

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 24, 2017

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

Re: Pa. Public Utility Commission
v.
Pennsylvania-American Water Company
(Water & Wastewater)
Docket No. R-2017-2595853

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Lauren M. Burge
Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. 311570
E-Mail: LBurge@paoca.org

Attachment

cc: Honorable Dennis Buckley, ALJ
Honorable Benjamin Myers, ALJ
Certificate of Service

233612

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2017-2595853
	:	
Pennsylvania-American Water Company	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333, and in response to the Prehearing Conference Order issued in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On April 28, 2017, Pennsylvania-American Water Company (PAWC or the Company) filed Original Tariff Water – Pa P.U.C. No. 5 and Original Tariff Wastewater – Pa. P.U.C. No. 16 with the Pennsylvania Public Utility Commission (Commission) to become effective June 27, 2017. Through Supplement No. 5 and Tariff Wastewater No. 16, PAWC requests that the Commission approve changes in water and wastewater rates to increase the Company’s total annual operating revenues by approximately \$107.9 million per year or 16.4% over the amount of annual revenues at present rates.

PAWC serves customers located in 36 counties across Pennsylvania. PAWC provides water service to approximately 650,000 customers in portions of Adams, Allegheny, Armstrong, Beaver, Berks, Bucks, Butler, Centre, Chester, Clarion, Clearfield, Clinton, Columbia, Cumberland, Dauphin, Fayette, Indiana, Jefferson, Lackawanna, Lancaster, Lawrence, Lebanon,

Luzerne, McKean, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Susquehanna, Union, Warren, Washington, Wayne, and York counties. The Company provides wastewater service to approximately 55,000 customers in portions of Adams, Beaver, Chester, Clarion, Cumberland, Lackawanna, Monroe, Northumberland, Pike, Washington, and York Counties.

According to the customer notices included in the Company’s proposal, a typical residential water customer would see the following increases in their monthly bill as provided in the following table:

Rate Zone	Water Territory	Present Rates	Proposed Rates	Increase Amount	Increase Percentage
1	General	\$55.63	\$65.12	\$9.49	17.06%
40	Nittany*	\$33.20*	\$48.84/\$65.12*	\$31.92*	96.14%*
41	Sutton Hills	\$43.77	\$65.12	\$21.35	48.78%
44	Wildcat	\$46.70	\$65.12	\$18.42	39.44%
46	All Seasons	\$42.43	\$65.12	\$22.69	53.48%
47	Balsinger	\$40.27	\$65.12	\$24.85	61.71%
50	Acquisitions	\$50.24	\$65.12	\$14.88	29.62%
51	Berry Hollow	\$41.80	\$65.12	\$23.32	55.79%
52	McEwensville*	\$21.78*	\$45.58/\$65.12*	\$43.34*	198.99%*

*Rates will go to Zone 1 by phase-in in 2018 and 2019.

A typical residential wastewater customer would see the following increases to their monthly bill:

Rate Zone	Wastewater Territory	Present Rates	Proposed Rates	Increase Amount	Increase Percentage
1	Coatesville, Claysville, Clean Treatment/NE	\$56.96	\$70.11	\$13.15	23.09%
2	Clarion/Pocono	\$46.50	\$70.11	\$23.61	50.77%
3	LP, Winona, Blue Mt.	\$56.90	\$70.11	\$13.21	23.22%
4	Koppel	\$38.36	\$61.34	\$22.98	59.91%
5	Franklin	\$85.00	\$70.11	\$(14.89)	-17.52%
6	Paint Elk	\$61.41	\$70.11	\$8.70	14.17%
7	Hamiltonban	\$50.00	\$70.11	\$20.11	40.22%
8	Shippenville	\$52.60	\$70.11	\$17.51	33.29%
9	McEwensville	\$48.00	\$70.11	\$22.11	46.06%
10	Fairview	\$64.00	\$70.11	\$6.11	9.55%
11	New Cumberland	\$42.79	\$43.85	\$1.06	2.48%
12	Scranton	\$37.65	\$37.65	\$0.00	0%

II. STATEMENT OF INTEREST

The Consumer Advocate is empowered to represent the interests of consumers before the Commission, pursuant to Act 161 of the General Assembly, as amended, 71 P.S. §§ 309-1, et seq. The Acting Consumer Advocate filed a formal complaint in this proceeding to insure that the Commission fully and fairly adjudicates issues pertaining to whether the Company's existing and proposed rates – and all rate policy changes – are not unjust, unreasonable, unduly discriminatory, or otherwise unlawful.

III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of PAWC's base rate filing, the OCA has compiled a list of issues and sub-issues, which it anticipates will be included in its investigation of PAWC's rate request. It is anticipated that other issues may arise and may be pursued once the answers to all of the OCA's interrogatories have been received and analyzed.

The OCA has issued nine sets of interrogatories to date. The OCA has not yet received responses to those interrogatories. As soon as the OCA has received all of the discovery information and has had the opportunity to review it, the OCA anticipates that additional discovery and/or informal discovery meetings can be scheduled. At those meetings and discussions, the OCA will narrow the scope of additional information requests. Once the discovery process is complete, the OCA will file direct testimony which will set forth the specific issues it will address in this proceeding. At that time, the OCA will also make and quantify its specific recommendations.

The issues and sub-issues set forth below, and others that may develop during discovery, will be analyzed and presented as appropriate by the OCA with the assistance of its expert witnesses:

A. Rate of Return

1. The OCA will perform a detailed analysis of the 10.80% cost of common equity claimed by PAWC. Also, the OCA will carefully examine the Company's methodologies and supporting data used to develop its final cost of common equity claim.

2. The OCA will examine whether the capital structure claimed by PAWC is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes.

3. The OCA will examine the embedded cost of debt and preferred stock claimed by PAWC.

4. The OCA will examine whether any company-specific adjustments proposed by PAWC are justified, including, but not limited to the leverage adjustment to the cost of equity capital.

B. Rate Base/Measure of Value

1. The OCA will examine the reasonableness and accuracy of the projections of PAWC related to the water/wastewater utility plant in service at the time relevant to this proceeding including, but not limited to, whether the test year plant will be completed as claimed and whether retirements are accurately reflected.

2. The OCA will review the Company's claim for plant additions during the future test year to determine if the Company has demonstrated that all such costs are prudently incurred.

3. The OCA will review the Company's rate base claim for costs related to the provision of stormwater services in the Scranton service area.

4. The OCA will investigate whether the Company's adjustment to rate base for depreciation reserve is appropriate.

5. The OCA will examine the Company's projections of non-investor supplied funds, including but not limited to, customer deposits, customer advances for construction, and contributions in aid of construction.

6. The OCA will examine the Company's claim for materials and supplies.

7. The OCA will examine the Company's calculation and amount of cash working capital.

8. The OCA will examine issues related to the acquisitions of the Company.

9. The OCA intends to examine the reasonableness and accuracy of the Company's claimed valuation of its investment.

10. The OCA will examine the reasonableness and lawfulness of amounts paid to affiliates for goods and services, in accordance with Section 2101 of the Public Utility Code. 66 Pa. C.S. § 2101 et seq.

11. The OCA will examine the Company's use of a fully forecasted future test year in its filing.

12. The OCA will examine the costs being claimed for the American Water Works "Business Transformation" projects.

13. The OCA will examine the Company's Accumulated Deferred Income Tax balances.

C. Revenues and Expenses

1. The OCA will examine whether the number of customers projected on the Company's system at the time periods relevant to this proceeding is reasonable and accurate.

2. The OCA will examine whether the Company's estimates of the volume of water to be sold during future periods is reasonable and accurate.

3. The OCA will examine whether the Company's projection of revenues in the future test year and fully forecasted future test year are reasonable and accurate including, but not limited to, its billed days adjustments, metered water sales and the impact of conservation measures, and miscellaneous revenue adjustments.

4. The OCA will examine whether the Company's projection of employees, overtime, and incentive pay is reasonable and accurate.

5. The OCA will examine whether the Company's projected inflation adjustment is just and reasonable.

6. The OCA will examine the costs being claimed for the American Water Works "Business Transformation" projects.

7. The OCA will examine the Company's claim for income tax expense and its calculation of consolidated tax savings.

8. The OCA will examine the justness and reasonableness of the Company's claims for:

- Pro forma purchased power expense;
- Pro forma chemical expense;
- Pro forma leased vehicle expense;
- Regulatory expense;
- Rate Case expense;
- Fines in the claimed cost of service;
- Service company charitable contributions and trade shows in the claimed cost of service;
- Claimed Injuries & Damages expense;
- Consolidated Income Tax Adjustment;
- Expenses for penalties in the claimed cost of service;
- Claimed Conference Registration expense;
- Service Company charges;
- Acquisition adjustments;

- Incentive pay; and
- Stormwater system operation.

D. Rate Structure/Cost of Service/Rate Design

1. The OCA will examine the reasonableness of PAWC's proposed distribution of the revenue increase among customer classes, ratemaking regions, and types of utility service.

2. The OCA will examine PAWC's cost of service studies, including the methodology used and the reasonableness of the allocations.

3. The OCA will examine PAWC's proposal to allocate a portion of the wastewater cost of service to the combined water and wastewater customer base to ensure that it is consistent with Act 11 of 2012 and that it is reasonable and consistent with the public interest.

4. The OCA will examine the reasonableness and appropriateness of the Company's proposed tariff changes, including all proposed surcharges and revenue adjustment mechanisms.

5. The OCA will examine PAWC's proposal to exempt Scranton-area customers from a rate increase in this case, even though those rates are significantly below the cost of serving those customers. The OCA will examine whether the proposal is consistent with sound ratemaking principles and the public interest.

E. Quality of Service/Main Extensions

1. The OCA will review the Company's quality of service to ensure that it is providing safe, adequate, and reliable service, and water that is usable for all household purposes, and that its wastewater plants and collections systems are operating as required.

2. The OCA will review the main extensions undertaken by the Company and proposed main extensions.

F. Miscellaneous

1. The OCA will investigate to ensure that the Company is complying with all prior orders, including the Commission's Final Order in Joint Application of Pennsylvania-American Water and Scranton Sewer Authority, Docket No. A-2016-2537209 (Oct. 19, 2016).

IV. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. Each witness will present testimony in written form and will also attach various exhibits, documents, and explanatory information which will assist in the presentation of the OCA's case. In order to expedite the resolution of this proceeding, the OCA requests that, in addition to mailing copies to OCA counsel, parties send copies of all interrogatory answers and testimony directly to the expert witness(es) responsible for the appropriate area of the case. The OCA also requests that CDs containing any interrogatory responses be mailed directly to the applicable consultant.

Accounting/Regulatory Policy:

Mr. Ralph Smith
Larkin & Associates, PLLC
15728 Farmington Road
Livonia, MI 48154
RSMITHLA@aol.com

Rate Design/Cost Allocation:

Scott Rubin
333 Oak Lane
Bloomsburg, PA 17815
(570) 387-1893
SCOTT.J.RUBIN@gmail.com

Rate of Return/Capital Structure:

Glenn A. Watkins
Technical Associates, Inc.
1503 Santa Rosa Road, Suite 130
Richmond, VA 23229
watkinsg@tai-econ.com

Quality of Service/Main Extensions: Mr. Terry Fought, P.E.
Consulting Engineer
780 Cardinal Drive
Harrisburg, PA 17111
tlfengr@comcast.net

The OCA specifically reserves the right to call additional witnesses, as necessary. All parties of record will be notified as soon as the OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case.

V. EVIDENCE

The OCA will rely on the direct, rebuttal, and surrebuttal testimony of its expert witnesses as well as the testimony of other parties to the proceeding. The OCA will also present relevant exhibits to support its own testimony, including but not limited to, materials obtained from the Company through discovery and cross-examination.

VI. PUBLIC INPUT HEARINGS

Because of the magnitude of the proposed changes and the public interest in these proceedings, the Office of Consumer Advocate respectfully requests that public input hearings be held in the Company's service territories. The OCA is in the process of reviewing the Formal and Informal Complaints filed with the Commission, and considered legislative and consumer requests for public input hearings in developing a list of proposed public input hearing locations. The OCA will be prepared to discuss proposed areas for the public input hearings at the prehearing conference.

The OCA also requests that the Company be directed to extensively advertise these public input hearings. Newspaper notice must be advertised in the general readership sections of local newspapers, not in the legal section. Other methods of informing its customers of the

public input hearings, including social media and the Company's website, should be utilized as well.

In addition, the OCA requests the other parties involved in the proceeding be permitted to review these public input announcements prior to their publication and distribution and have input into which publications the ads are placed.

VII. SERVICE ON THE OCA

The OCA will be represented in this case by Senior Assistant Consumer Advocates Christine M. Hoover and Erin L. Gannon and Assistant Consumer Advocates Lauren M. Burge and Christy M. Appleby. The OCA has created a group e-mail address provided below. This is the only email address that is required for service on the OCA; it will provide the emailed materials to all members of the OCA team including the consultants listed above. Two copies of all documents should be served on the OCA as follows:

Christine M. Hoover, Senior Assistant Consumer Advocate
Erin L. Gannon, Senior Assistant Consumer Advocate
Lauren M. Burge, Assistant Consumer Advocate
Christy M. Appleby, Assistant Consumer Advocate.
PAWC2017-EXTERNAL@paoca.org

Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17101-1923

(717) 783-5048 (telephone)
(717) 783-7152 (facsimile)

VIII. PROPOSED SCHEDULE

The OCA's proposed schedule is attached as Appendix A. The parties have all cooperated in formulating this proposed schedule.

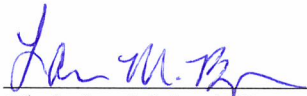
IX. DISCOVERY

Appendix B contains proposed amendments to the Commission’s discovery regulations. It is the OCA’s understanding that the proposed amendments are acceptable to all parties. The OCA believes that these amendments will assist the parties in clarifying issues and to bring this proceeding to a conclusion.

X. SETTLEMENT

The OCA is willing to participate in settlement discussions.

Respectfully Submitted,



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

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

Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. # 311570
E-Mail: LBurge@paoca.org

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-Mail: CApplby@paoca.org

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

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

DATE: May 24, 2017

233451

APPENDIX B

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2017-2592853
 :
 Pennsylvania-American Water Company :

PROPOSED AMENDMENTS TO DISCOVERY REGULATIONS

In conjunction with its proposed schedule, the OCA would propose to amend the Commission's discovery regulations in accordance with the following:

- A. Answers to written interrogatories to be served in-hand within ten (10) calendar days of service of the interrogatories. Discovery propounded after 12:00 noon on a Friday or the day before a holiday will be deemed served on the next business day for purposes of determining the due date of the responses.
- B. Objections to interrogatories to be communicated orally within three (3) days of service; unresolved objections be served in writing within five (5) days of service of interrogatories.
- C. Motions to dismiss objections and/or direct the answering of interrogatories to be filed with the ALJ within three (3) days of service of written objections.
- D. Answers to motions to dismiss objections and/or direct the answering of interrogatories to be filed within three (3) days of service of such motions.
- E. Rulings over such motions to be issued, if possible, within seven (7) days of filing of the motion.
- F. Responses to requests for document production, entry for inspection, or other purposes to be served in-hand within ten (10) calendar days.
- G. Requests for admission be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service.
- H. Answers to on-the-record data requests to be served in-hand within seven (7) calendar days of the request.

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :
v. : Docket No. R-2017-2595853
Pennsylvania-American Water Company :
(Water & Wastewater) :

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 24th day of May 2017.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Allison C. Kaster, Esquire
Gina Miller, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

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

Elizabeth Rose Triscari, Esquire
Deputy Small Business Advocate
Office of Small Business Advocate
Suite 202, Commerce Building
300 North Second Street
Harrisburg, P A 17101

Susan Simms Marsh, Esquire
Deputy General Counsel
Pennsylvania –American Water
800 West Hershey Park Drive
Hershey, PA 17033

Anthony C. DeCusatis, Esquire
Thomas P. Gadsden, Esquire
Catherine G. Vasudevan, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921

David P. Zambito, Esquire
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Barbara McDade
863 North Street
Luzerne, PA 18709

Delores Landis
2615 Dogwood Lane
East Norton, PA 19401-1720

Noel Netel
4167 Brook Ct.
Tobyhanna, PA 18466-3051

Stockton Alloway
755 Main Street
Parkesburg, PA 19365-1039

Theresa Sylvester
1418 Elizabeth Street
Scranton, PA 18504

John Hooks
437 E. Winter Street
New Castle, PA 16105

Casey Hogan
337 East Chestnut Street
Coatesville, PA 19320

/s/ Lauren M. Burge

Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. #311570
E-Mail: LBurge@paoca.org

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

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

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. #85824
E-Mail: CApplby@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
Dated: May 24, 2017
*233426