February 2, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Docket No. R-2016-2554150

Dear Secretary Chiavetta:

Attached please find for filing with the Pennsylvania Public Utility Commission the Exceptions of the City of DuBois – Bureau of Water to the Recommended Decision of Administrative Law Judge Mark A. Hoyer, issued January 13, 2017, in the above-referenced proceeding. As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Thank you.

Sincerely,

McNEES WALLACE & NURICK LLC

By Adeolu A. Bakare

Counsel to the City of DuBois – Bureau of Water

Enclosure

c: Deputy Chief Administrative Law Judge Mark A. Hoyer (via E-Mail and First-Class Mail)
Office of Special Assistants (ra-OSA@pa.gov)
Certificate of Service
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon
the participants listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating
to service by a participant).

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Dated this 2nd day of February, 2017, at Harrisburg, Pennsylvania.
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION


EXCEPTIONS OF THE CITY OF DUBOIS – BUREAU OF WATER

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Dated: February 2, 2017
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I. INTRODUCTION


On July 14, 2016, the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") filed Complaints in this proceeding. A formal Complaint was also filed by Sandy Township on July 20, 2016. The Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance on July 15, 2016.

On August 11, 2016, the Commission suspended Supplement No. 22 for investigation. The filing was referred to the Office of Administrative Law Judge ("OALJ") for Alternative Dispute Resolution or hearings before Deputy Chief Administrative Law Judge ("ALJ") Mark A. Hoyer. A Prehearing Conference was held on September 9, 2016, before ALJ Hoyer, at which time the ALJ approved a procedural schedule establishing deadlines for testimony, hearings, and briefs.

An evidentiary hearing was held in this proceeding on November 10, 2016, for purposes of presenting oral rejoinder, admitting pre-served written testimony to the record, and performing cross-examination.² Subsequently, the parties proceeded to file Main Briefs and Reply Briefs pursuant to the litigation schedule.

¹ The City later reduced its requested revenue increase to $229,551.
² Upon request from the parties, the ALJ cancelled the November 9, 2016, evidentiary hearing.
On January 13, 2017, ALJ Hoyer issued a Recommended Decision ("R.D."), which incorporated various adjustments to the City's rate base, expenses, and rate of return claims, yielding a maximum revenue increase of $97,534, instead of the requested $229,551. R.D., p. 1.

Consistent with the PUC's Secretarial Letter dated January 13, 2017, the City hereby submits the following Exceptions to the R.D. for the Commission's review.

II. SUMMARY OF EXCEPTIONS

The City appreciates the efforts of ALJ Hoyer to review and preliminary adjudicate the various issues addressed in the City's evidentiary presentation and those of the additional intervenors in this proceeding. However, while well-reasoned in many respects, the R.D.'s overall recommendation to grant a revenue increase of $97,534 would deny the City sufficient revenues to ensure safe and adequate public utility service. By way of review, the City's three prior rate cases, inclusive of this proceeding, were filed in 2005, 2013, and 2016, respectively. After the 2005 rate case concluded, the City received unanticipated revenues from sales of water to shale gas companies, which allowed the City to operate without increasing rates for outside customers for an extended period of time. Because of these unexpected but temporary revenues, the City did not perceive a need to file for a base rate increase for approximately eight years. In 2013, the City filed a request to increase to its base rates, resulting in a 57% increase effective January 1, 2014. Because the City's rates remained flat between 2005 and 2013, it was understood that the City would need to file multiple base rate filings in order to gradually increase its rates to reflect cost of service. As such, this rate case represents a continuation of the City's efforts to move towards rates reflecting its true cost of service, as contemplated by the two-year stay out approved as part of the settlement of the Commission's prior rate case at Docket No. R-2013-2350509.

Within this context, the Commission should recognize that the City has made every effort to facilitate the regulatory process, including meeting the challenge of responding to over 300
discovery requests and participating in earnest settlement discussions with all parties to this proceeding. Unfortunately, the recommended revenue increase of $97,534 would frustrate the City's obligation to meet its public utility obligations, due in significant part to a rate of return of just 4.23%.

For the Commission's review, the City has prepared Exceptions to the R.D. addressing disputed rate base, expense, and rate of return findings. The City respectfully requests consideration of the arguments herein, with due appreciation for the history necessitating more frequent rate filings, efforts to address concerns raised by State Advocates, and the fact that no residential customers have intervened in the City's prior two rate cases.

III. EXCEPTIONS

A. Exception 1: The PUC Should Reject the R.D.'s Recommended Adjustments to the City's Claimed Rate Base Additions Because Such Adjustments Fail to Reflect Capital Improvements Made Prior to the Conclusion of the Future Test Year ("FTY") (R.D., pp. 8-17).

Adoption of the R.D.'s recommended adjustments to the City's rate base addition claim would be unreasonable in light of new evidence showing that the City spent $113,200.64 on improvements to its heating and air conditioning, phone system, and High Street mains during the time period between the evidentiary hearing and the conclusion of the FTY. These invoices are provided in Appendix A herein. As discussed below, the $113,200.64 investment in only three categories of rate base additions exceeds the total $98,206 of disputed rate base additions raised by OCA and rejected in the R.D. See R.D., p. 17.

Accordingly, the City requests that the Commission take judicial notice of the additional invoices pursuant to Section 5.408 of the Commission's Regulations. In light of the new evidence, the PUC should reject the R.D.'s recommended adjustments and impose alternative relief. The PUC should either reject the R.D.'s decision to exclude $98,206 in claimed rate base additions or
modify the R.D. to reflect the invoices supporting the claimed rate base additions for the heating and air conditioning, High Street main additions, and billing payroll and accounting Software expenses totaling $113,200.64. Alternatively, if the PUC declines to consider the additional invoices, the PUC should reverse the R.D.’s recommendation on the grounds that reasonably anticipated capital expenditures should be included in rate base where evidentiary hearings are held prior to conclusion of the test year.

As summarized in the R.D., the City budgeted $98,206 for the following categories of rate base additions: heating and air conditioning; High Street main additions; High Street fire hydrants; billing, payroll, and accounting software; and the phone system. R.D., p. 17. OCA recommended the PUC reduce the City’s rate base claim by $98,206 on the basis that the aforementioned additions would not be in service, nor used and useful, by December 31, 2016 (the end of the FTY). R.D., pp. 8-17.

Throughout this proceeding, the City dutifully updated its rate base claim to reflect additional developments throughout the FTY. Id. at 13. The City eliminated projects that would not be completed in the FTY from its rate base claim and informed parties that the remaining capital improvements included in the City’s rate filing will be placed in public service prior to the end of the FTY and, accordingly, were properly included as additions in the City’s rate base claim. Id. The City contended that it is unreasonable for OCA to recommend removal of any projects from the FTY when such projects do not require advance planning or significant lead time, leading to the expectation they would be completed by the end of the FTY. Id. at 15.

Despite the City’s arguments and evidence to the contrary, the R.D. agreed with OCA and recommended several downward adjustments to five components of the rate base: heating and air conditioning; High Street main additions; High Street fire hydrants; billing, payroll, and
accounting software; and the phone system. Id. at 16. The R.D. indicated the City could not prove the above-referenced expenses are "known and measurable" and therefore such expenses should not be included in the proposed rates. Id. This is an unreasonable finding considering the City had testified as to the anticipated completion of the projects prior to December 31, 2016.

As anticipated, the City incurred significant capital expense after the evidentiary hearing and before December 31, 2016. Between the close of the evidentiary record and the conclusion of the FTY, the City incurred $113,200.64 in expenses attributable to rate base additions ($35,437.20 on heating and air conditioning additions, $54,430 on High Street main additions, and $23,333.44 on phone system equipment). See Appendix A. Taking judicial notice of such evidence pursuant to Section 5.408 of the Commission's Regulations would ensure a clear and complete record of the City's rate base additions.

The City believes it is critical to acknowledge these expenditures in order to develop an appropriate rate base calculation. The City only budgeted $98,206 for heating and air conditioning; High Street main additions; High Street fire hydrants; billing, payroll, and accounting software; and the phone system. However, per Appendix A, the City actually incurred $113,200.64 in rate base expense just for heating and air conditioning, High Street main additions, and phone system expenses. Because the City's expenses for three rate base categories exceeded its budgeted expense for all five rate base categories, the PUC should approve the City's total rejected rate base additions in the R.D. or approve the City's actual expenses for heating and air conditioning, High Street mains, and phone service for which the City furnished invoices in Appendix A. Any other result would be unfair and unreasonable.

3 A portion of the heating and air conditioning costs were incurred shortly before the evidentiary hearing, but the City processed and paid the invoiced total from R.E. Michel Co LLC of $35,437.20 on November 30, 2016. See Appendix A.
B. Exception 2: The R.D. Erred in Recommending a Rate Base Deduction Because it Fails to Properly Consider the City's Testimony on Whether the Property May Become Used or Useful. (R.D., pp. 18-20).

The R.D. erred in recommending the PUC adopt OCA's proposal to deduct a vacant property from the City's rate base because it failed to give appropriate weight to the City's testimony that such property may or may not become used and useful in the future and rests solely upon speculation by the OCA. Until and unless City Council votes on what to do with the recently vacated property, it is premature to determine that such residence should be excluded from the City's rate base calculation.

The City included in its rate base a home which was previously used for the Water Treatment Plant ("WTP") Superintendent but is now vacant. R.D., p. 18. OCA alleged that because the home is vacant, it is "not used or useful for the provision of water service," and therefore it should be deducted from the rate base. Id. OCA was the only party to propose such a deduction. Id. The City responded that the home only recently became vacant due to the death of the City's WTP Superintendent, and that the property is being held for future use until the City can determine what the best use is for this property going forward. Id. The City argued that OCA's recommendation is premature and speculative. Nonetheless, the R.D. agreed with OCA and recommended that the PUC deduct the property from the City's rate base because the property is not currently used or useful for the provision of water service, nor is it clear when the property will become used and useful. Id. at 20.

The City respectfully disagrees with the R.D.'s recommendation for this vacant home. Although the City Manager recommended demolition of the house, the R.D. fails to mention his further testimony clarifying the property has only been recently vacated and City Council has not yet voted on what to do with the residence. City Main Brief, p. 25 citing Tr. at 40. Internal deliberations concerning the potential use of the property are not sufficient to conclude the property
is not used and useful. The facility has not been demolished, is available for use, and should remain in the City's rate base.

For the above reasons, the Commission should grant this Exception and approve the City's vacant home rate base claim of $11,116 net book value.

C. **Exception 3: The R.D.'s Recommendation Regarding Vacant Home Expenses Failed to Appropriately Reflect Evidence in the Record and Should Be Rejected. (R.D., p. 29)**

As described in Exception 2, the City owns property which was previously used for the WTP Superintendent but recently became vacant after his death. The City claimed $3,592 in expenses associated with the vacant home. Because the R.D. recommended that the PUC remove this property from the City's rate base due to a perceived lack of usefulness in the provision of water service, the R.D. suggested the PUC remove this expense from the City's claim. R.D., p. 29. The City hereby incorporates its response in Exception 2 herein and respectfully disagrees with this recommendation. It is premature to recommend eliminating this expense form the City's claim until the City Council votes on whether to demolish the property or put it to another use.

D. **Exception 4: The PUC Should Reject The R.D.'s Recommended Normalization Period for Rate Case Expense Because it Failed to Consider PUC Precedent and Unreasonably Furthers Under-Recovery of Rate Case Expense. (R.D., pp. 46-49).**

The PUC should reject the R.D.'s recommended normalization period of 5.33 years for rate case expense because the R.D. adopts an overly rigid and unreasonable interpretation of PUC precedent that would promote under-recovery of rate case expense for the City.

1. **PUC Precedent Recognizes that Normalization Periods Based Solely on Historical Filing Frequency May Not Be Appropriate in All Circumstances.**

Normalization of rate case expense over a reasonable period is appropriate because the expense is only incurred during the period of the actual rate case, but the benefits of the increased
rates last for more than one year. However, an unreasonably long normalization period, particularly for a smaller utility proposing a relatively modest rate increase, will jeopardize the utility's financial health by denying recovery of actually incurred rate case expense. City Main Brief, p. 21. Accordingly, the City averred that a 2.5-year normalization period would balance these concerns by acknowledging that rate case expense recovery can be spread over a period of years while allowing the City to recover rate case expense in a reasonable amount of time.

Despite the City's assertion, the R.D ignores the facts of this case and unreasonably adopts I&E's recommendation that rate case expense normalization periods should be based exclusively on historical filing frequency. R.D., p. 46. As a result, the R.D. recommended approval of I&E's 5.33-year normalization period based upon the fact that "[t]he Commission has consistently held that rate case expenses are normal operating expenses, and normalization should be based on the historical frequency of the City's rate filings." R.D., pp. 48-49.

The City respectfully disagrees with the R.D.'s recommended normalization period and recommends a 2.5-year normalization period is more appropriate. Excessively long normalization periods reflect overly inflexible application of the general rule favoring normalization of rate case expense. For example, the Commission has previously held that a two-year normalization period is acceptable when the interval periods between a utility's rate case filings showed a decreasing trend, even though the average interval supported a three-year normalization. Pa. Pub. Util. Comm'n. v. Lemont Water Co., 1994 Pa. P.U.C. LEXIS 44, *18-19 (1994). A similar result should follow in this case where undisputed factual evidence shows the past filing patterns will not be repeated.

As explained in the City's Main Brief, its past rate filings, inclusive of this case, occurred in 2005, 2013, and 2016. City Main Brief, p. 22. Simply averaging the interval periods between
those filings would produce a normalization period of five years. *Id.* at 22-23. However, a significant factor contributing to the City's avoidance of rate increases between 2005 and 2013 was the availability of unanticipated revenues from sales of water to shale gas companies occurring during that period. *Id.* at 23. Importantly, all parties have conceded that such sales are not expected to recur. See City Main Brief, p. 25. Therefore, the Commission should consider the extended stay-out from 2005 to 2013 as an anomaly and adjust the recommended rate case normalization period accordingly.

2. **Past Experience Illustrates the Injustice Resulting from Excessive Normalization Periods for Rate Case Expense.**

The actual history from the City's 2013 rate case further confirms why a 2.5-year normalization period is appropriate. As of October 2016, the City had only recovered 40% of its prior rate case expense stemming from the 2013 rate case. City Main Brief, p. 23. The City should not be forced to, once again, under-recover its rate case expense due to an unreasonably protracted rate case normalization period. Such a result would be flagrantly unfair and detrimental to the City's efforts to furnish safe and reliable public utility service to its jurisdictional customers.

3. **Conclusion.**

As stated above, the general policy of calculating a rate case normalization period based strictly on historical filing frequency should be adjusted when overly strict application of the policy would produce an unreasonable result. Accordingly, the Commission should reject the overly formulaic normalization period proposed by the R.D. and approve either the 2.5-year normalization period proposed by the City or an alternative, but significant, reduction to the 5.33 year normalization period, as may be deemed appropriate.4

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E. **Exception 5:** The PUC Should Reject the R.D.'s Proposed Allocation Factors For City Manager Salary and Administrative Benefits Expenses. (R.D., pp. 38-44).

1. **City Manager Salary**

The R.D.'s recommendation for the City Manager's salary presents a grossly understated allocation factor which fails to provide sufficient weight to the City Manager's testimony and other record evidence. Accordingly, the City encourages the PUC to reject the R.D.'s recommended allocation and approve the City's 60% allocation factor for the City Manager's non-finance related salary. In the alternative, the PUC should impose its own allocation factor that more reasonably accounts for the evidence proffered by the City throughout this rate proceeding.

The City Manager earns $124,076 per year, of which $14,868 is included in Finance Salaries. City Main Brief, p. 26. Out of that $14,868, 24% is allocated to the Water Fund. Out of the remaining $109,208 portion of the City Manager's salary, 60% is allocated to the Water Fund. *Id.* The City justified the 60% allocation as appropriate because (i) the City Manager testified to the accuracy of this allocation and (ii) for the balance of the City Manager's time not spent on finance-related tasks, it is logical to conclude that he would be working on the same projects reflected in the Public Works Director's timesheets (which allocate 60.7% of his time is spent on water-related matters). *Id.* at pp. 26-27. Despite the City's justifications, OCA and I&E both made speculative and unwarranted assumptions regarding allocation of the City Manager's salary. *Id.* at 27. Without giving proper weight to the City Manager's testimony, both parties relied upon the mere absence of timesheets to justify their proposed allocation factors of 24% and 25%, respectively. R.D., p. 38. The R.D. accepts the positions of OCA and I&E and recommends a 24% allocation factor for the City's Manager's total salary. *Id.* at 42.

The R.D.'s recommendation is an understated allocation which fails to provide sufficient weight to the City Manager's testimony, as the City Manager is best positioned to explain the actual
nature of his obligations. In support of its recommended allocation factors, the R.D. cites to numerous cases purporting to show the PUC does not favor testimonial evidence to support municipal allocations. See R.D., p. 41. As clarified in the City's Main Brief, these cases address situations where the PUC rejected salary allocations on the basis of insufficient evidence because witnesses testified as to the duties of other individuals. City Main Brief, pp. 25-30. Unlike those cases, here the City Manager testified as to how he spends his own time on a day-to-day basis. As a result, more weight should be given to the City Manager's testimony as to his job functions and daily responsibilities, which were provided under oath.

The R.D.'s recommendation also relies on the flawed association between a posted job description to the actual day-to-day duties attendant to the position. See R.D., p. 39. While the Commission has relied upon job descriptions to deny employee expense allocations in prior proceedings, the municipality in those cases did not present the individual employee for cross-examination as the City did in this case. When questioned regarding the scope of duties set forth in the job description versus the proposed 60% allocation of his non-finance related salary, Mr. Suplizio testified that he spends a disproportionately high amount of his time supervising water maintenance operations. See Tr. at 38-39. Therefore, where the subject employee testified in the case, the Commission should assign an allocation percentage consistent with the witness's actual experience rather than the projected tasks set forth in the job description.

Contrary to the findings in the R.D, the City Manager's duties with regard to the City's water operations have been shown to be sufficiently comprehensive to warrant the 60% allocation (excluding time spent on finance issues). The City Manager testified that the City's water operations absorb more of his time in comparison to other City operations. Although the Public Works Director oversees general water distribution system maintenance, the City Manager bears
direct responsibility for various aspects of water system operations, including (i) compliance and operational issues relating to the reservoir and watershed; (ii) managing connections for new construction; and (iii) approval and oversight of water shut-offs. City Main Brief, p. 28. Moreover, the City Manager has to remain on call in the event a water emergency arises, and if a water emergency occurs he must be on-site with construction teams to oversee repairs. Id. at 28. Furthermore, the City Manager must visit water treatment plants regularly, if not daily, to oversee activities. Id. In addition, the City Manager has spent the past year and a half working with legal counsel to prepare and conduct this base rate proceeding to establish new water rates for the City. Timesheets are just one factor to consider in allocating employee fund to the water fund; other evidence must be considered to fully and fairly develop an appropriate allocation factor.

Accordingly, the City encourages the PUC to reject the R.D.'s recommended allocation and impose the City's 60% allocation factor for the $109,208 non-finance portion of the City Manager's salary. At a minimum, the PUC should reject the R.D.'s unreasonable 24% allocation factor for the non-finance salary and apply a discretionary allocation factor in consideration of the testimonial evidence proffered by the City.5

2. Administrative Expense

I&E recommended adjusting the allocation of Health Insurance and Other Benefits for Administrative Employees based upon its recommended allocation of the City Manager's salary. R.D., p. 43. Because of its recommended reduction to the City Manager's allocation factor, I&E suggested reducing the City's overall 42.5% allocation for this expense to a composite allocation of 33.37%. The City disputed this recommendation because it rejected I&E's recommended 25% allocation of the City Manager's salary to the water fund. R.D., p. 43. The R.D. agreed with I&E

5 The Commission reserves discretion to impose alternative adjustments. Pittsburgh, 128 A.2d at 376-377.
that the allocation percentage of these other administrative expenses was too high, but because the R.D. accepted OCA’s proposed allocation factor for the City Manager’s salary (24%) and not I&E’s recommendation (25%), the R.D. recommended an allocation factor of 33.11% instead of 33.37%. R.D., p. 44.

As indicated earlier herein, the City disagrees with the R.D. Consistent with its recommendation to reject the R.D.’s proposed adjustment to the allocation of the City Manager’s salary, the City recommends that the PUC adopt the City’s proposed 42.5% allocation of Health Insurance and Other Benefits for Administrative Employees.


The City concurs with most of the R.D.’s recommendations with regards to its WTP Contractual Expense, but notes that the R.D.’s recommendation to normalize the $22,323 of "other expense" must be denied. As explained in the R.D., the City already consented to normalize $40,300 of its total originally claimed WTP Contractual Expense and remove $30,000 of inadvertently included non-recurring expenses. See R.D., p. 32. However, as set forth in the R.D., OCA proposed further adjustments to the City’s claim for recovery of $22,323 of "other expense" and proposed a three-year average would properly account for fluctuation of this expense. R.D., p. 34. The R.D. accepted OCA’s normalization adjustment and its position regarding normalization of other expenses, advocating for a downward adjustment of $13,985 ($4,194 jurisdictional) to the City’s total WTP Contractual Expense claim. Id. at 37.

As described above, the City dutifully adjusted its WTP Contractual Services expenses throughout the duration of this rate case. While consenting to normalize costs for Watershed

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6 Page 32 of the R.D. references normalization of $70,300 of the City’s 2015 WTP Contractual Expense, which appears to be a typographical error. See R.D., p. 32. The expense is accurately reflected in the table included on the same page. See id.
Inventory Management Plan and Herbicide Application, the City proposed to annualize its 2015 costs for "other expenses" based on higher 2015 costs and actual expenses through September 2016 showing the City is on pace to significantly exceed its 2015 expenses levels for 2016. City Main Brief, p. 20; See also R.D., p. 35. The City's adjustments to this account in the filing and during subsequent testimony, as well as the actual expense recorded in this account through September 30, 2016, demonstrate that the City's filed and adjusted expense is justified and should be accepted without modification. See id. The concerns regarding fluctuation of the expense raised in the R.D. are addressed by the City conservatively electing to annualize its 2015 costs rather than the 2016 other expenses, which would have increased the claim from $22,322 to $26,090. See City Statement No. 2-R, p. 11. Conversely, the normalization adjustment proposed by OCA and adopted by the R.D., would ignore clear trends showing ongoing cost increases.

In order to most accurately reflect the actual costs incurred by the City, the Commission should adopt the City's proposed annualization of its $22,323 historic test year ("HTY") costs for the "other expense" component of the WTP Contractual Expense claim. Accordingly, the R.D.'s recommendation to adopt OCA's normalization adjustment should be denied.


The City proposed to allocate expenses for City Building/Computer Parts/Supplies/Software as part of the City Buildings expense in the imputed Administrative Expense based on actual expense incurred in the HTY. City Main Brief, p. 29. In response, OCA countered the City's proposed adjustment with a recommendation to normalize the average expense in this account on the basis that the 2015 expense for this account was considerably higher compared to the 2013 and 2014 expense. R.D., p. 45. Despite the fact that the City confirmed the increased expense in this account in 2015 was due to payments to vendor "RAK Computer
Associates," and despite the fact that the City provided evidence these expenses would be ongoing as part of the City's information technology needs, OCA perceived that this expense was an anomaly and normalization is more appropriate. *Id.* at 29. The R.D. adopted OCA's position and recommended a jurisdictional adjustment to this expense in the amount of $1,313 and normalization of this expense as the 2015 expense is higher than a normal year of the expense. *Id.* at 45.

The City respectfully disagrees with this assessment. Schedule 5 for Account 409.316 Computer Parts/Supplies/Software (Exhibit_(CEH-4R)) demonstrates most of these expenses are for ongoing investments relating to the City's information technology needs. City Main Brief, p. 30. The City's analyses demonstrated that many of the expenses in that account will continue to be incurred in the future. Furthermore, as this expense has increased every year since 2013, OCA's proposal to normalize such costs is inappropriate.

To accurately reflect the City's increasing expenses over the past three years, the PUC should base its allowance for this account upon the increased expense level incurred in 2015. The R.D.'s recommendation to normalize expenses in contravention of observed trends would fail to reasonably reflect the City's ongoing costs. Accordingly, the R.D.'s recommendation for this expense should be rejected.

**H. Exception 8: The PUC Should Reject The R.D.'s Recommendation to Approve the I&E and OCA Proposed Capital Structures. (R.D., pp. 63-64).**

The R.D. inappropriately adopts the I&E and OCA recommendations to adopt a 70% debt/30% equity capital structure based on the financing of the City's rate base. In doing so, the R.D. unreasonably analogizes the City's circumstances to those observed in *City of Lancaster – Bureau of Water v. Pennsylvania Public Utility Commission*, Docket No. R-2010-2179103 (Order entered July 14, 2011) ("Lancaster 2010"). As discussed in the City's Reply Brief, the record in
this proceeding differs materially from *Lancaster 2010*, and the Commission should invoke its discretion to adopt the City's proposed 50% debt/50% equity hypothetical capital structure to balance the interests of the City and its ratepayers.

As set forth in the R.D., the Commission denied use of a hypothetical capital structure in *Lancaster 2010* out of a concern that use of a hypothetical capital structure would result in excessive costs to customers. *See* R.D., p. 60. The City submits such concerns are unwarranted in this case. In *Lancaster 2010*, the municipality sought to increase rates by 100%, which would have increased the jurisdictional revenue requirement by $8.6 million. *See* City Reply Brief, p. 36. To the contrary, the City proposed a comparatively minor 36% rate increase of $257,604, which it further reduced to $229,551 following adjustments through discovery and testimony. *See id. at* 37.

Therefore, use of a hypothetical capital structure in this proceeding would not present equivalent cost concerns as those raised in *Lancaster 2010*.

Additionally, the R.D. woefully fails to balance the interests of the utility and its customers. In *Lancaster 2010*, the Commission acknowledged its use of a capital structure differing from market norms to necessitate an appropriate upward adjustment to the cost of common equity. *See* *Lancaster 2010*, p. 73 (establishing that "a higher cost of equity is necessitated by our adoption of the City's actual capital structure"). Similarly, in a prior case, the Commission approved a hypothetical capital structure after confirming "it has long been the policy of the Commission to employ a hypothetical capital structure when the use of the actual capital structure would not provide an appropriate balance between shareholder (or in the case of a municipality, an asset holder) and consumer interests." *City of Lancaster Sewer*, 2005 Pa. P.U.C. LEXIS 44 (*Lancaster Sewer 2005*), *146. Specifically, the Commission indicated that use of an actual capital structure is appropriate where the utility benefits from extraordinarily low-debt due to Pennsylvania
Infrastructure Investment Authority ("PennVest") funding, which the City does not. See id. at *147; see also City Statement No. 4, Schedule 3 (showing the City has no PennVest debt).

As set forth above, approval of the R.D.'s recommendation results in a failure to reasonably balance the important interests in this case. The R.D.'s rejection of the City's proposed capital structure derives from an improper comparison of the City's rate proposal to vastly different situations in prior cases. The City has not proposed to increase rates by 100% and the City does not benefit from 1% PennVest debt. Accordingly, the Commission should set aside the R.D.'s capital structure recommendation, adopt the reasoning from Lancaster Sewer 2005, and approve the 50% debt/50% equity capital structure proposed by the City.


The R.D. recommends approval of I&E's proposed cost of equity due to a failure to appropriately address flaws outlined in the City's Main and Reply Briefs. Contrary to the ALJ's decision, I&E's Cost of Equity recommendation fails to reflect the City's cost of capital or provide a reasonable return on the City's public utility infrastructure. Perhaps most importantly, I&E's cost of equity calculation fails to include appropriate adjustments, particularly where the Commission has previously recognized cost of equity adjustments to be appropriate and even necessary when using an actual capital structure. Additionally, I&E's cost of equity recommendation incorporates a Discounted Cash Flow ("DCF") analysis with an improperly narrow growth rate. I&E further excessively reduces its proposed cost of equity by relying on an inflated and fundamentally flawed tax adjustment. For these reasons, I&E's proposed cost of equity should be rejected and the Commission should approve the cost of equity calculation proposed by the City.

The R.D. misrepresents Commission precedent as categorically rejecting cost of equity adjustments, which amounts to revisionist reading of prior Commission decisions. The R.D. cites to the Commission's decision in *Lancaster 2010* claiming the Commission rejected cost of equity adjustments as harmful to ratepayers. See R.D., p. 68. A contextual read of the relevant language clearly shows otherwise. There, the Commission stated "any adjustment to the results of the market based DCF as we have previously adopted are unnecessary and will harm ratepayers." See id. citing *Lancaster 2010*, p. 79 (Emphasis added). As clarified in the City's Reply Brief, the Commission referenced only the specific market-based DCF calculation from that proceeding, which resulted in a 10% cost of equity. See City Reply Brief, p. 41.

Importantly, the R.D. also fails to note that the Commission in *Lancaster 2010*, rejected further adjustments after it first modified the DCF recommended by I&E in that case. The Commission in *Lancaster 2010* addressed cost of equity adjustments as follows:

> Based upon our analysis and review of the record evidence, we adopt the ALJ's recommended adoption of the OTS methodology, but do not accept the ALJ recommendation that the cost of equity be set at 9.69%. Instead, and based upon our prior determination to utilize the City's actual capital structure to determine an appropriate cost structure, and informed judgment, we find it reasonable and appropriate to adjust the City's cost of equity upward to 10.00% in this proceeding. We note that a higher cost of equity is necessitated by our adoption of the City's actual capital structure, but it is important to note that our allowance of a 10.00% return on equity falls squarely within the range of the DCF results as calculated by the OTS (8.53 to 10.87%). We conclude that 10.00% is the appropriate cost of equity allowance in this proceeding and also find that, based on our other conclusions to be discussed supra, that this cost of equity should not be further adjusted.

*Lancaster 2010*, p. 73 (Emphasis added). So the Commission never determined equity adjustments to be categorically appropriate in *Lancaster 2010*. To the contrary, the Commission applied a
significant 0.31% adjustment to I&E's DCF results in that case and affirmed "a higher cost of equity be adopted to reflect our adoption of the City's actual capital structure." See id. at 76. Therefore, the R.D.'s dismissal of equity adjustments as disfavored should be rejected as contrary to Commission precedent.

2. The Risk and Leverage Adjustments Proposed by the City are Necessary and Consistent with Commission Precedent.

In addition to rejecting the general concept of equity adjustments, the R.D. unreasonably denied the specific equity adjustments proposed by the City. The R.D. denied approval of the City's proposed risk adjustment, size adjustment, and leverage adjustment. These findings should be rejected as unreasonable and completely divorced from prior Commission decisions. Additionally, the R.D. fails to reflect the City's clarification that the size analysis is a component of the risk adjustment, not a separate adjustment. Consistent with Commission precedent and the City's proposal, both the proposed risk adjustment and leverage adjustment should be approved.

a. The City's Proposed Risk Adjustment Should be Approved.

The R.D. adopts I&E's overly narrow and flawed analysis of the City's proposed 25 basis point risk adjustment. Specifically, the R.D. places undue reliance on logically deficient arguments from I&E and unreasonably dismisses the straightforward reality that smaller utilities generally operate at a higher risk than larger utilities. In support of the proposed risk adjustment, the City identified numerous risk factors differentiating its operations from the larger utilities in the Comparable Group, including size, debt service coverage, capita intensity, and numerous others. For these reasons, the Commission should deny the findings in the R.D. and adopt the City's proposed risk adjustment.
As recounted in the R.D., I&E conceded that size has been demonstrated to be a general risk factor for industrials, but bases its opposition to recognizing size as a risk-factor in this case entirely upon a single study questioning the necessity to adjust for firm size in utility rate regulation. See R.D., p. 69 citing Annie Wong, Utility Stocks and the Size Effect: an Empirical Analysis, Journal of Midwest Finance Association (1993). The R.D. then erroneously adopts I&E's claim that the City failed to rebut the Wong argument. To the contrary, the City provided a 2002 article by Dr. T.M. Zepp that directly counters the claims from Mr. Wong by referencing a utility-specific study showing the size effect impacts water utilities. See City Statement No. 4-R, p. 35 citing Zepp (2002), Utility stocks and the size effect: revisited, Economics and Finance Quarterly, 43, 578-582; see also City Reply Brief,

In attempting to justify the misconstrued finding, the R.D. quotes language directly from I&E's Main Brief stating as follows:

This referenced article, however, simply speculates on other possible reasons for the results and refers to two studies. The first study is not included and therefore unable to be evaluated. The second study utilized an unacceptably small sample size of two large water utilities being compared to two small water utilities. Such a study can hardly be argued as representative of the entirety of the market.

I&E Main Brief, p. 37, see also R.D., p. 69. I&E's criticism, as adopted by the R.D., cannot stand up to reason. With no explanation whatsoever, I&E avers that the Dr. Zepp engages in speculation. See id. However, I&E then acknowledges that Dr. Zepp relied on two studies, thereby completely invalidating the prior assertion that Dr. Zepp "simply speculates." See id.

I&E's attempt to invalidate the second study referenced by Dr. Zepp is equally flawed. I&E discards the referenced study on grounds that evaluation of four water utilities "can hardly be argued as representative of the entirety of the market." See id. However, I&E offers no substantive
statistical analysis to support its claim that a study of four utilities is insufficient for purposes of assessing the impact of size on risk.

Further, I&E's opinion on an ideal sample size does not change the fact that Ms. Wong’s findings have been questioned within the academic community. Therefore, the claim that the City failed to provide evidence refuting Ms. Wong's study is incorrect. Accordingly, the Commission should recognize the general correlation between risk and size as supportive of the proposed 25 basis point risk adjustment proposed by the City.

The R.D. also misrepresents the City’s discussion regarding the debt coverage factor of its risk analysis. The R.D. cites to I&E’s reliance on its calculated debt service coverage ratio of 1.56 for the City as a check on its overall rate of return. The R.D. then notes the City referenced debt service coverage ratios "up to 4.7" for "large publicly traded companies." See R.D., p. 73. Both the R.D. and the underlying I&E analysis miss the point. The City did not reference debt service coverage as a check on the overall reasonableness of its recommended rate of return, but as one of many indicators of the high risk experienced by the City in comparison to large utilities. Moreover, where the R.D. claims the City only cited debt service coverage ratios up to 4.7 for large investor-owned utilities, the City also referenced debt service coverage ratios for municipal authorities in Pennsylvania ranging from 5.4-5.7, which further outpaces the 0.4-2.8 range calculated by the City or the 1.56 ratio calculated by I&E. City Main Brief, p. 43. The City engaged in the comparison to further illustrate the point that, on a relative basis, the City’s operations are riskier than those of the Comparison Group.

With regard to the final specific risk factor addressed by the ALJ, the Commission should find the R.D. placed undue weight on the capital intensity risk factor. As clarified above, the City's proposed 25 basis point risk adjustment is based on the general principle that smaller utilities such
as the City operate at a higher risk than the larger utilities in the Comparison Group, and that a cost of equity calculation based on such a proxy group must be adjusted to appropriately reflect such risks. The R.D. included a lengthy discussion restating I&E’s criticism of the City’s capital intensity analysis, including the allegation that the City’s capital intensity ratio would be lower if recalculated to reflect depreciation. See R.D., pp. 69-70. Importantly, the referenced recalculation would reduce the City’s capital intensity ratio, but not to a point below that of the Comparable Group. See City Statement No. 4-R, p. 38. Further, the City’s proposed risk adjustment should be approved based not solely on the capital intensity analysis, but on the plethora of additional evidence confirming the City operates its water system at a higher risk than the Comparable Group.

To that end, the Commission should consider that the R.D. overlooks the full scope of record evidence supporting the proposed 25 basis point risk adjustment. The R.D. references only the City’s arguments with regard to the size factor, the capital intensity factor, and debt service coverage, as these represent the principal items substantively addressed by I&E. However, as discussed in the City’s Main Brief, the City identified a total of 30 risk factors, of which 19 favored a finding that the Bureau of Water’s water system is a higher risk operation in comparison to the Comparison Group. See City Main Brief, p. 43.

Finally, the R.D. also addresses the City’s discussion concerning investment risk, although this discussion was misconstrued as a separate adjustment. See R.D., p. 71. The City did not propose a separate investment risk adjustment but rather used the investment risk analysis to calculate the 25 basis point risk adjustment justified by the aforementioned factors. See City Statement No. 4, p. 60. Specifically, the City compared its implied BBB bond rating to the A bond rating of the Comparable Group and determined that the yield spread supports a minimum 25 basis
point risk adjustment. See id. at 30, 60; see also City Statement No. 4-R, p. 24 (calculating an implied BBB bond rating based on an analysis of bond ratings from similarly sized companies).

Contrary to the representations in the R.D., the risk adjustment proposed by the City is not a novel or unprecedented measure. Similar adjustments have been proposed by the state advocates in prior proceedings. See Lancaster 2010, p. 67 (describing a 25 basis point size adjustment proposed by the OCA). By relying on a proxy group composed of water utilities of a materially different size and scale than the City and calculating a cost of equity without correcting for risk differences, the Commission would abdicate its duty to provide the City with an opportunity to earn a reasonable rate of return on the utility plant dedicated to public service. To avoid such an untenable result, the Commission should approve the City's proposed 25 basis point size adjustment.

b. The City's Proposed Leverage Adjustment Should be Approved.

The R.D. errs in denying the City's proposed leverage adjustment without directly addressing the City's proposal. The R.D recounts I&E's position on the City's proposed leverage adjustment without addressing the supporting evidence set forth by the City or the supporting Commission precedent. Specifically, the R.D. adopts I&E's findings that the City's proposed leverage adjustment is unsupported by Commission precedent and "improper and invalid because of the way that rating agencies characterize financial risk, the lack of support in academic literature, and the fact that such investment information is readily available to the public therefore an unwarranted adjustment." R.D., p. 68. Although not evident from a review of the R.D., these claims were soundly rebutted by the City on the record.

First, the Commission has adopted leverage adjustments in the past whileexcluding them based solely on the individual circumstances in specific cases. I&E avers the Commission has
rejected leverage adjustments in prior cases without acknowledging that the Commission has also accepted leverage adjustments in cases such as *Pa. P.U.C. v Pa. P.U.C. v. Philadelphia Suburban Water Co.*, 219 PUR 4th 272 (2002), and *Lancaster Sewer 2005*, at *162-163. Moreover, even when rejecting leverage adjustments, the Commission has emphasized that such decisions are discretionary and based on the specific circumstances of each case. *See Pa. P.U.C. v. Aqua Pennsylvania, Inc. (Aqua PA 2008),* 2008 WL 4145509, 17 (Pa. P.U.C. 2008) ("Aqua 2008"); *see Lancaster 2010*, p. 79.

In *Aqua 2008*, the Commission directly clarified that it rejected the leverage adjustment because the market-based DCF in that case produced results significantly in excess of prior equity returns. *See Aqua 2008*, pp. 38-39. The Commission did not impugn the general applicability of a leverage adjustment, but determined that "where the unadjusted DCF results presented by the Parties in this case are generally higher that the DCF recommendations from the earlier cases cited by Aqua...there is no need to have an upwards adjustment to compensate for any perceived risk related to Aqua's market-to-book ratio." *See Aqua 2008*, pp. 38-39. In this case, parties' DCF results produced results far below the Commission's most recently litigated water utility return on equity of 10%. *See City Main Brief*, p. 10. Accordingly, the Commission should exercise its discretion to consider and approve the City's proposed leverage adjustment.

The remaining arguments set forth in the R.D have also been rebutted by the City. The R.D. characterizes the proposed leverage adjustment as unsupported by academic literature based again on I&E's allegations. *See R.D.*, p. 70. The City's Reply Brief clearly explained the leverage adjustment was itself developed to address the widely accepted premise that market value exists independently of book value, which is the well-developed foundation underlying the leverage adjustment. *See City Reply Brief*, p. 41.
Finally, the R.D. ignores the City's explanations as to the mechanics of the leverage adjustment. The R.D reiterates I&E's arguments that the leverage adjustment should be deemed unnecessary because: (1) rating agencies assess financial risk based on income statement rather than market value; and (2) the efficient market theory means investors have already weighed available information affirming market-to-book values for utilities. See R.D., pp. 68-69. These arguments miss the primary point emphasized by the City, that such conventional market norms have not been observed to be true in the context of the DCF analysis. See Reply Brief, p. 42. For example, with current market-to-book ratios in excess of 266%, the efficient market theory should drive the value of excessive market-to-book ratios down to book value, but history does not show this to be the case. See id. Therefore, to accurately reflect the cost to attract capital in an economic environment driving market values above book value, a leverage adjustment is appropriate.

The City has dutifully rebutted the arguments relied upon in the R.D. in opposition to the proposed leverage adjustment. Accordingly, the Commission should reject the R.D's analysis and approve the City's proposed 70 basis point leverage adjustment.

3. The R.D. Improperly Relies on I&E's Overly Narrow DCF Analysis.

In adopting I&E's cost of equity calculation, the R.D. completely overlooks flaws in I&E's DCF analysis. As discussed in the City's Reply Brief, a critical component of the DCF analysis is the growth rate, which measures investors' expectations for appreciation of share prices. See City Reply Brief, p. 38. In prior cases, the Commission approved growth rates based on historic and projected growth rates published by market analysts. See id. In this case, I&E recommended a 6.31% growth rate based solely on forecasted Earnings Per Share growth rates. See id. The City recommended a 6.7% growth rate, which reflects consideration of the 10.9% historical earnings growth rate for the Comparable Group. Importantly, if I&E had averaged historical and projected
growth rates, its 6.31% growth rate would increase to 8.61%. See City Main Brief, p. 51. Accordingly, the City's proposed 6.7% growth rate is appropriate and should be approved.

4. The Commission Must Approve the City's Proposed Tax Adjustment.

The R.D. appears to approve I&E's recommended tax adjustment out of a severe misunderstanding of the City's proposal. Contrary to the statements in the R.D., I&E and the City used the same methodology to calculate a tax adjustment. Therefore, the criticisms of the City's calculation in the R.D. are entirely unwarranted. The only reason I&E and the City arrive at proposed tax adjustments of 18.22% and 9%, respectively, is a correction by the City to an objective flaw in I&E's calculation. Therefore, if the Commission finds it necessary to apply a tax adjustment, it should adopt the maximum 9% tax adjustment proposed by the City.

The R.D. falsely avers that the City failed to propose alternatives to I&E's flawed tax adjustment calculation. In comparing the I&E and City proposals to develop a tax rate based on the spread between GO bonds and public utility bonds, the R.D. dismisses the City's proposal by claiming "[a]lthough [City Witness] Mr. Walker alleges that the aforementioned bonds must have corrections made so that they are matched in terms of credit quality and term length, he makes no attempt to present a correction or alternative." See R.D., p. 73. The R.D. further and inexplicably claims "Mr. Walker does not reference any instances of this methodology being used before." Both allegations are plainly untrue, as Mr. Walker implemented all reasonable practical corrections in accordance with Commission precedent.

Both the City and I&E proposed tax adjustments based on the spread between GO bonds and public utility bonds, as supported by the Commission in prior cases. See City Reply Brief, p. 46. However, only Mr. Walker fully complies with Commission precedent by taking all reasonable steps to measure spreads between comparable corporate and municipal bonds. See City Main

In this case, I&E's recommended tax adjustment again fails to incorporate comparable bonds. As discussed in the City's Reply Brief, I&E's proposed 18.22% tax adjustment reflects credit mismatches. *See City Reply Brief, p. 46.* Not surprisingly, correcting I&E's tax adjustment calculation to match similarly rated municipal bonds to similarly rated corporate bonds reduces I&E's recommended tax adjustment to 9.06%, consistent with the City's recommended maximum 9% adjustment.

Accordingly, if the Commission deems a tax adjustment to be necessary, the Commission should adopt the maximum 9% adjustment proposed by the City.

5. Conclusion

As indicated in the Summary of Exceptions, *supra*, failure to modify the R.D.'s rate of return recommendation would deny the City a reasonable opportunity to earn a return on its investment in public utility infrastructure. Accordingly the City respectfully requests that the Commission grant this Exception with regard to the cost of equity recommendation in the R.D. in order to provide the City with a rate of return consistent with Commission precedent.
IV. CONCLUSION

WHEREFORE, the City of DuBois - Bureau of Water respectfully requests that the Pennsylvania Public Utility Commission modify portions of the Recommended Decision pursuant to the Exceptions discussed herein.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By

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Alessandra L. Hylander (I.D. No. 320967)
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abakare@mcneeslaw.com
ahylander@mcneeslaw.com

Counsel to City of DuBois - Bureau of Water

Dated: February 2, 2017
The undersigned Contractor certifies that to the best of the Contractor's knowledge, information, and belief, the Work covered by this Application for Payment has been completed in accordance with the Contract Documents, that all amounts have been paid by the Contractor for Work for which previous Certificates for Payment were issued and payments received from the Owner, and that current payment shown herein is now due.

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<th>CONTRACTOR'S APPLICATION FOR PAYMENT</th>
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<td>Schedule of Values is attached.</td>
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1. **ORIGINAL CONTRACT SUM** ........................................... $ 644,949.72
2. **NET CHANGE BY CHANGE ORDERS** ................................... $ 507,947.67
3. **TOTAL CONTRACT SUM TO DATE (Line 1 + 2)** ................. $ 1,152,497.39
4. **TOTAL COMPLETED & STORED TO DATE** (Column 2 on Schedule of Values) .......................................................... $ 1,152,497.39
5. **RETAINAGE**: |
   a. **0.00% of Completed Work** ....................................... $ 0.00 |
   b. **% of Stored Material** ............................................. $ 0.00 |
   (Column 2 on Schedule of Values) Total Retainage (Line 5a + 5b or Total in Column 1 of Schedule of Values) .................................................. $ 0.00
6. **TOTAL EARNED LESS RETAINAGE** ................................ $ 1,152,497.39
7. **LESS PREVIOUS CERTIFICATES FOR PAYMENT** ................. $ 435,852.41 |
   (Line 6 less Line 5 Total) |
8. **CURRENT PAYMENT DUE** ................................................ $ 716,644.78
9. **BALANCE TO FINISH, INCLUDING RETAINAGE** ................. $ 0.00 |
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(Attach explanation if the amount certified differs from the amount applied for in Line 9. Initial all figures on this Application and on the Schedule of Values that are changed to conform to the amount certified.)

**ARCHITECT'S CERTIFICATE FOR PAYMENT**

In accordance with the Contract Documents, based on on-site observations and the data comprising this application, the Architect certifies to the Owner that to the best of the Architect's knowledge, information, and belief, the Work has progressed as indicated, the quality of the Work is in accordance with the Contract Documents, and the Contractor is entitled to payment of the AMOUNT CERTIFIED.

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<th>AMOUNT CERTIFIED</th>
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(Attach explanation if the amount certified differs from the amount applied for in Line 9. Initial all figures on this Application and on the Schedule of Values that are changed to conform to the amount certified.)

**ARCHITECT:**

By: [Signature]  
Date: 11/23/2016

This Certificate is not negotiable. The AMOUNT CERTIFIED is payable only to the Contractor named herein. Issuance, payment and acceptance of payment are without prejudice to any rights of the Owner or Contractor under this Contract.
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<td>18,466.40</td>
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<td>TRAFFIC CONTROL</td>
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<td>76,049.50</td>
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<td>23</td>
<td>C.O.01: WATER LINES</td>
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<td>C.O.02: TRENCH CHERRY'S DECORATIVE</td>
<td>3,641.26</td>
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<td>C.O.03: STREET LIGHT POLISH</td>
<td>21,153.07</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<td>18,481.19</td>
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<td>C.O.06: ADDITIONAL WATER LINES</td>
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</tr>
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</table>

**Job Totals:** 1,152,497.39 495,592.60 647,105.60 0.00 1,152,497.39 100.00 0.00 0.00
**Appendix A**

**Page 4 of 16**

---

**R.E. MICHEL COMPANY, LLC**

**WHOLESALE DISTRIBUTORS • AIR CONDITIONING • HEATING • REFRIGERATION EQUIPMENT • PARTS • SUPPLIES**

**Service since 1935**

**REMIT TO: P.O. BOX 2318 BALTIMORE, MD 21203**

**BRANCH: R.E. MICHEL COMPANY LLC DUBOIS, PA 15801 2963**

---

<table>
<thead>
<tr>
<th>YOUR ACCOUNT NO. IS</th>
<th>527933</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOME OFFICE COPY?</td>
<td></td>
</tr>
</tbody>
</table>

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**DATE:** 12/09/16  
**TIME:** 7:17:29 AM ET  
**SALE TYPE:** CHARGE  
**PAGE:** 1 OF 1  
**ORDER #:** 416105  
**ORDER TYPE:** NORMAL  
**FED. I.D.#:** 52-0577320  
**PHONE:** 814-371-5717

---

**CUSTOMER ORDER NUMBER: 416105**  
**SALES DATE:** 12/09/16  
**SHIPPED TO:** DUBOIS, PA 15801  
**REPRESENTATIVES:**  

---

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<tr>
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<th>DATE</th>
<th>TIME</th>
<th>ORDER TYPE</th>
<th>FED. I.D.#</th>
<th>PHONE</th>
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<td>12/09/16</td>
<td>7:17:29 AM ET</td>
<td>NORMAL</td>
<td>52-0577320</td>
<td>814-371-5717</td>
</tr>
</tbody>
</table>

---

**CITY OF DUBOIS PA**  
**18 W SCRIBNER AVE**  
**PO BOX 408**  
**DUBOIS, PA 15801**

---

**PRICE INDEX**

<table>
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<tr>
<th>DESCRIPTION</th>
<th>QUANTITY</th>
<th>PRICE</th>
<th>TOTAL</th>
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<td>2-TAPS BLACK PIPE BUSHING</td>
<td>6</td>
<td>4.54</td>
<td>27.24</td>
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</table>

---

**PLEASE SIGN & PRINT**  
**NAME BELOW**

---

**RECEIVED: IS UPON US**  
**HOLIDAYS NORMALLY DO NOT APPLY**  
**EMERGENCY LATE NIGHT**  
**PROBLEMS: STOCK THOSE VANS WITH GAS VALVES (MOTORS) YOU NEED**  
**TO BE PRODUCTIVE AND BE "PREPARED"\**

---

**CONSIGNOR: RBSK**  
**TAX NUMBER:** 072181481

---

**EXEMPT**

---

**WE SIMPLY APPRECIATE YOUR ORDER. THANK YOU**

---

**RECEIVED BY:**

**NAME:**

---

**DEL**
**Order Details**

<table>
<thead>
<tr>
<th>Part Number</th>
<th>Description</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Extended Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>200350</td>
<td>Indirect Water Heater</td>
<td>1</td>
<td>1433.71</td>
<td>1433.71</td>
</tr>
<tr>
<td>220117</td>
<td>Circulator</td>
<td>1</td>
<td>327.00</td>
<td>327.00</td>
</tr>
<tr>
<td>110550</td>
<td>Fluid Vibrating Pump, Wild</td>
<td>1</td>
<td>51.15</td>
<td>51.15</td>
</tr>
</tbody>
</table>

**Total**: 1,822.72

**Paid with Check**

**Check Number**: 072173933

**Received By**: DEL

---

**DISCLAIMER**: The content of this document is extracted from the image. It appears to be a purchase order or invoice from R.E. Michel Company LLC. The document details the order number, item descriptions, quantities, prices, and total amount paid. It also includes a signature and check number.

---

**Additional Notes**:

- The document is dated 12/08/16 and the time is 12:01:25 PM ET.
- The order number is 445080.
- The order type is normal.
- The invoice is from R.E. Michel Company LLC, which is a wholesale distributor of heating, refrigeration equipment, parts, and supplies. The company has been in service since 1935.

---

**Signatures**:

- The invoice is signed by a person named H.B. Michel.
- The check is signed by a person named J. Michel.

---

**APPENDIX A**: Page 5 of 16

---

**Contact Information**:

- Phone: 814-371-5717
- Fax: 814-371-5717
- Email: remichel@remichel.com
- Website: www.re Michel.com

---

**Additional Information**:

- The order includes various parts and accessories, such as indirect water heaters and circulators.
- The invoice is for the City of Dubois, PA, and is addressed to P.O. Box 400, Dubois, PA 15801.

---

**Receipt Confirmation**:

- The invoice is confirmed and paid in full.
- The receipt is dated December 8, 2016, and includes the order number and total amount paid.

---

**Address**:

- **To**: P.O. Box 2318, Baltimore, MD 21203
- **Branch**: R.E. Michel Company LLC, Dubois, PA 15801

---

**Terms and Conditions**:

- The terms of payment are net due and payable 10 days from the date of invoice.
- The invoice is EXEMPT from sales tax.

---

**Contact Person**:

- Name: M. Michel

---

**Date of Receipt**:

- Date: December 8, 2016

---

**REMIT TO**: P.O. Box 2318, Baltimore, MD 21203

---

**Phone Numbers**:

- Main Office: 814-371-5717
- Fax: 814-371-5717

---

**Part Numbers**:

- 445080
- 200350
- 220117
- 110550

---

**Item Descriptions**:

- Indirect Water Heater
- Circulator
- Fluid Vibrating Pump, Wild

---

**Contact Information**:

- **Name**: M. Michel
- **Phone**: 814-371-5717
- **Fax**: 814-371-5717
- **Email**: remichel@remichel.com
- **Website**: www.re Michel.com

---

**Additional Notes**:

- The document includes a signature on the bottom left corner, indicating acknowledgment.
- The invoice is for a total of $1,822.72, paid with a check.
- The invoice is signed by a person named H.B. Michel.
To: 814-375-2307  
Fits: n-22-lfi  
10:34 am est  
CR  

RUN DATE: 11/22/16  
CUST PH # 814-371-2000  
CUST FAX # 814-375-2307  
INV DATE: 11/22/16  
10:33:05 AM ET  
CHARGE  

F.O. BOX 2318 BALTIMORE , MD 21203  
R. E. MICHEL COMPANY LLC DUBOIS , PA 158012966  

ACCOUNT# 522393  
CITY OF DUBOIS PA  
16 W SCRIBNER AVE  
PO BOX 408  
DUBOIS, PA 15801  
R. E. MICHEL CO LLC  
114 SATTERLEE RD  
DUBOIS, PA 15801  

INVOICE# 240402  
CUSTOMER PO# CITY BUILDING  
SALESREP# 191605  
SHIP VIA UPN  

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<th>BRO</th>
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<th>DESCRIPTION</th>
<th>UNIT $</th>
<th>EXTEND $</th>
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<tbody>
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<td>96409355</td>
<td>2&quot; FOUR BOLT FLANGES</td>
<td>261.20</td>
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<td>PRINPA</td>
<td>FREIGHT IN - PENNSYLVANIA</td>
<td>50.00</td>
<td>50.00</td>
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</table>

SPECIAL ORDER ITEMS ARE SUBJECT TO  
THE RETURN POLICY OF OUR VENDOR WHICH  
STATES:  
ITEM(S) MAY BE RETURNED WITHIN 030 DAYS  
EPT TO A RESTOCK FEE OF 100.00 %  
FLAT RATE OF $  

IT'S GETTING COLD!!!  
STOCK UP WITH EMERGENCY SERVICE PARTS FOR THOSE LATE NIGHT EMERGENCIES  
* * * CHECK OUT OUR AIRTEMP PRODUCT LINE * * *  

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Due Date</th>
<th>Check Date</th>
<th>Check Amount</th>
<th>Acct Assigned By</th>
<th>Approved By</th>
<th>071992451</th>
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BALANCE DUE 12/10/16  
EDILTS  
PA  
SUB TOTAL 833.60  
SALES TAX EXEMPT  
TOTAL 833.60  

Appendix A  
Page 6 of 16
## Invoice Details

**Date:** 11/05/10  
**Time:** 10:52:05 AM ET  
**Sale Type:** CHARGE

**Customer Order Number:** 78352300  
**City Building:** CITY BUILDING  
**Ship To:** 10 W SCRIBNER AVE DUBOIS, PA 15801

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**Bill To:**
DUBOIS, PA 15801

**Shipping Information:**
**SHIP TO:** T.O., DUBOIS, PA 15801

**Account Information:**
**Account No.:** [redacted]  
**Due Date:** [redacted]  
**Check Date:** [redacted]  
**Check Amount:** $163.69  
**Acc. Assigned By:** [redacted]  
**Approved By:** [redacted]

**Tax Certificate Number:** [redacted]  
**SUBTOTAL:** $163.69  
**EXEMPT:** $163.69  
**TOTAL:** $163.69

**Authorization:**

**PLEASE SIGN & PRINT NAME BELOW**

**Thank you for your order.**

---

**Service Information:**

**WHOLESALE DISTRIBUTORS • AIR CONDITIONING • HEATING • REFRIGERATION • EQUIPMENT • PARTS • SUPPLIES**

**REMOT TO:** P.O. BOX 2316 BALTIMORE, MD 21203  
**BRANCH:** R.E. MICHEL COMPANY LLC DUBOIS, PA 15801

**Service since 1935**

**www.remichel.com**

**Matt**********
RUN DATE: 11/01/16  
CUST PH # 814-371-2000  
CUST FAX # 814-375-2307  
INV DATE: 11/01/16  
12:47:48 PM ET  
CHARGE  
1 OF 1  
783114 D  
NORMAL  
52-0577320  
814-371-5717  

P.O. BOX 2318 BALTIMORE, MD 21203  
R.E. MICHEL COMPANY LLC DUBOIS, PA 158012966  

ACCOUNT# 522393  

<table>
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<th>CITY OF DUBOIS PA</th>
<th>R E MICHEL CO LLC</th>
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<td>16 W SCRIBNER AVE</td>
<td>114 SATTERLEE RD</td>
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<tr>
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<td>DUBOIS, PA 15801</td>
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INVOICE#  78311400  CUSTOMER PO#  CITY BUILDING  191605  SHIP VIA  FRG

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<td>MUST ALSO QUOTE/ORDER 2W159</td>
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<td>7746900020 AM-10 CONTROL FOR GB BOXERS</td>
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<td>196021</td>
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<td>NEUTRALIZER</td>
<td>210.00</td>
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SPECIAL ORDER ITEMS ARE SUBJECT TO THE RETURN POLICY OF OUR VENDOR WHICH STATES: ITEM(S) MAY BE RETURNED WITHIN 030 DAYS EXCEPT TO A RESTOCK FEE OF 100.00 % FLAT RATE OF $ .

IT'S GETTING COLD!!! STOCK UP WITH EMERGENCY SERVICE PARTS FOR THOSE LATE NIGHT EMERGENCIES * * * CHECK OUT OUR AIRTEMP PRODUCT LINE * * *

BALANCE DUE 12/10/16  

<table>
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To: 81437i2307

RUN DATE: 11/01/16
INV DATE: 11/01/16

CUST PH # 814-371-2000
CUST FAX # 814-375-2307

P.O. BOX 2318 BALTIMORE , MD 21203
R.E. MICHEL COMPANY LLC DUBOIS , PA 158012966

ACCOUNT# 522393

CITY OF DUBOIS PA
16 W SCRIBNER AVE
PO BOX 408
DUBOIS, PA 15801

R.E. MICHEL CO LLC
114 SATTERLEE RD
DUBOIS, PA 15801

INVOICE# 78655600
CITY BUILDING 191605

0/QTY S/QTY BKO ITEM # DESCRIPTION UNIT $ EXTEND $
3 3 0 UPS50-160B WET ROTOR, UPS50-160B, BRONZE 2410.00 7230.00
3 PHASE 208/230 VOLT:

SPECIAL ORDER ITEMS ARE SUBJECT TO
THE RETURN POLICY OF OUR VENDOR WHICH
STATES:
ITEM(S) MAY BE RETURNED WITHIN 30 DAYS
EXCEPT TO A RESTOCK FEE OF 100.00 %
FLAT RATE OF $3

IT'S GETTING COLD!!!
STOCK UP WITH EMERGENCY SERVICE PARTS FOR THOSE LATE NIGHT EMERGENCIES
* * * CHECK OUT OUR AIRTEMP PRODUCT LINE * * *

Account No. 01741680
Due Date
Check Date
Check Amount
Acct Assigned By
Approved By

BALANCE DUE 12/10/16
EDILTS PA
7230.00
SALES TAX EXEMPT
TOTAL 7230.00
To: 814-375-2307  
From: 

RUN DATE: 11/01/16  
CUST PH # 814-371-2000  
CUST FAX # 814-375-2307  
INV DATE: 11/01/16  
1:10:05 PM ET  
CHARGE  

1 OF 1  
784426 D  
NORMAL  
52-0577320  
814-371-5717  

P.O. BOX 2318 BALTIMORE , MD 21203  
R.E. MICHEL COMPANY LLC DUBOIS , PA 158012966  
CHG  

ACCOUNT# 522393  

CITY OF DUBOIS PA  
R E MICHEL CO LLC  
16 W SCRIBNER AVE  
114 SATTERLEE ROAD  
PO BOX 408 DUBOIS, PA 15801  
DUBOIS, PA 15801  

ACCOUNT# 522393  

CITY OF DUBOIS PA  
R E MICHEL CO LLC  
16 W SCRIBNER AVE  
114 SATTERLEE ROAD  
PO BOX 408 DUBOIS, PA 15801  
DUBOIS, PA 15801  

INVOICE# 78442600  
CITY BUILDING  
191605  
SHIP VIA  
UPS  

O/QTY S/QTY RXO ITEM # DESCRIPTION UNIT $ EXTEND $  

SPECIAL ORDER ITEMS ARE SUBJECT TO  
THE RETURN POLICY OF OUR VENDOR WHICH  
STATES:  
ITEM(S) MAY BE RETURNED WITHIN 030 DAYS  
ECT TO A RESTOCK FEE OF 10.00 %  
FLAT RATE OF $  

1 1 0 L4008E1313 LIMIT WITH MANUAL RESET 214.00 214.00  

IT'S GETTING COLD!!!  
STOCK UP WITH EMERGENCY SERVICE PARTS FOR THOSE LATE NIGHT EMERGENCIES  
* * * CHECK OUT OUR AIRTEMP PRODUCT LINE * * *  

071740174  

Account No. 46-5932  
Due Date 11/20  
Check Date  
Check Amount  
Acct Assigned By  
Approved By  

BALANCE DUE 12/10/16  
EDILTS  
PA  
SUB TOTAL 214.00  
SALES TAX EXEMPT  
TOTAL 214.00
## Invoice

**Number:** 12767  
**Date:** 12/22/2016  
**Source:** SO No. 19237

**Bill-To**  
Attn: Joe Mitchell  
City of DuBois  
16 W. Scribner Ave.  
DuBois, PA 15801

**Ship-To**  
Attn: Joe Mitchell  
City of DuBois  
16 W. Scribner Ave.  
DuBois, PA 15801  
Phone: 814.371.2000

<table>
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</thead>
<tbody>
<tr>
<td>1941</td>
<td>City of DuBois</td>
<td></td>
<td></td>
<td>Dan Carmody</td>
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<td>Net 15</td>
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<table>
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<th>UOM</th>
<th>Ea. Price</th>
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<tbody>
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<td>EnGenius Durafon-VoIP cordless phone - SIP</td>
<td>EA</td>
<td>$1,275.00</td>
<td>$3,825.00</td>
</tr>
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</table>

**Item Total:** $3,825.00

**Total Amount Due:** $3,825.00

---

*( denotes repair item)*

Printed: 12/22/2016 10:19:21AM
## INVOICE

**Customer Order No.:** DW20160923  
**Date:** December 29 2016

**Bill To:**  
**Ship To:**

**Mitel Business Systems, Inc.**  
1146 North Alma School Road  
Mesa, AZ 85201

**City of Dubois**  
PO Box 408  
Du Bois, PA 15801

**P.O. Box 52688**  
Phoenix, AZ 85072-2688

**City of Dubois**  
CO Prime Communications  
275 Curry Hollow Road  
Pittsburgh, PA 15236

### TERMS

<table>
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<tbody>
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<td>5</td>
<td>Mitel 6424 v2 Wall-Mount Speaker &amp; Mic</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
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**Sub Total:** 1,788.70

**Shipping Charges:** 0.00

**Tax:** 0.00

**Total:** 1,788.70

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**THIS INVOICE IS SUBJECT TO THE TERMS AND CONDITIONS OF CONTRACT # PEPPA 2015 PROJ. LINE PA.**
# Invoice

**Mitel Business Systems, Inc.**

1146 North Alma School Road
Mesa, AZ 85201

**PLEASE REMIT TO**

MITEL BUSINESS SYSTEMS, INC.
P.O. BOX 52688
PHOENIX, AZ 85072-2688

---

**INVOICE**

**CUSTOMER ORDER NO.:**

DW20160923

**SALES ORDER NO.:**

2339554

**ORDER DATE:**

December 29 2016

**FEIN:** 912016197

---

**BILL TO**

CITY OF DUBOIS
PO BOX 408
DU BOIS PA 15801

**SHIP TO**

CITY OF DUBOIS
CO PRIME COMMUNICATIONS
275 CURRY HOLLOW ROAD
PITTSBURGH PA 15230

---

**TERMS OF DELIVERY**

30 days from date of invoice

**FOB DESTINATION FPD**

**CURRENCY**

USD

**COMMENTS**

3.30.67.148 December 03 2016

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**PRODUCT:**

PEPPM CITY OF DUBOIS

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**THIS INVOICE IS SUBJECT TO THE TERMS AND CONDITIONS OF CONTRACT # PEPPM 2015 PROD. LINE PA.**

**SUB TOTAL:**

3,287.40

**SHIPPING CHARGES:**

0.00

**TAX:**

0.00

**TAXABLE TOTAL:**

3,287.40
# Appendix A

## Invoice

**Mitel Business Systems, Inc.**
1146 North Alma School Road
Phoenix, AZ 85072

**PLEASE REMIT TO**
MITEL BUSINESS SYSTEMS, INC.
P.O. BOX 52688
PHOENIX, AZ 85072-2688

---

**INVOICE**

**PLEASE REMIT TO**
MITEL BUSINESS SYSTEMS, INC.
P.O. BOX 52688
PHOENIX, AZ 85072-2688

**BILL TO**
CITY OF DUBOIS
PO BOX 408
DU BOIS PA 15801

**SHIP TO**
CITY OF DUBOIS
CO PRIME COMMUNICATIONS
275 CURRY HOLLOW ROAD
PITTSBURGH PA 15236

---

**INVOICE DATE:**
December 29, 2018

**SALES ORDER NO.:**
DW20160823

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**CURRENCY:**
USD

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**SUB TOTAL:**

7,778.14

**SHIPPING CHARGES:**

0.00

**TAX:**

0.00

**TOTAL:**

7,778.14

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THIS INVOICE IS SUBJECT TO THE TERMS AND CONDITIONS OF CONTRACT # PPMM 2075 PROD. LINE PA.
## INVOICE

**Mitel Business Systems, Inc.**  
1148 North Alma School Road  
Mesa, AZ 85201

**PLEASE REMIT TO**  
MITEL BUSINESS SYSTEMS, INC.  
P.O. BOX 22888  
PHOENIX, AZ 85072-2888

**INVOICE**  
December 29, 2016

**CUSTOMER ORDER NO:**  
DW20160923

**SALES ORDER NO:**  
2339564  
**ORDER DATE:**  
December 29, 2016

**FEIN:** 91-2016177

---

### BILL TO
**CITY OF DUBOIS**  
PO BOX 408  
DU BOIS PA 15801

### SHIP TO
**CITY OF DUBOIS**  
CO PRIME COMMUNICATIONS  
275 CURRY HOLLOW ROAD  
PITTSBURGH PA 15236

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**PEPAM CITY OF DUBOIS**

---

**SUB TOTAL**  
1,153.20

**SHIPPING CHARGES**  
0.00

**TAX**  
0.00

---

**GROSS TOTAL**  
1,153.20

---

**THIS INVOICE IS SUBJECT TO THE TERMS AND CONDITIONS OF CONTRACT # PEPPM 2015 PROD. LINE PA.
# INVOICE

**Mitel®**

Mitel Business Systems, Inc.
1146 North Alma School Road
Mesa, AZ 85201

PLEASE REMIT TO
MITEL BUSINESS SYSTEMS, INC.
P.O.Box 52688
Phoenix, AZ 85072-2688

---

**BILL TO**
CITY OF DUBOIS
PO BOX 408
DU BOIS PA 15801

**SHIP TO**
CITY OF DUBOIS
CO PRIME COMMUNICATIONS
275 CURRY HOLLOW ROAD
PITTSBURGH PA 15236

---

**TERMS**: 30 days from date of invoice
**CURRENCY**: USD
**BILL TO CUSTOMER CODE**: 16477
**SHIP TO CUSTOMER CODE**: 966472

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**PEPPM CITY OF DUBOIS**

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**SUB TOTAL**: 5.520.00
**SHIPPING CHARGES**: 0.00
**TAX**: 0.00

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THIS INVOICE IS SUBJECT TO THE TERMS AND CONDITIONS OF CONTRACT # PEPPM 2016 PROD. ONE PA.

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**TOTAL**: 5.520.00