

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 22, 2018

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

Re: Pa. Public Utility Commission
v.
The York Water Company
Docket No. R-2018-3000019

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/ Erin L. Gannon

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

Enclosures

cc: Honorable Benjamin J. Myers, ALJ
Certificate of Service

*252270

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :
v. : Docket No. R-2018-3000019
The York Water Company :

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 June 2018.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

John M. Coogan, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

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

Michael W. Hassell, Esquire
Devin T. Ryan, Esquire
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North Second Street
Commerce Building, Suite 202
Harrisburg, PA 17101-1303

Matthew Poff
The York Water Company
130 East Market Street
York, PA 17401

/s/ Erin L. Gannon
Erin L. Gannon
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Dated: June 22, 2018
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Under York's proposal, the typical water bill for residential gravity customers using 4,600 gallons of water per month would increase from \$37.78 to \$41.84 per month, or by 10.7%, while the typical water bill for residential repumped customers using 3,699 gallons of water per month would increase from \$44.72 to \$49.11 per month, or by 9.8%. The typical wastewater bill for residential customers would increase by 25%, as follows: for customers in Asbury Pointe Subdivision, from \$50.00 to \$62.50 per month; for customers in East Prospect Borough and Lower Windsor Area using 4,874 gallons of water per month, from \$51.75 to \$64.69; and for customers in West York Borough Area from \$26.17 to \$32.71 per month per dwelling unit. York also proposes to increase the 5/8-inch water customer charge (for gravity and repumped customers) from \$16.00 to \$18.50 per month, or by 15.6%. If approved in its entirety, the rate increase would produce an 8.48% overall rate of return and an 11.00% return on common equity.

II. PROCEDURAL HISTORY

As detailed above, York filed its water and wastewater base rate filings on May 30, 2018. On June 7, 2018, the OCA filed a Formal Complaint and Public Statement in this proceeding. The OCA filed a Formal Complaint in order to protect the interests of York'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 the Company from collecting all alleged costs that cannot be justified, or are unreasonable or unduly discriminatory, or otherwise in violation of the Public Utility Code. The OCA submits that York'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.

On June 11, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in this matter. On June 18, 2018, the Office of Small Business Advocate

(OSBA) filed a Formal Complaint and Public Statement. On June 14, 2018, the Commission entered an Order suspending Tariff Supplement No. 14 and Tariff Supplement No. 6 until March 1, 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) Benjamin J. Myers. On June 15, 2018, ALJ Myers issued a Prehearing Conference Order and scheduled a Prehearing Conference for June 26, 2018. The OCA files this Prehearing Memorandum in accordance with ALJ Meyer's June 15, 2018 Order.

III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of York's filing, the OCA has compiled a list of issues that it anticipates will be included in its investigation of York's rate increase request. The OCA has served six (6) sets of interrogatories on the Company to date. The OCA anticipates that other issues will arise and may be pursued throughout the course of discovery. Accordingly, the OCA specifically reserves the right to raise additional issues as this matter proceeds. The presently identified issues include the following:

A. Rate of Return

The OCA will perform a detailed analysis of the 11.00% cost of common equity claimed by York, including an independent cost of equity recommendation based two standard versions of the DCF method and using a Capital Asset Pricing Model (CAPM) as a check on DCF results. 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 York to determine whether it 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 York 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 also examine the Company's acquisitions that were purchased in excess of book value that reflect a premium that will be amortized and those that were purchased at less than book value that do not reflect an amortization of the negative acquisition amount. The OCA will review the Company's forecast of additions to the plant in service. The OCA will also review the deduction of depreciation reserve and examine the Company's cash working capital claim, materials and supplies and capitalization of expenses.

C. Revenue and Expenses

The OCA will analyze York'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 York. The OCA will also examine the Company's projected decline in revenues from declining consumption. The OCA will review, *inter alia*, the Company's claims for wages and benefits, depreciation expense, rate case expense, corporate and A&G expenses, uncollectible accounts, rent expense, property tax, insurance, and bank trustee, credit rating, and directors' fees. The OCA will also examine the amortization associated with the various acquisitions.

D. Taxes

On May 17, 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 May 17, 2018). In that Order, the Commission stated that it expects 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 20. The OCA will analyze York's filing to ensure that tax expense is properly reflected in rates, including recognizing the excess deferred income taxes, and that any 2018 tax expense savings are timely returned to customers.

E. Rate Structure/Cost of Service/Rate Design

The OCA will examine York'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 \$16.00 to \$18.50 per month. In addition, the OCA will review the proposed distribution of the revenue increase among customer classes. The OCA also review the reasonableness of York's proposed rate design and any proposed tariff changes.

F. Quality of Service

The OCA will examine the quality of service provided by York to ensure 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

Donna H. Mullinax
Blue Ridge Consulting Services, Inc.
114 Knightsridge Road
Travelers Rest, SC 29690
Phone: (864) 836-4497
E-Mail: dmullinax@blueridgecs.com

Rate of Return

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

Cost of Service/Rate Structure/Rate Design

Jerome D. Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Pkwy, Suite 300
Columbia, MD 21044-3575
Phone: (410) 992-7500
E-Mail: jmierzwa@exeterassociates.com

Quality of Service

Terry L. Fought
780 Cardinal Drive
Harrisburg, Pa. 17111
Phone: (717) 580-4235
E-mail: 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 Harrison W. Breitman and Hayley E. Dunn will represent the OCA in this proceeding.

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

Erin L. Gannon
Senior Assistant Consumer Advocate
E-Mail: EGannon@paoca.org

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

For purposes of the informal e-mail distribution list, the OCA also requests that Assistant Consumer Advocates Hayley E. Dunn (HDunn@paoca.org) and Harrison W. Breitman (HBreitman@paoca.org) and our clerical assistant, Lauren Castor (LCastor@paoca.org), be included. The OCA will extend the same courtesy to any other parties requesting that additional persons be included on the e-mail distribution list.

VI. DISCOVERY

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

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. PROPOSED SCHEDULE

The OCA proposes the following schedule, which the OCA understands is acceptable to York Water, I&E and OSBA.

Other parties' Direct Testimony	August 23
Rebuttal Testimony	September 20
Surrebuttal Testimony	October 4
Rejoinder Outline	October 10
Evidentiary Hearings	October 15-17
Main Brief	November 7
Reply Brief	November 21

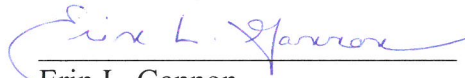
VIII. PUBLIC INPUT HEARINGS

The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. However, if the OCA becomes aware of substantial consumer interest, the OCA will promptly notify the Administrative Law Judge and parties to request a public input hearing.

IX. SETTLEMENT

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

Respectfully submitted,



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Dated: June 22, 2018