

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 22, 2018

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

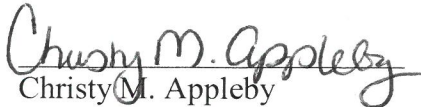
Re: Pa. Public Utility Commission  
v.  
SUEZ Water Pennsylvania, Inc.  
Docket No. R-2018-3000834

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,

  
Christy M. Appleby  
Assistant Consumer Advocate  
PA Attorney I.D. # 85824  
E-Mail: [CAAppleby@paoca.org](mailto:CAAppleby@paoca.org)

Enclosures

cc: Honorable David A. Salapa, ALJ  
Certificate of Service

\*249951

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :  
v. : Docket No. R-2018-3000834  
SUEZ Water Pennsylvania, Inc. :

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 22nd day of May 2018.

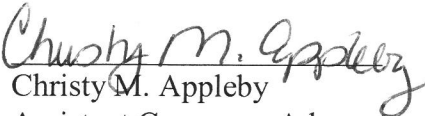
SERVICE BY E-MAIL & INTER-OFFICE MAIL

Scott B. Granger, Esquire  
Bureau of Investigation & Enforcement  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, PA 17120

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

Sharon Webb, Esquire  
Office of Small Business Advocate  
300 North Second Street  
Harrisburg, PA 17101-1303

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

  
Christy M. Appleby  
Assistant Consumer Advocate  
PA Attorney I.D. # 85824  
E-Mail: [CAappleby@paoca.org](mailto:CAappleby@paoca.org)

Counsel for the Office of Consumer Advocate  
555 Walnut Street  
5<sup>th</sup> Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
Dated: May 22, 2018  
\*249945

Barrett C. Sheridan  
Assistant Consumer Advocate  
PA Attorney I.D. # 61138  
E-Mail: [BSheridan@paoca.org](mailto:BSheridan@paoca.org)

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

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION

v.

SUEZ WATER PENNSYLVANIA, INC.

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Docket No. R-2018-3000834  
C-2018-3001786

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PREHEARING MEMORANDUM OF THE  
OFFICE OF CONSUMER ADVOCATE

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Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. Section 333, and in response to the May 17, 2018 Prehearing Conference Order issued in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

**I. INTRODUCTION**

On April 30, 2018, Suez Water Pennsylvania (Suez or the Company) filed proposed Supplement No. 53 to Tariff Water – Pa. P.U.C. No. 7 to become effective on June 29, 2018. Suez is engaged in the business of providing water distribution service to approximately 60,400 residential, commercial, industrial and public authority customers in eight counties in Pennsylvania. The Company has four (4) operating areas: Harrisburg/Newberry, Mechanicsburg, Bloomsburg and Dallas.

In Tariff Supplement No. 7, Suez proposes to increase its annual base rate revenues by approximately \$6.2 million or 13.2%. The \$6.2 million increase is in addition to the revenues generated by current rates and charges assessed to customers as of the date of filing. If the entire request is approved, the total bill (which currently includes the 7.5% Distribution System

Improvement Surcharge) for a residential customer using 3,500 gallons of water per month would increase from the total water bill for a residential customer using an average of 3,500 gallons per month would increase from \$43.94 to \$48.85, or by 11.2%. Suez also proposes to increase its customer charge from \$13.75 to \$15.00 per month, which is an increase of 9.1%. If approved, the rate increase would produce a 7.95% overall rate of return and a 10.75% return on common equity.

## **II. PROCEDURAL HISTORY**

On May 4, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) entered its appearance in this matter. On May 10, 2018, the OCA filed a Formal Complaint and Public Statement (Docket No. C-2018-3001786).

On May 17, 2018, the Commission entered an Order suspending Tariff Supplement No. 6 until January 29, 2019, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. Section 1308(d), and initiated an investigation into the lawfulness, justness, and reasonableness of the proposed and existing rates, rules, and regulations. The Company's filing was subsequently assigned to the Office of Administrative Law Judge (OALJ) and further assigned to Administrative Law Judge (ALJ) David A. Salapa. ALJ Salapa issued a Prehearing Conference Order on May 17, 2018 and scheduled a Prehearing Conference for May 25, 2018.

The OCA filed a Formal Complaint in this matter to protect the interests of Suez's customers, and seeks to ensure that the Company is permitted to implement only those rates that are fully justified and in accordance with sound ratemaking principles. The OCA will strive to prevent Suez from collecting all alleged costs that cannot be justified, or are unreasonable or unduly discriminatory, or otherwise violative of the Public Utility Code. The OCA submits that Suez's current rates and the rates sought by the Company may be unjustifiable and unlawful based upon information filed by the Company in support of its claim.

### III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of Suez's filing, the OCA has compiled a list of issues that it anticipates will be included in its investigation of the rate increase request. The OCA has served four sets of interrogatories on the Company to date. It is anticipated that other issues will arise and may be pursued as discovery proceeds.

The OCA has identified several issues that may require further review as follows:

#### A. Rate of Return

The OCA will perform a detailed analysis of the 10.75% cost of common equity claimed by Suez. The OCA will examine the methodologies and supporting data used to develop the Company's final cost of common equity claim. The OCA will review the cost of equity models and how the Company implemented those models. The OCA will also examine the capital structure proposed by Suez to determine whether the capital structure is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes. The OCA will further examine whether any company-specific adjustments proposed by Suez are justified.

#### B. Rate Base/Measure of Value

The OCA will examine the reasonableness and accuracy of the Company's plant in service claims. In this regard, the OCA will analyze whether the plant claimed is used and useful in providing utility service. The OCA will review the Company's forecast of additions to the plant in service, including plant additions related to Suez's Long-Term Infrastructure Improvement Plan. The OCA will also review the deduction of depreciation reserve and cash working capital claim. The OCA will further examine the Company's planned investment for service territory expansion and rate base claim for its proposed acquisition of the Mahoning Township water system.

C. Revenue and Expenses

The OCA will analyze Suez's sales projections and expenses. The OCA will evaluate the reasonableness of the Company's claims regarding revenues, including the various inputs and assumptions used by Suez. The OCA will review, *inter alia*, the Company's claims for wages and benefits, depreciation expense, rate case expense, labor expense, uncollectible accounts, pensions, purchased water and purchased power expense, rent expense and property tax expense. The OCA will also review the Company's calculation of inflation rates and the anticipated expenses associated with the proposed acquisition of the Mahoning Township water system

D. Taxes

On March 15, 2018, the Commission entered a Temporary Rates Order concerning the impact of the Tax Cuts and Jobs Act of 2017 (TCJA) on rates. *See Tax Cuts and Jobs Act of 2017*, Docket No. M-2018-2641242 (Temporary Rates Order entered March 15, 2018). In that Order, the Commission stated that it expected each public utility currently before the Commission with a base rate filing to address the effect of the tax rate reduction on the justness and reasonableness of rates. *Id.* at 4-5. The OCA will analyze Suez's filing to ensure that tax expense is properly reflected in rates and that any 2018 tax expense savings are timely returned to customers.

E. Rate Structure/Cost of Service/Rate Design

The OCA will examine Suez's cost of service study and evaluate cost allocations for reasonableness. The OCA will also examine the Company's proposal to increase the customer charge from \$13.75 to \$15.00. In addition, the OCA will review the proposed distribution of the revenue increase among customer classes. The OCA also review the reasonableness of Suez's proposed rate design and any proposed tariff changes, including the proposed rates for Mahoning Township-area customers .

F. Quality of Service

The OCA will examine the quality of service provided by Suez to assure that the Company's customers receive water that is suitable for household purposes, is continuously available and otherwise conforms to applicable standards for safe and adequate water utility service. The OCA will investigate the safety and effectiveness of the Company's physical plant.

**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 copies of all interrogatories, answers to interrogatories, and testimony be sent to the OCA's witnesses at the addresses below as well as counsel for the OCA:

Accounting and Regulatory Policy:

Lafayette K. Morgan  
Exeter Associates  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD. 21044  
Telephone: (410) 992-7500  
E-mail: lmorgan@exeterassociates.com

Rate of Return:

Aaron Rothschild  
Rothschild Financial Consulting  
15 Lake Road  
Ridgefield, CT. 06877  
Telephone: (203) 894-1028  
E-mail: aaron@rothschildfinancial.com

Cost of Service/Rate Structure/Rate Design:

Jerome D. Mierzwa  
Exeter Associates  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD. 21044  
Telephone: (410) 992-7500  
E-mail: [jmierzwa@exeterassociates.com](mailto:jmierzwa@exeterassociates.com)

Quality of Service:

Terry L. Fought  
780 Cardinal Drive  
Harrisburg, Pa. 17111  
Telephone: (717) 580-4235  
E-mail: [tlfengr@aol.com](mailto:tlfengr@aol.com)

The OCA specifically reserves the right to call additional witnesses, as necessary. If the OCA determines that additional witnesses are necessary for any portion of its case, the OCA will promptly notify the ALJ and all parties of record.

**V. SERVICE ON THE OCA**

Senior Assistant Consumer Advocate Erin L. Gannon and Assistant Consumer Advocates Christy M. Appleby and Barrett Sheridan will represent the OCA in this proceeding.

Two copies of all documents should be served on the OCA as follows:

Erin L. Gannon  
E-Mail: [EGannon@paoca.org](mailto:EGannon@paoca.org)

Christy M. Appleby  
E-Mail: [CAappleby@paoca.org](mailto:CAappleby@paoca.org)

Barrett C. Sheridan  
E-Mail: [BSheridan@paoca.org](mailto:BSheridan@paoca.org)

Office of Consumer Advocate  
5<sup>th</sup> Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048



## **VI. DISCOVERY**

As the timeframe for discovery and preparation of testimony is limited, the OCA submits that a shorted timeframe for discovery responses is appropriate in this proceeding. The OCA supports the modifications to the discovery rules proposed by Suez, which include the following:

1. Answers to written interrogatories are to be served in-hand within ten (10) calendar days of service.
2. Objections to interrogatories are to be communicational orally within three (3) days of service of the interrogatories; unresolved objections are to be served on the Administrative Law Judge in writing within five (5) days of service of the interrogatories.
3. Motions to dismiss objections and/or direct the answering of interrogatories are to be filed within three (3) calendar days of service of written objections.
4. Answers to motions to dismiss objections and/or directing the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.
5. Rulings on such motions shall be issued, if possible, within seven (7) calendar days of the filing of the motion.
6. Requests for admission are deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
7. Answers to on-the-record data requests shall be served in-hand within seven (7) calendar days of the requests.
8. Any discovery served after 12:00 noon on a Friday or the day before a holiday will be deemed to have been served on the following business day for purposes of tracking due dates.
9. All discovery due dates shall be “in-hand” and electronic or fax service on the due date will satisfy the “in-hand” requirement, where such service is immediately followed by a hard copy sent by first-class mail.

## **VII. PUBLIC INPUT HEARINGS**

At this time, the OCA is not aware of any Formal Complaints or informal complaints in this case. The OCA has received one consumer request for a public input hearing. The consumer

is located in Upper Allen Township, Mechanicsburg, Pennsylvania. Due to the amount of the proposed rate increase and the size of the Company's service territory, the OCA requests that a "Smart" telephonic/in-person public input hearing be held in order to receive comments from customers impacted by the rate increase. The OCA will work with the parties, ALJ Salapa, and the Commission's scheduling staff to reach a mutually agreeable hearing date.

The OCA also requests that Suez be directed to extensively advertise this public input hearing. 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 hearing, including social media and the Company's website, should be utilized as well.

The OCA specifically reserves the right to request additional in-person locations for public input hearings in response to any future requests from ratepayers and/or legislators. The OCA will promptly advise the parties as well as ALJ Salapa of such requests.

### **VIII. PROPOSED SCHEDULE**

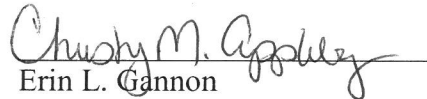
The OCA agrees with the following procedural schedule proposed by Suez:

Other Parties' Direct Testimony	July 20, 2018
Rebuttal Testimony	August 17, 2018
Surrebuttal Testimony	August 31, 2018
Outline of Expected Oral Rejoinder	September 5, 2018
Hearings	September 10-12, 2018
Main Brief	September 27, 2018
Reply Brief	October 10, 2017

**IX. SETTLEMENT**

The OCA will fully participate in settlement discussions with the parties at the appropriate time during this proceeding.

Respectfully submitted,



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

Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate

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

Barrett C. Sheridan  
Assistant Consumer Advocate  
PA Attorney I.D. # 61138  
E-Mail: BSheridan@paoca.org

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

Dated: May 22, 2018  
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