



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE

June 26, 2017

Secretary Rosemary Chiavetta  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v.  
Reynolds Water Company  
Docket No. R-2017-2631441

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E) **Reply Exceptions** in this proceeding.

Copies are being served on all parties as evidenced in the attached Certificate of Service. If you have any questions, please feel free to contact me at (717) 783-6156.

Sincerely,

Carrie B. Wright  
Prosecutor  
Bureau of Investigation and Enforcement  
PA Attorney I.D. #208185

John M. Coogan  
Prosecutor  
Bureau of Investigation and Enforcement  
PA Attorney I.D. #313920

Enclosure

cc: Certificate of Service

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## I. INTRODUCTION

On April 6, 2018, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and Reynolds Water Company (“Reynolds”) (collectively, “Joint Petitioners”) filed a Joint Petition for Settlement of Rate Investigation (“Settlement”) regarding Reynolds’ proposed base rate increase. On May 16, 2018, Administrative Law Judge Katrina L. Dunderdale (“ALJ”), issued a Recommended Decision (“RD”) that the Commission approve the Settlement, with modifications.

Timely Exceptions to the RD were filed by thirteen Complainants: Gilbert V. and Marilyn A. Brant – C-2018-3000208 (filed June 6, 2018); Ryan Foust - C-2018-2647069 (filed June 8, 2018); Plem Patterson – C-2018-2647045 (filed June 8, 2018); Margaret Foust – C-2018-2644372 (June 8, 2018); David R. Roeder, Sr. – C-2018-3000250 (filed June 8, 2018); Helene Canady – C-2018-3000065 (filed June 11, 2018); James Vessella – C-2017-2634797 (filed June 11, 2018); Brian Hills – C-2018-2647070 (filed June 11, 2018); Laurel Litwiler – C-2018-2647272 (filed June 11, 2018); Lucas Schilling - C-2018-3000087 (filed June 11, 2018); and John D’Urso - C-2017-2636679 (filed June 11, 2018); Marie Potts – C-2018-3000505 (filed June 14, 2018).<sup>1</sup>

Each Complainant’s Exception is a five-page form letter. To summarize I&E’s understanding, in their Exceptions, Complainants:

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<sup>1</sup> Exceptions were also filed by Bea DeCiancio (C-2017-2635838) on June 20, 2018, using the same five-page form letter.

- Oppose a 30.4% rate increase as an unacceptable 15.4% decrease from Reynolds' original proposed increase;
- Assert that fire hydrants are locked down and not in service unless a \$1,500 fee is paid per year, causing home insurance costs to increase;
- Do not agree that this proceeding can be settled without formal litigation;
- Do not agree or grant permission to Reynolds to file a tariff to become effective on one day's notice;
- Question the Accumulated Deferred Income Tax ("ADIT") normalization credit;
- Question Reynolds' affiliation with two non-profit/501(c) organizations;
- Object to annual income granted through Phase I rates;
- Question why Reynolds needs a cost-benefit analysis to move to monthly billing;
- Assert Reynolds is not showing respect to veterans or the disabled;
- Assert water, sewer, and Pennvest are estimated;
- Assert Reynolds owns Pennvest and Pennvest is Reynolds' finance company.
- Object to a two-year stay-out provision, and instead advocate for an eleven-year stay-out provision;
- Object to a quarterly cost increase for residential customers of 7.49%
- Contrast the claim that the Settlement will provide Reynolds' necessary revenue with Complainants' claim Reynolds' received a grant for \$327,000 and borrowed \$1.5 million from their finance company;
- Assert that Reynolds' should be audited spanning the past seven years;
- Question Reynolds' claim they have a negative return of 4.49% at present rates, while they also claim to have \$5,000,000 in assets;

- Question whether 500 feet of eight-inch water pipe under the Shenango River is for the benefit of the community or an industrial park;
- Concerning federal taxes, assert that the Commission has notified utility companies' that they must lower their rates by 8.5%;
- Do not believe the terms and conditions of the Settlement represent a fair and reasonable resolution of issues and claims.

Complainant Margaret Foust submitted individual comments in addition to the form letter stating the Phase II increase in rates is completely unnecessary and excessive, especially with new businesses moving into the Reynolds' service area. In addition, Ms. Foust asserts the potential business of a Reynolds' employee will increase Reynolds' revenue, and the 30.4% rate increase is an example of corporate greed.

I&E now files these timely Reply Exceptions in response to the Exceptions raised by Complainants.

## **II. REPLY EXCEPTIONS**

I&E maintains that the Settlement, as modified by the RD, is in the public interest and represents a fair, just, and reasonable balance of the interests of its customers. I&E agreed to a net increase of \$158,600 to Reynolds' revenue only after extensive discovery, including review of responses to numerous data requests and interrogatories, and participation in mediation sessions. The settlement reduces Reynolds' original request of \$236,829 by \$78,229, or 33.0%. I&E determined this amount of revenue was necessary for Reynolds to provide safe, effective, and reliable service without unduly impacting customers through higher rates.

Additionally, this increase will not be immediate, but will occur over two phases: Phase I (increase of \$111,198, or 21.3%), will be effective upon approval of the Commission, and Phase II (increase of \$47,402, or 7.5%), will be effective only after completion of the three capital projects detailed in the Settlement.

I&E's investigation also ensured the Settlement properly reflected effects of the reduction to federal corporate income tax ("FCIT") due to the Tax Cuts and Jobs Act ("TCJA"). On March 15, 2018, the Commission ordered that parties in pending Section 1308(d) proceedings should address the effects of the reduction in tax rate through current proceedings.<sup>2</sup> Accordingly, I&E supported the Settlement, which reflected a revenue requirement calculation based on a 21% FCIT rate. I&E also advocated for and supported inclusion in the Settlement return of excess ADIT through December 31, 2017, and the refund of \$700 in excess ADIT accrued through the effective date of new rates as a one-time bill credit.

Although the stay out provision is for two years, this does not indicate Reynolds will file a base rate increase in two years. I&E notes this is Reynolds' first base rate increase since an increase was last approved in 2010. Ratepayers will be provided rate stability for at least two years following the effective date of the Phase II increase, and any future rate case filing will be subject to the same review applied here. The Settlement also provides that Reynolds' next rate case filing will include elimination of the minimum allowance and a bill frequency analysis, better reflecting individual customer

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<sup>2</sup> *Tax Cuts and Jobs Act of 2017, Temporary Rates Order (TRO)*. Docket M-2018-2641242 (Order entered March 15, 2018).

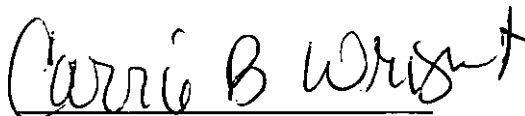
usage and leading to more precise bills based on consumption. Without a cost-benefit analysis, it is not yet certain whether ratepayers will benefit from the increased operating costs of switching from quarterly to monthly billing.

Rate cases are expensive endeavors, the cost of which is ultimately borne by the ratepayers. Therefore, the Commission has generally encouraged settlement of rate cases where an amicable resolution is possible as it typically saves ratepayers the expense of a fully litigated proceeding. I&E as the Party representing the public interest in this proceeding asserts that the aforementioned Settlement is in the best interest of Reynolds Water and its ratepayers. Therefore, I&E requests that the Commission deny the Complainants Exceptions and affirm the ALJ's RD approving the Settlement in this proceeding.

### III. CONCLUSION

I&E asserts the Settlement recognizes ratepayers' concerns by reducing Reynolds' original request, but also provides Reynolds with additional and necessary cash flow. Additionally, the Settlement minimizes litigation costs, which could ultimately be borne by ratepayers in higher rates for water service. For these and the other reasons stated herein, the Bureau of Investigation & Enforcement respectfully requests that the Commission deny the above-referenced Exceptions of the Complainants.

Respectfully submitted,



Carrie B. Wright  
Prosecutor  
PA Attorney I.D. #208185

John M. Coogan  
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Pennsylvania Public Utility Commission  
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Harrisburg, PA 17105-3265  
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Dated: June 26, 2018



BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :  
 :  
 v. : Docket No. R-2017-2631441  
 :  
 Reynolds Water Company :

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Reply Exceptions** dated  
June 28, 2018, in the manner and upon the persons listed below, in accordance with the  
requirements of 52 Pa. Code § 1.54 (relating to service by a party):

**Served via First Class or Electronic Mail**

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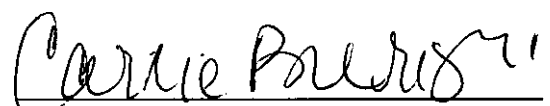
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