levels for the affected customers; (b) if the Company does not expend the entire budgetary allotment for any given year under the Replacement Plan, the excess budgetary allotment will carry forward to the subsequent year; and (c) if the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carry forward on a cumulative basis. PAWC St. No. 1, pp. 14-15 & 1-R, p. 17. No party objected to PAWC’s proposed budgetary allotment, but the OCA asserted that the Company should offer a sliding scale of reimbursement to customers who recently replaced LSPs at their own cost. OCA St. Nos. 1, pp. 23-24 & 1-SR, pp. 3-4.

Act 120 provides that a Commission-approved lead service line replacement plan shall be subject to an annual cap on replacements. 66 Pa.C.S. § 1311(b)(2)(v). Under the Settlement, PAWC will perform a maximum of 1,800 LSP replacements per year within a maximum budgetary amount of approximately \$6 million per year with the same priority of expenditures originally proposed by the Company. Joint Petition, ¶¶ 35-36. This is compliant with Act 120.

In addition, to address the OCA’s concerns and consistent with Act 120, the Settlement provides reimbursement to customers who replaced LSPs at their own cost within one year of commencement of a project under the Replacement Plan. Specifically, subject to the eligibility and verification requirements outlined in Paragraph 32 of the Joint Petition, the

Company will reimburse the customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized service in the project area.

The following Settlement provisions set forth the recovery of costs the Company incurs to replace customer-owned LSPs. Specifically, the Settlement, in accordance with Act 120, allows the Company to capitalize the replacement costs. The Company has agreed to record those costs in a sub-account of the Company's Account 333 – Services (this account generally tracks the costs associated with installation of services pipes and accessories leading to the customer's premises). Settlement ¶ 37-38. The Settlement, in accordance with Act 120, also allows the Company to include the actual costs of replacing customer-owned LSPs in the Company's rate base in a subsequent base rate proceeding, thereby allowing the Company to earn a return of and on those costs. Settlement ¶ 39. Additionally, pursuant to the Settlement, the Company will be allowed to recover the fixed costs of those replacements placed in service between base rate cases through the Company's existing DSIC. *Id.*

Cost recovery was a contentious issue in the underlying proceeding. The Settlement outlined above reflects the initial proposal of PAWC. The OCA and I&E, however, argued that it would be inappropriate for the Company to earn a return on the costs associated with customer-owned property not for public use. OCA St. 1 at 16-17; *see also* I&E St. 1 at 7-8. Rather, the OCA and I&E recommended that the Company establish a regulatory asset to record the costs incurred and amortize those costs over a reasonable period to be determined in the Company's next base rate proceeding. OCA St. 1 at 21-22; *see also* I&E St. 2 at 2-4. The Recommended Decision recommended adopting the recommendation of the OCA and I&E. R.D. at 21.

Subsequently, Act 120 of 2018 was signed into law, which states that “[t]he value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for the replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral,” that is replaced pursuant to a Commission-approved program. 66 Pa. C.S. § 1311(b). Furthermore, Act 120 states that “[t]he

original cost of the replacement water service line or wastewater lateral shall be deemed other related capitalized costs that are part of the public utility's distribution system.” *Id.* In other words, pursuant to Section 1351 of the Public Utility Code, such costs would be eligible for recovery under the Company’s existing DSIC. *See* 66 Pa. C.S. §§ 1351, 1357(a).

Notwithstanding the problematic nature of earning a return on customer-owned property, the OCA understands that the Commission and regulated utilities are bound by statutory law. *See* 66 Pa. C.S. § 501. Considering that Section 1311 of the Public Utility Code, as amended, allows for utilities to include in rate base, and in the DSIC between rate cases, the actual costs to replace customer-owned LSPs, the Settlement reflects that newly-enacted amendment to the Public Utility Code. 66 Pa. C.S. § 1311(b). The OCA would, however, continue to encourage utilities to minimize costs and the impacts to ratepayers in undertaking plans to remove lead service lines from water systems.

The Settlement provides that the costs to replace customer-owned LSPs shall be recovered from water customers. Settlement ¶ 40. This is a reasonable allocation of the costs as all water customers, regardless of rate class, will be able to benefit from this program.

In its 2017 Petition, PAWC proposed to capitalize LSP replacement costs up to the annual budget cap of \$6.0 million and include such investment in the Company’s rate base in a subsequent base rate case or the Company’s existing DSIC for property placed in service between base rate cases. As demonstrated in the direct testimony of PAWC’s Director of Rates and Regulations, John R. Cox, under the Company’s proposed accounting and ratemaking treatment, the LSP Replacement costs would have a negligible effect on customers’ bills for water service (i.e., an annual increment of less than 10 cents per month). PAWC St. No. 2, pp. 10-11; PAWC Exhibit No. 2. The Company’s testimony also explained that such proposed accounting and ratemaking treatment is appropriate because PAWC’s investment in replacing customer-owned LSPs provides a multi-year assurance that it can continue to comply with important drinking water standards, including the LCR. PAWC St. Nos. 2, pp. 7-8 & 1-R, pp. 14-15.

Despite emphasizing that proactive investments in customer-owned LSPs are needed to protect the public health, I&E and the OCA both opposed the Company's cost recovery proposal, asserting that any LSP replacement costs incurred by PAWC should be deferred through a regulatory asset and amortized without a return or carrying charge. I&E St. No. 1, pp. 7-8; OCA St. No. 1, pp. 18-20. The ALJ recommended that the Commission approve the cost recovery proposals offered by I&E and the OCA. R.D., pp. 21-25, 37.

Accordingly, the Settlement adopts PAWC's original proposed accounting and ratemaking treatment for LSP replacement costs and provides that PAWC will record LSP replacement costs in a separate subaccount in Account 333 - Services. Joint Petition, ¶¶ 37-39. In addition, consistent with Act 120, under the Settlement, the Company will allocate LSP replacement costs to all water customers. Joint Petition, ¶ 40.

G. Reporting (Settlement ¶ 41)

The Settlement provides that the Company shall provide to the statutory advocates an annual report on the number of customer-owned LSPs replaced and the costs of those replacements, separated by rate class and geographic region. Settlement ¶ 41. This provision is helpful for the parties to continue to monitor the program and ensure that it is operating effectively and efficiently.

CONCLUSION

For all of the reasons stated above, I find that the proposed Settlement filed on July 17, 2019, is in compliance with Section 1311, 66 Pa. C.S. § 1311. The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. Specifically, the Joint Petition for Settlement continues the annual program budgeted allotment of \$6.0 million per year. Further, the Company will track customer-owned LSP replacement costs, report those costs as part of its quarterly DSIC filings, and also provide to the OSBA, the OCA and I&E an annual report on the number of customer-owned LSPs replaced, and the cost of those replacements broken down by customer rate class, as well as geographic location. The

instant proposed settlement satisfies the “public interest” standard by a preponderance of evidence and benefits that show a likelihood or probability of public benefits that need not be quantified or guaranteed.

I recommend PAWC be required to report costs as not only part of its quarterly DSIC filings but also as part of the Company’s Annual Asset Optimization Plan filing, disaggregated by unit costs per service line for easier Commission review. Additionally, the Tariff Supplement should be effective upon three days’ instead of one day’s notice, to allow the Commission’s Bureau of Technical Utilities Services an opportunity to review the Tariff Supplement prior to its effective date.

Pennsylvania American Water Company’s customers will likely benefit from the Replacement Plan, as enhanced by the Settlement, as the risk of lead exposure at the customer’s tap from Service Pipes will be reduced through implementation of the Replacement Plan consistent with Act 120. Moreover, the Settlement terms resolved the issues and concerns of Statutory Advocates that were raised by the testimony in this case without the need for additional costly litigation. The annual reporting requirements, coupled with the retention of PAWC’s proposed maximum budgetary cap of \$6.0 million per year, should help mitigate against the Company incurring excessive costs in connection with its Part 2 replacement plan in any given year. The capitalization of the replacement costs to be recorded in a subaccount under Account 333-Services, will enable I&E to determine which portion of Account 333-Services is related to lead service line replacement for easier review. I&E avers the settlement groups customers into geographical locations for project specifications. This will be more cost-effective and may lower a customer’s wait-time for line replacement.

The terms and conditions of the proposed Settlement, taken as a whole, represent a fair and reasonable resolution of the issues raised by OCA, I&E, and OSBA in this matter. Therefore, I recommend the Petition as modified by the Joint Settlement Petition be approved by the Commission, with the additional reporting requirement discussed above, as being in the public interest. I further recommend that the Commission grant PAWC leave to file its proposed

Tariff Supplement in Exhibit 1 attached to the Joint Settlement Petition effective in three days' notice from the filing.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa. C.S. § 1301 *et seq.*

2. The benchmark for determining the acceptability of a settlement is whether the proposed terms and conditions are in the public interest. *Warner v. GTE North, Inc.*, Docket No. C-00902815 (Opinion and Order entered April 1, 1996); *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767 (1991).

3. An approved tariff is legally binding on both the utility and its customers. *Brockway Glass Company v. Public Utility Commission*, 437 A.2d 1067, 1070 (Pa.Cmwlt. 1981).

4. Value of the property of a public utility providing water or wastewater service shall include the original cost incurred by the public utility for the replacement of a customer-owned lead water service line or a customer-owned damaged wastewater lateral that is replaced pursuant to a Commission-approved program. 66 Pa. C.S. § 1311(b).

5. The replacement costs of PAWC's water service line may be recorded in Account No. 333 – Services (Services Account) because they are “eligible property” for water utilities under Section 1351, a recoverable cost under a Distribution System Improvement Charge (DSIC). 66 Pa. C.S. §§ 1351, 1553 and 1557.

6. Ownership of replaced pipes should transfer to the customer-owner with a two-year warranty and only those customers who have already replaced their lead service pipes within the past year should be compensated. 66 Pa.C.S. § 1311(b)(vii)(B).

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Petition of Pennsylvania-American Water Company filed on May 22, 2017 at P-2017-2606100 as modified by a Joint Petition for Settlement on Remand filed on July 17, 2019, be granted consistent with the body of this Recommended Decision on Remand and the Ordering Paragraphs below.
2. That approval of the Joint Settlement on Remand's Replacement Plan as set forth in the Joint Petition for Settlement on Remand be granted.
3. That Pennsylvania-American Water Company be given leave to file a Tariff Supplement 4.9.1.1 – 4.9.1.5, revising Tariff Water – PA P.U.C. No 5 as attached to the Joint Settlement on Remand as Exhibit 1, (the pages to be identified as Original 47.1 and Original 47.2, respectively) incorporating the terms of the settlement and changes to its rates, rules, and regulations as set forth in Exhibit 1 of the Joint Petition for Settlement on Remand, to become effective on three (3) days' notice from the date of the tariff filing.
4. That Pennsylvania-American Water Company be directed to provide the statutory advocates to this proceeding and the Commission reports on the number of Company-owned and customer-owned service pipes replaced regarding Parts 1 and 2, and the total annual cost and average unit cost of replacements, disaggregated by customer rate category (*i.e.*, residential, commercial, industrial) and, secondarily, geographic location. Quarterly DSIC filings shall contain this information and the Company's Annual Asset Optimization Plan filing shall contain this information, disaggregated by unit costs per service line.

5. That Pennsylvania-American Water Company be directed to collaborate with the statutory advocates to improve its customer outreach efforts to advise customers to check their services for the possibility of lead. The customer outreach efforts will be an ongoing effort over the next ten years.

6. That Pennsylvania-American Water Company be directed to report on its outreach efforts and results annually as part of its Annual Asset Optimization Plan filing.

7. That the Bureau of Technical Utility Services be directed to monitor Pennsylvania-American Water Company's annual reporting in conjunction with the Commission's final Order.

8. That Docket No. P-2017-2606100 be marked closed.

Date: August 7, 2019

/s/
Elizabeth H. Barnes
Administrative Law Judge

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of Act 120 of 2018 : Docket No. M-2019-3013286

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the following Responses upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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Dated: November 21, 2019

Susan Simms Marsh

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