

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

May 6, 2016

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: Joint Application of Pennsylvania-American Water Company and the Sewer Authority of the City of Scranton for Approval of (1) the transfer, by sale, of substantially all of the Sewer Authority of the City of Scranton's Sewer System and Sewage Treatment Works assets, properties and rights related to its wastewater collection and treatment system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Scranton and the Borough of Dunmore, Lackawanna County, Pennsylvania.
Docket No. A-2016-2537209

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Erin L. Gannon

Erin L. Gannon

Senior Assistant Consumer Advocate

PA Attorney I.D. # 83487

E-Mail: EGannon@paoca.org

Enclosures

cc: Honorable David A. Salapa, ALJ
Honorable Steven K. Haas, ALJ

Certificate of Service
220734

CERTIFICATE OF SERVICE

Joint Application of Pennsylvania-American :
Water Company and the Sewer Authority :
of the City of Scranton for Approval of :
(1) the transfer, by sale, of substantially all :
of the Sewer Authority of the City of Scranton's :
Sewer System and Sewage Treatment Works : Docket No. A-2016-2537209
assets, properties and rights related to its :
wastewater collection and treatment system to :
Pennsylvania-American Water Company, and :
(2) the rights of Pennsylvania-American Water :
Company to begin to offer or furnish wastewater :
service to the public in the City of Scranton and :
the Borough of Dunmore, Lackawanna County, :
Pennsylvania.

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 6th day of May 2016.

SERVICE BY E-MAIL AND INTER-OFFICE MAIL

Allison C. Kaster, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL AND FIRST CLASS MAIL, POSTAGE PREPAID

Sharon Webb, Esquire
Office of Small Business Advocate
Suite 202, Commerce Building
300 N. Second Street
Harrisburg, PA 17101

Alan Michael Seltzer, Esq.
John F. Povilaitis
Buchanan Ingersoll &Rooney PC
409 North Second Street, Suite 500
Harrisburg, PA 17101

David P. Zambito, Esq.
D. Troy Sellars
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101

Susan Simms Marsh, Esquire
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, Pennsylvania 17033

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Jeffrey J. Belardi, Esquire
The Sewer Authority of the
City of Scranton
410 Spruce Street, 4th Floor
Scranton, PA 18503

Paul J. Walker, Esquire
The Sewer Authority of the
City of Scranton
205 North Washington Ave. #1
Scranton, PA 18503

/s/ Erin L. Gannon

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50026
E-Mail: CHoover@paoca.org

Counsel for Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

220737

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Pennsylvania-American :
Water Company and the Sewer Authority of : Docket No. A-2016-2537209
the City of Scranton :

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa.C.S. § 333 and the Prehearing Order issued by Administrative Law Judges David A. Salapa and Steven K. Haas on April 27, 2016, the Office of Consumer Advocate (OCA) provides the following:

I. INTRODUCTION

On March 30, 2016, Pennsylvania-American Water Company (PAWC) and the Sewer Authority of the City of Scranton (SSA or Authority) jointly filed an Application at the above-referenced docket to transfer substantially all of the SSA's sewer system and treatment works assets to PAWC. On April 5, 2016, the Office of Consumer Advocate (OCA) filed a protest. The Bureau of Investigation and Enforcement (I&E) filed a Notice of Intervention on April 8, 2016. On April 20, 2016, the parties received notice that a Prehearing Conference would be held on May 10, 2016. On April 27, 2016, the presiding Administrative Law Judges issued a Prehearing Order directing the parties to provide prehearing memoranda by May 6, 2016.

II. SERVICE ON THE OCA

The OCA will be represented in this proceeding by Senior Assistant Consumer Advocates Christine Maloni Hoover and Erin L. Gannon. Two copies of all documents should be served in the OCA as follows:

Christine Maloni Hoover	Telephone:	(717) 783-5048
Senior Assistant Consumer Advocate	Fax:	(717) 783-7152
Office of Consumer Advocate	Email:	CHoover@paoca.org
555 Walnut Street, Forum Place 5th Floor		
Harrisburg, PA 17101-1923		

The OCA requests that EGannon@paoca.org and VHironimus@paoca.org be included on the e-mail distribution list. The OCA will extend the same courtesy to any other parties requesting that additional persons be included on the e-mail distribution list.

III. DISCOVERY

The OCA has served three sets of discovery to date. In order to effectively investigate and adequately develop a record in this proceeding, the OCA requests a modification to the Commission's procedural rules on a going-forward basis, as set forth below. These modifications assume a procedural schedule with a Commission Order anticipated near the end of 2016. If a shorter schedule is adopted, shorter timeframes will be necessary:

(1) Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service. Discovery and discovery-related pleadings propounded after 12:00 noon on a Friday or after 12:00 noon on any business day immediately preceding a state holiday will be deemed served on the next business day for purposes of determining the due date of the responses and responsive pleadings.

(2) Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served to the ALJ

in writing within five (5) days of service of the interrogatories. Objections to interrogatories served on a Friday shall be communicated orally within four (4) calendar days, and unresolved objections shall be served to the ALJ in writing within six (6) days of service of the interrogatories.

(3) Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of the written objections.

(4) Answers to motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.

(5) Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.

(6) Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.

(7) Any discovery-related pleading such as objections, motions, or answers served on a Friday or the day before a holiday recognized by the Commission will be deemed to have been served on the following business day for purposes of tracking due dates.

IV. WITNESSES

The OCA intends to present the testimony of Scott J. Rubin (Financial, Ratemaking and Policy Issues) and Terry L. Fought, P.E. (Service and Technical Issues). Their contact information is as follows:

Scott J. Rubin
333 Oak Lane
Bloomsburg, PA 17815
E-mail: scott.j.rubin@gmail.com

Terry L. Fought, P.E.
780 Cardinal Drive
Harrisburg, PA 17111

TLFengr@comcast.net
(717) 580-4265

To the extent necessary, Mr. Rubin and Mr. Fought will present testimony regarding the impact of the proposed transaction on PAWC's existing customers and other financial, technical and ratemaking issues presented in this proceeding.

The OCA specifically reserves the right to call additional witnesses and to expand the issues addressed in testimony, as necessary. If the OCA determines that an additional witness is necessary for any portion of its case, it will notify all parties of record immediately.

V. ISSUES

The OCA is participating in this proceeding to ensure the interests of PAWC's existing customers are protected. Based upon a preliminary analysis of the Joint Application, the OCA has compiled a list of issues which it anticipates will be included in its investigation. It is anticipated that other issues may arise and may be pursued once the answers to the OCA's interrogatories have been received and analyzed.

The issues set forth below will be analyzed and presented as appropriate by the OCA with the assistance of its expert witnesses:

(1) Provision of Safe, Adequate and Reasonable Service at Just and Reasonable Rates: If the Application is approved, PAWC's will more than double its wastewater customer base. Further, the Authority is under an Environmental Protection Agency consent decree that requires significant upgrades to the wastewater system, which are projected to cost approximately \$140 million. The Asset Purchase Agreement also provides that PAWC will pay up to \$195 million for the Authority's assets.¹ More information is needed to show that PAWC can financially and technically comply with the consent decree while maintaining safe and

¹ The transferred assets exclude *inter alia* all storm water system assets. Exh. J, ¶¶5-6.

adequate service to all of its customers, at just and reasonable rates.

(2) Proposed Rates: PAWC has requested, as part of the application for a certificate of public convenience, approval to charge customers the base rates charged by the Authority at the time of closing, except that the bi-monthly customer charge for residential customers will be converted to a monthly charge. Based on the Authority's current rates, PAWC would charge \$19.50 plus \$0.50 per 100 gallons per month for metered residential customers and a \$21.53 per month flat rate for non-metered residential customers. Exh. K. PAWC's current residential wastewater Zone 1 rates are a \$7.50 per month customer charge and \$1.2880 per 100 gallon volumetric charge. An acquired Authority residential customer using 3,000 gallons per month would continue to pay \$34.50 per month once they become PAWC customers rather than \$46.14 that PAWC's Zone 1 customers would pay for the same usage. Further the Joint Applicants propose that the acquired customer rates would not increase before January 1, 2018 and, for ten years thereafter, would not increase by more than an average of 1.9% compound annual growth rate per year. The OCA submits that additional information is necessary to determine if the proposed rates and rate increase limitations are reasonable in light of the anticipated investment required to comply with the consent decree.

(3) Combined sewer/storm water system: SSA's system is a combined system. Accordingly, PAWC's proposal to acquire substantially all of the system raises issues regarding cost allocation and separation of operational responsibility between PAWC and the Authority.

(4) Conditions: Whether any conditions should be imposed upon the proposed transfer to ensure that PAWC's existing customers are treated in a fair and just manner in accord with Pennsylvania law and Commission rules and regulations.

The OCA reserves the right to raise additional issues as the case proceeds and further information is obtained from the Joint Applicants.

VI. PUBLIC INPUT HEARINGS

PAWC's existing wastewater customers are located outside of Scranton and across Pennsylvania in Adams, Beaver, Chester, Clarion, Monroe, Northumberland, Pike, Washington and York Counties. They have not received direct notice – and likely no newspaper notice – of the proposed transaction and the impact on those customers has not been determined. The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. However, if the OCA becomes aware of substantial consumer interest, the OCA will promptly notify the Administrative Law Judge and parties to request a public input hearing.

VII. SCHEDULE

The OCA has attached a proposed schedule.

VIII. SETTLEMENT

The OCA is willing to engage in settlement discussions with all parties.

Respectfully submitted,

/s/ Erin L. Gannon

Erin L. Gannon

Senior Assistant Consumer Advocate

PA Attorney I.D. #83487

E-Mail: EGannon@paoca.org

Christine Maloni Hoover

Senior Assistant Consumer Advocate

PA Attorney I.D. #50026

E-Mail: CHoover@paoca.org

Counsel for:

Tanya J. McCloskey

Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, Forum Place 5th Floor
Harrisburg PA 17101-1923
(717) 783-5048
(717) 783-7152 (fax)

DATED: May 6, 2016
220685

Joint Application of Pennsylvania-American Water Company and
the Sewer Authority of the City of Scranton

Proposed Schedule

J.A. Direct Testimony	May 13, 2016
Other Party Direct Testimony	June 24, 2016
Rebuttal Testimony	July 20, 2016
Surrebuttal Testimony	August 10, 2016
Hearing (with Oral Rejoinder)	August 17-18, 2016
Main Briefs	September 14, 2016
Reply Briefs	October 5, 2016