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May 24, 2017

VIA eFILING

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

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

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced matter is the **Prehearing Memorandum on behalf of Pennsylvania-American Water Company**. Copies have been served on presiding Administrative Law Judges Dennis J. Buckley and Benjamin J. Myers and all parties of record as indicated on the attached Certificate of Service.

Very truly yours,

Anthony C. DeCusatis

Enclosures

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**DOCKET NO. R-2017-2595853**
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY	:	

CERTIFICATE OF SERVICE

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

VIA ELECTRONIC AND FIRST CLASS MAIL

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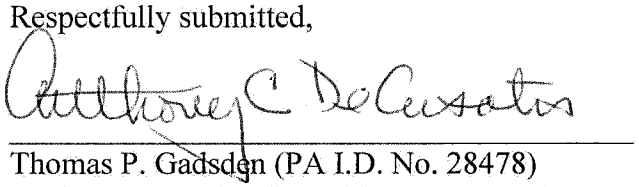
Respectfully submitted,



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Counsel for
Pennsylvania-American Water Company

Dated: May 24, 2017

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	**DOCKET NO. R-2017-2595853**
PENNSYLVANIA-AMERICAN WATER COMPANY	:	

PREHEARING MEMORANDUM OF PENNSYLVANIA-AMERICAN WATER COMPANY

Before Administrative Law Judges Dennis J. Buckley and Benjamin J. Myers

Susan Simms Marsh
Anthony C. DeCusatis
Catherine G. Vasudevan
Brooke E. McGlinn
David P. Zambito

Counsel for
Pennsylvania-American Water Company

Dated: May 24, 2017

I. INTRODUCTION

Pennsylvania-American Water Company ("PAWC" or the "Company") is a public utility that provides water and wastewater services to approximately 710,000 residential, commercial, industrial and governmental communities located in 36 of the 67 counties in Pennsylvania. The Company was formed, with Commission approval, by the merger of the former Pennsylvania-American Water Company into Western Pennsylvania Water Company on January 31, 1989. The Company is a subsidiary of American Water Works Company, Inc., which is headquartered in Voorhees, New Jersey.

On April 28, 2017, the Company filed Original Tariff Water – Pa. P.U.C. No. 5 ("Tariff No. 5") and Original Tariff Wastewater – Pa. P.U.C. No. 16 ("Tariff No. 16"), requesting an increase in its total annual operating revenues to become effective June 27, 2017. The amount of the requested increase equals $107.9 million, or approximately 16.4%, above the level of pro forma revenues for the fully projected future test year ending December 31, 2018. By Order entered May 18, 2017, the Pennsylvania Public Utility Commission (the "Commission") instituted a formal investigation at Docket No. R-2017-2595853 to determine the lawfulness, justness and reasonableness of the Company's existing and proposed rates, rules and regulations. Accordingly, Tariff Nos. 5 and 16 were suspended by operation of law until January 27, 2018, unless permitted by Commission order to become effective at an earlier date.

Accompanying Tariff Nos. 5 and 16, the Company filed the extensive and detailed supporting information required by the Commission's regulations, including the prepared direct testimony of the Company's initial witnesses and the various exhibits to be sponsored by them. During the course of this case, the Company may submit additional testimony and exhibits in response to the presentations of, or cross-examination by, other parties. In addition, certain

testimony and exhibits will be updated to reflect changes which become known during the course of the Commission's investigation.

In support of the proposed rate increase, the Company has presented data for the historic test year ended December 31, 2016, the future test year ending December 31, 2017 and the fully projected future test year ending December 31, 2018. The Company intends, however, to rely primarily on the fully projected future test year data in support of its proposed rate increase. It is the Company's belief that the record at the close of this proceeding will demonstrate the justness and reasonableness of the proposed rates.

II. ISSUES

Generally, every rate case presents two major issues for resolution: (1) the total amount of the revenue increase to which the utility is entitled; and (2) the allocation of the increased revenues among the utility's customer classifications through a rate structure and rate design that will produce the required revenue. As discussed below, the Company's computation of its required revenue increase and its proposed allocation of the increase to each customer classification have been developed by applying principles and procedures that, for the most part, the Commission has reviewed and approved in numerous prior cases.

A determination of the total revenue increase to which a utility is entitled involves a number of elements which may be grouped under three headings and characterized as the following major sub-issues herein:

(1) **TOTAL RETURN**. The total return (utility operating income) required by the utility to provide a fair rate of return on its claimed rate base. Fair rate of return involves the determination of the appropriate cost or return rate for the capital employed by the Company to furnish water service. Such return must be sufficient to enable the Company to maintain the

financial integrity of its existing capital and to attract additional capital on reasonable terms. In addition, the Company must be permitted an opportunity to earn a return on the portion of its rate base financed by common equity that is commensurate with the returns on equity investments in other enterprises having similar risks. The appropriate rate of return for the Company, and in particular the appropriate return rate for the Company's common equity, is an issue which is critical to the well-being of the Company and its ability to continue to provide the service that its customers have been receiving and are entitled to receive in the future.

(2) **OPERATING EXPENSES**. The future or ongoing level of the utility's operating expenses, including depreciation and taxes, which must be recovered from customers through rates; and

(3) **REVENUES**. The revenue normally available to the utility under present rates and that which will be produced by the proposed rate levels.

By comparing the revenue produced by the utility's present rates with its total required operating income and anticipated operating expenses, depreciation and taxes, the necessary increase in revenue and rate levels required to provide a fair rate of return is determined.

The allocation of the proposed revenue increase and the Company's proposed rate structure and rate design are explained in the Statement of Specific Reasons for Proposed Increase In Rates submitted with the Company's initial filing and further described in the direct testimony of JoAnne Lontz and Paul R. Herbert. As set forth therein, the Company's proposed rate structure continues to implement the Commission-approved concept of establishing a uniform set of rates to apply Company-wide. In this case, the Company proposes the following rate structure changes:

(1) The consolidation of the rate zones such that the rates charged customers are the same regardless of geographic location;

(2) An increase of monthly service charges to be more in line with customer costs;

(3) The combining of a portion of the revenue requirement for wastewater operations with the revenue requirement for water operations pursuant to Section 1311(c), which was also added to the Code by Act 11;

(4) The increase of public fire hydrant rates from $15.10 to $17.11 per year, which is 25% of the cost of public fire protection service, pursuant to Section 1328 of the Code; and

(5) The allocation of the requested rate increase in a manner designed to realign revenues by major customer classes to be more commensurate with the indicated cost of service.

III. WITNESSES

Set forth below are the anticipated case-in-chief witnesses for the Company and a brief description of the subject matter of their testimony and exhibits:

Rod P. Nevirauskas is Senior Director of Rates and Regulations for PAWC. His written testimony is set forth in PAWC Statement No. 1, and he is sponsoring portions of PAWC Exhibit 3-A. PAWC Exhibit 3-A is the Company's principal accounting exhibit and, as such, sets forth the development of the Company's revenue requirement and its proposed revenue increase. Mr. Nevirauskas' testimony introduces the Company's other case-in-chief witnesses and addresses the following topics: (1) PAWC's management philosophy; (2) PAWC's need for rate relief and the factors responsible for its revenue deficiency; (3) the source of accounting data and the test years employed by the Company; (4) the development of combined water and wastewater revenue requirement; (5) the Company's request to rate base and amortize an acquisition adjustment recorded in connection with its purchase of the wastewater assets of the Scranton

Sewer Authority ("SSA"); (6) the effect of declining residential per customer consumption on the Company's water operating revenue; (7) management performance; and (8) compliance with Act 40's provisions regarding federal income tax expense.

James F. Sheridan is the Vice President of Operations for PAWC. Mr. Sheridan's testimony, which is PAWC Statement No. 2, discusses the general operations of the Company, including its commitment to improve water quality; initiatives taken to increase efficiency, enhance service and control costs; the installation of advanced metering infrastructure; employee safety and employee training and development; support for employee levels and compensation; efforts to control non-revenue water; and the Company plans to relocate its corporate headquarters from Hershey to Mechanicsburg.

David R. Kaufman is the Vice President of Engineering for PAWC. Mr. Kaufman's testimony, which is PAWC Statement No. 3, discusses the Company's claim for plant additions to be placed in service during the future and fully projected future test years; PAWC's fulfillment of main extension commitments from its 2013 base rate case; the Company's acquisition of the SSA's wastewater assets; and operational and regulatory risks associated with the provision of public water and wastewater service.

John R. Cox is Director of Rates and Regulations for PAWC. Mr. Cox's testimony, which is PAWC Statement No. 4, discusses the Company's claimed rate base elements, depreciation expense, taxes other than income taxes, certain specific expense items not covered by other witnesses, and proposed tariff changes. In addition, Mr. Cox provides an analysis of actual rate base additions and expenses as of 2014 compared to the levels claimed by the Company in its last base rate case.

Jo Anne Lontz is a Senior Financial Analyst for PAWC. Her testimony is set forth in PAWC Statement No. 5 and addresses the Company's revenue claim, and the Company's rate structure and rate design proposal.

Jamie D. Hawn is a Senior Manager for Regulatory Services for the American Water Works Service Company, Inc. ("AWWSC"). Her testimony is PAWC Statement No. 6 and addresses the Company's claim for labor and labor-related expenses and Service Company expenses.

Daniel P. Hunnell is a Principal Financial Analyst for AWWSC. His testimony is PAWC Statement No. 7 and addresses the Company's expense claims for purchased power, purchased water, chemicals, change in production costs due to changes in number of customers, transportation, insurance other than group, postage and rent.

Bernard J. Grundusky, Jr. is Director of Business Development for PAWC. His testimony, which is PAWC Statement No. 8, describes PAWC's various acquisitions made, or pending, since the Company's last base rate case.

Gregory P. Roach is Manager of Revenue Analytics for AWWSC. His testimony, which is PAWC Statement No. 9, supports the Company's claim for a revenue adjustment to reflect declining residential consumption.

John R. Wilde is Senior Director-Tax of AWWSC. His testimony, which is PAWC Statement No. 10, supports the Company's claim for Federal income taxes.

John J. Spanos is Senior Vice President of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). His testimony, which is PAWC Statement No. 11, explains the development of the depreciated original cost of the Company's utility plant in service and its claim for annual depreciation expense.

Paul R. Herbert is President of Gannett Fleming. Mr. Herbert's testimony is PAWC Statement No. 12 and discusses the allocation of the cost of service to customer classifications and the design of tariff rates.

Ann E. Bulkley is a Senior Vice President of Concentric Energy Advisors, Inc. Her testimony, which is PAWC Statement No. 13, presents her recommendation regarding the rate of return that the Company should be afforded an opportunity to earn on its rate base and assesses the reasonableness of PAWC's proposed capital structure.

David D. Connelly is a Director of Fairmont Capital Advisors, Inc. His testimony, which is PAWC Statement No. 14, explains the relationship that existed between the City of Scranton and the Scranton Sewer Authority and why the City's distressed status directly implicated the viability of the SSA.

Eugene P. Barrett is a Manager of Business Development for the Company. Mr. Barrett's testimony, which is PAWC Statement No. 15, discusses the City of Scranton and the Scranton Sewer Authority and factors related to the decision of the SSA to sell the Scranton wastewater system.

The business addresses and business telephone numbers of the Company's witnesses are set forth in Appendix "A".

IV. DISCOVERY

To date, PAWC has been served with approximately 449 interrogatories[1] many of which contain multiple subparts. PAWC encourages informal exchanges of information and is prepared to meet with representatives of the parties to discuss issues of interest to them.

[1] Of the 449 interrogatories served on the Company, 239 were issued by the Office of Consumer Advocate, 198 by the Bureau of Investigation and Enforcement, and 12 by the Office of Small Business Advocate.

Subject to the adoption of shorter time frames at the Prehearing Conference, PAWC proposes that discovery otherwise be conducted in accordance with the Commission's regulations at 52 Pa. Code, Chapter 5, Subchapter D, subject to the following modifications:

(1) When an interrogatory, request for production, request for admission or motion is served after 12:00 p.m. on a Friday or the day before a holiday, the appropriate response period is deemed to start on the next business day.

(2) Discovery requests, motions to compel and responses are to be served electronically as well as on paper.

(3) After a Motion to Compel and Reply have been filed, if the objections that are the subject of the Motion are not resolved, counsel will alert the presiding officer by e-mail of the need for a ruling, and a conference call will be scheduled. The presiding officer may make a ruling over the telephone and not reduce it to writing unless requested to do so.

Pursuant to 52 Pa. Code § 5.341(b) and § 5.342(e), respectively, neither discovery requests and responses, nor objections to interrogatories, are to be served on the Commission or the Administrative Law Judges, although a certificate of service should be filed with the Commission's Secretary.

In addition, by separate Petition being filed contemporaneously with the Company's Prehearing Memorandum, the Company is requesting that the Administrative Law Judges enter a Protective Order to cover confidential and proprietary information and documents. As explained in the Company's Petition, the proposed Protective Order is substantially the same as Protective Orders approved in other recent base rate proceedings.[2]

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[2] *E.g., Pa. P.U.C. v. Pennsylvania-American Water Co.*, Docket No. R-2013-2355276, Protective Order – Order #5 (July 11, 2013) (Administrative Law Judges Angela T. Jones and Darlene Davis Heep): *Pa. P.U.C. v. Pennsylvania-American Water Co.*, Docket No. R-2011-2232243, Prehearing Order (July 11, 2011) (Administrative Law Judges Angela T. Jones and Eranda Vero); *Pa. P.U.C. v. Pennsylvania-American Water Co. (Wastewater)*, Docket Nos. R-2010-

V. PROPOSED SCHEDULE

PAWC has prepared and attached as Appendix "B" to this Memorandum a proposed schedule for the submission of testimony, the conduct of evidentiary hearings, and the filing of briefs. PAWC believes that a specific schedule for public input hearings can most efficiently be worked out at the Prehearing Conference where, with the input of other parties, dates, times and locations can be established subject to obtaining the necessary facilities.

VI. SETTLEMENT

PAWC is willing to pursue with the parties, and encourages, the possible stipulation of individual issues and/or more far-ranging settlement discussions that might lead to a comprehensive resolution of this matter with some or all of the parties. The Company has included in its proposed schedule dates for initial settlement conferences among the parties.

VII. CONCLUSION

Based on the evidence summarized above, it is the position of Pennsylvania-American Water Company that the rates proposed in Original Tariff Water – Pa. P.U.C. No. 5 and Original Tariff Wastewater – Pa. P.U.C. No. 16 are just, reasonable and lawful in all respects and,

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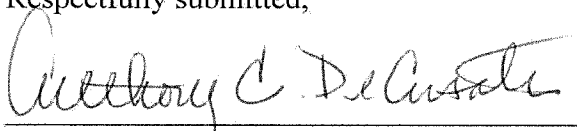
2166208, 2010-2166210, 2010-2166212 and 2010-2166214, Prehearing Order (July 12, 2010) (Chief Administrative Law Judge Charles E. Rainey, Jr.); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-2009-2132019, Order Granting Issuance Of Protective Order (March 16, 2010) (Administrative Law Judge Angela T. Jones).

accordingly, the requested rate increase should be approved by the ALJs and the Commission at the close of this proceeding.

Respectfully submitted,



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Counsel for
Pennsylvania-American Water Company

Dated: May 24, 2017

* The Company requests that Mr. DeCusatis be the designated entry on the official service list. His contact information is provided above.

APPENDIX "A"

WITNESS CONTACT INFORMATION

NAME	BUSINESS ADDRESS	TELEPHONE NO.
Rod P. Nevirauskas	American Water Works Service Co., Inc. 800 West Hersheypark Drive Hershey, Pennsylvania 17033	717-531-3340
James F. Sheridan	Pennsylvania-American Water Co. 800 West Hersheypark Drive Hershey, Pennsylvania 17033	717-531-3370
David R. Kaufman	Pennsylvania-American Water Co. 800 West Hersheypark Drive Hershey, Pennsylvania 17033	717-531-3303
John R. Cox	American Water Works Service Co., Inc. 800 West Hersheypark Drive Hershey, Pennsylvania 17033	717-531-3258
Jo Anne Lontz	American Water Works Service Co., Inc. 800 West Hersheypark Drive Hershey, Pennsylvania 17033	717-531-3261
Jamie D. Hawn	American Water Works Service Co., Inc. 131 Woodcrest Road Cherry Hill, New Jersey 08003	856-310-5717
Daniel P. Hunnell, II	American Water Works Service Co., Inc. 1600 Pennsylvania Avenue Charleston, West Virginia 25302	304-340-2025
Bernard J. Grundusky, Jr.	Pennsylvania-American Water Co. 852 Wesley Drive Mechanicsburg, Pennsylvania 17011	717-790-3024
Gregory P. Roach	American Water Works Service Co., Inc. 555 East County Line Road, Suite 201, Greenwood, Indiana 46143	317-885-2420

NAME	BUSINESS ADDRESS	TELEPHONE NO.
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Paul R. Herbert	Gannett Fleming Valuation and Rate Consultants, LLC 207 Senate Avenue Camp Hill, Pennsylvania 17011	717-763-7211
Ann E. Bulkley	Concentric Energy Advisors, Inc. 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752	508-263-6216
Daniel D. Connelly	Fairmont Capital Advisors, Inc. 1435 Walnut Street, Suite 300 Philadelphia, Pennsylvania 19102	215-587-9300
Eugene P. Barrett	Pennsylvania-American Water Co. 312 Adams Avenue Scranton, Pennsylvania 18503	570-575-9928

APPENDIX "B"

PROPOSED SCHEDULE

Prehearing Conference	May 25, 2017
Opposing Party Direct Testimony	August 9, 2017
Rebuttal Testimony (all parties)	August 31, 2017
Surrebuttal Testimony (all parties)	September 13, 2017 (accounting/revenue requirement) September 15, 2017 (cost of service and misc. issues)
Settlement Conference	September 7, 2017
Evidentiary Hearings (including oral rejoinder)	September 18, 21-22, 25 and 26, 2017 (26th is reserved for use, if necessary)
Main Briefs due	October 6, 2017
Reply Briefs due	October 16, 2017
Public Meeting	January 18, 2018
End of Suspension Period	January 27, 2018

All dates for service of written testimony are "in hand" dates, which may be met by serving testimony electronically.