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October 10, 2018

2018 OCT 10 PM 4:09

David P. Zambito

VIA E-FILE

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Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
Harrisburg, PA 17120

**Re: PENNSYLVANIA PUBLIC UTILITY COMMISSION V. SUEZ WATER PENNSYLVANIA
INC., DOCKET NO. R-2018-3000834**

JOINT PETITION FOR APPROVAL OF SETTLEMENT OF RATE PROCEEDING

Dear Secretary Chiavetta:

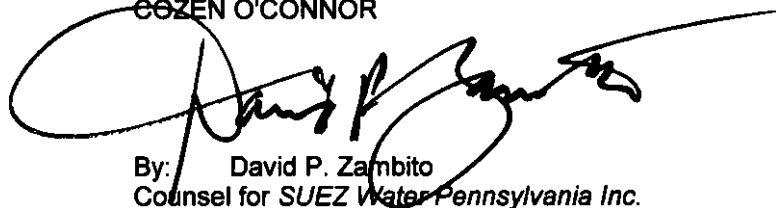
Enclosed for filing with the Commission is the original of the Joint Petition for Approval of Settlement of Rate Proceeding ("Settlement") between SUEZ Water Pennsylvania Inc. ("SWPA"), the Pennsylvania Public Utility Commission's Bureau of Investigation & Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA") and the Pennsylvania Builders Association ("PBA") (hereinafter collectively referred to as the "Joint Petitioners"). By the Settlement, the Joint Petitioners resolve in full SWPA's rate filing at Docket No. R-2018-3000834.

Copies of the Settlement are being served on the Presiding Officer, Administrative Law Judge David A. Salapa, and on all parties, as indicated on the enclosed Certificate of Service.

Thank you for your attention to this matter. If you have any questions, please direct them to me.

Sincerely,

COZEN O'CONNOR



By: David P. Zambito
Counsel for SUEZ Water Pennsylvania Inc.

DPZ:kmg
Enclosure

cc: Honorable David A. Salapa
Per Certificate of Service
John D. Hollenbach

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2018 OCT 10 PM 4:09

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FRONT DESK

Administrative Law Judge
David A. Salapa

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2018-3000834
Office of Consumer Advocate,	:	C-2018-3001786
Office of Small Business Advocate	:	C-2018-3002132
James and Reva Crownover	:	C-2018-3003017
Pennsylvania Builders Association	:	
	:	
v.	:	
	:	
SUEZ Water Pennsylvania Inc.	:	

**JOINT PETITION FOR APPROVAL OF
SETTLEMENT OF RATE PROCEEDING**

I. INTRODUCTION

SUEZ Water Pennsylvania Inc. ("SWPA"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Pennsylvania Public Utility Commission's Bureau of Investigation & Enforcement ("I&E"), and the Pennsylvania Builders Association ("PBA"), parties to the above-captioned proceeding (hereinafter collectively referred to as the "Joint Petitioners"), hereby join in this "Joint Petition for Approval of Settlement of Rate Proceeding" ("Settlement") and respectfully request that the Honorable Administrative Law Judge David A. Salapa (the "ALJ") and the Pennsylvania Public Utility Commission ("Commission") approve this Settlement without modification.

As fully set forth and explained below, the Joint Petitioners have agreed to a settlement of all issues in the above-captioned proceeding. The Settlement provides for increases in rates, as set forth in the pro forma tariff supplement attached hereto as **Appendix A** and the proof of revenues attached hereto as **Appendix B**, designed to produce an increase in annual operating revenues of \$3.0 million. Attached hereto as **Appendix C** is an “Average Bill Impact Statement” which explains the anticipated impact of the agreed-upon settlement rates upon the average customer in various customer classes.

In support of this Settlement, the Joint Petitioners state the following:

II. BACKGROUND

1. SWPA is a public utility subject to the Commission’s regulatory jurisdiction. SWPA provides water service to approximately 60,400 customers in portions of eight counties and 39 municipalities in Pennsylvania.

2. On April 30, 2018 and pursuant to Section 1308(d) of the Public Utility Code (“Code”), 66 Pa. C.S. § 1308(d), SWPA filed Supplement No. 53 to Tariff - Water – Pa. P.U.C. No. 7 (“Supplement No. 53”) along with direct testimony and exhibits and other supporting information. Supplement No. 53 proposed an increase in rates designed to produce an annual increase in base rate revenues of approximately \$6.2 million and had an effective date of June 29, 2018. As permitted by Section 315(e) of the Code, 66 Pa. C.S. § 315(e), SWPA used a fully projected future test year (“FPFTY”) ending December 31, 2019 to develop the rates proposed in Supplement No. 53.

3. Counsel for I&E filed a Notice of Appearance on May 4, 2018.

4. The OCA filed a formal complaint at Docket No. C-2018-3001786 that was served by the Commission’s Secretary on May 11, 2018.

5. On May 17, 2018, the ALJ issued a prehearing conference order.
6. Pursuant to 66 Pa. C.S. § 1308(d) and by Commission order entered May 17, 2018, the effective date of Supplement No. 53 was suspended until January 29, 2019, unless permitted by Commission order to become effective at an earlier date. On May 25, 2018, SWPA filed Supplement No. 54 to Tariff Water--Pa. P.U.C. No. 7 suspending Supplement No. 53 in compliance with the Commission's May 17, 2018 Order.
7. The OSBA filed a formal complaint at Docket No. C-2018-3002132 that was served by the Commission's Secretary on May 23, 2018.
8. An initial prehearing conference was held on May 25, 2018. On May 25, 2018, the ALJ issued Prehearing Order #2, which, among other things, established the procedural schedule for this case.
9. On June 7, 2018, SWPA filed a Motion for Protective Order. This unopposed motion was granted by order of June 8, 2018.
10. James and Reva Crownover filed a formal complaint against the rate increase, which was served on SWPA by Secretarial Letter dated June 27, 2018.
11. Two public input hearings were held on July 11, 2018. On July 19, 2018, the ALJ issued an order admitting into the record an exhibit submitted by one of the witnesses who testified at the hearing.
12. The PBA filed a Petition to Intervene on July 3, 2018. This unopposed petition was granted by the ALJ's July 24, 2018 "Order Granting Petition to Intervene of the Pennsylvania Builders Association."

13. In accordance with 52 Pa. Code § 53.45(h), on August 22, 2018, SWPA filed an affidavit confirming compliance with the applicable notice requirements contained in the Commission's rules and regulations regarding rate filings in excess of \$1,000,000.

14. In accordance with the schedule established at the prehearing conference, parties other than SWPA served direct testimony and accompanying exhibits on July 20, 2018. SWPA, I&E and OSBA served rebuttal testimony and accompanying exhibits on August 17, 2018.

15. Counsel for SWPA contacted the ALJ via e-mail on August 31, 2018 to state that the parties had agreed to request an extension of the deadline for filing surrebuttal testimony until September 5, 2018, so they could continue settlement negotiations. The motion was granted. Nevertheless, the OCA and I&E served surrebuttal testimony on August 31, 2018.

16. The Joint Petitioners engaged in extensive formal and informal discovery throughout the proceeding.

17. The Joint Petitioners held several settlement conferences. As a result of those conferences and the efforts of the Joint Petitioners to examine the issues raised during the course of the proceeding, a settlement in principle was achieved by the Joint Petitioners prior to the date for the hearing. On September 6, 2018, the Joint Petitioners, by electronic mail, advised ALJ Salapa of the settlement in principle. ALJ Salapa was out of the office at that time. Consequently, ALJ Cheskis cancelled the evidentiary hearing scheduled for September 10. Via e-mail of September 10, 2018, ALJ Salapa suspended the procedural schedule and canceled the evidentiary hearings scheduled for September 11 and 12, 2018. An Order Suspending Litigation Schedule was issued on September 11, 2018.

18. The Joint Petitioners have been able to agree to a rate increase and individual provisions that resolve all issues in the proceeding, and the Joint Petitioners have agreed to a

revenue allocation and rate design to recover said increase. The Joint Petitioners are in full agreement that the Settlement is in the best interests of SWPA and its customers. The Settlement's terms are set forth in the following Section.

III. SETTLEMENT TERMS

19. In settlement of all issues in this base rate proceeding, the Joint Petitioners agree as follows:

a. **Removal of Mahoning Township**

SWPA's claims associated with SWPA's acquisition of the water system assets of Mahoning Township, currently pending for approval by the Commission at Docket No. A-2018-3003519 ("Mahoning Transaction"), are removed from its claims in this proceeding.

b. **Revenue Requirement**

(i) Following entry of a Commission final order approving this Settlement, SWPA shall file a compliance tariff supplement, effective no sooner than February 1, 2019, with new rates designed to produce \$3.0 million in additional annual operating revenue based upon the pro forma level of residential usage of 2,273,369 thousand gallons and commercial usage of 1,394,933 thousand gallons for the test period ending December 31, 2017 ("Settlement Rates"). The level of revenue requirement included in this Settlement reflects the resolution of the parties' positions regarding 66 Pa. C.S. § 1301.1 for this case.

(ii) SWPA's allowed revenue requirement shall be allocated to rates among the rate classes in the same manner as proposed in its base rate filing.

(iii) The proposed increases to the separate customer classes shall be scaled back proportionately under the Settlement; with the exception that no change shall be made to proposed, as-filed rates for Public Fire Hydrant Service.

c. Customer Service Charges

All Customer Service Charges for 5/8"-3/4" meter size service shall be \$14.50.

d. Non-Residential Standby Rate

Tariff Supplement No. 53 shall be revised to allow the Non-Residential Standby Rate to be nominated in 100 gallons per day units. The Cost per Month per Hundred Gallons of Daily Demand shall be \$14.18, and the cost per thousand gallons of standby usage shall be \$2.87.

e. Amortizations

The Parties agree that there shall be no additional amortizations (*i.e.*, beyond those previously-recognized by the Commission) recognized as a result of this proceeding.

f. Depreciation

SWPA shall use the proposed depreciation rates as filed in its base rate filing.

g. State Tax Adjustment Surcharge

In accordance with 52 Pa. Code § 69.55, the State Tax Adjustment Surcharge ("STAS") for SWPA shall be established at 0% effective with the effective date of Settlement Rates in this proceeding.

h. Distribution System Improvement Charge

(i) The Distribution System Improvement Charge ("DSIC") for SWPA shall be established at 0% of billed revenues effective with the effective date of Settlement Rates. The DSIC shall remain at 0% of billed revenues until the later of: (a) the end of the FPFTY; or, (b) the quarter following the point in time at which SWPA's DSIC-eligible investment, net of plant funded with customer advances and customer contributions, exceeds \$26.79 million. The \$26.79 million is calculated to include DSIC investment made beginning

January 1, 2018 (*i.e.*, the beginning of the Future Test Year) and ending December 31, 2019 (*i.e.*, the end of the FPFTY). The foregoing provision is included solely for purposes of calculating the DSIC, and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing.

(ii) For purposes of calculating its DSIC, SWPA shall use the equity return rate for water utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for water utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

(iii) The parties acknowledge that issues regarding the impact of 66 Pa. C.S. § 1301.1 on the treatment of federal and state income tax deductions in calculating DSIC charges are currently being litigated before the Commission in *Petition of Metropolitan Edison Co., et al., for Approval of a DSIC*, Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948 ("*Petition of Met-Ed*"). The Company will not contest the right of a party to raise issues regarding the impact of 66 Pa. C.S. § 1301.1 on the treatment of federal and state income tax deductions in calculating DSIC charges by filing a complaint against the Company's first quarterly DSIC charge filed after the resolution of the *Petition of Met-Ed* or by filing a pleading to initiate a generic proceeding.

i. Unaccounted-For Water

(i) SWPA will continue to employ the methods to reduce Unaccounted-For Water as set forth on page 17 of John Hollenbach's Direct Testimony, SWPA Statement No. 1, and in the currently-effective version of 52 Pa. Code § 65.20.

(ii) SWPA shall prepare Section 500 forms for each of its operating systems for which it submits a Chapter 110 Report and provide them to the OCA and the Pennsylvania Public Utility Commission's Bureau of Technical Utility Services ("TUS") in live Excel format at the time of its Chapter 110 Report submission. SWPA will include records supporting its estimate of "Located and Repaired Breaks in Mains & Services."

j. Fully-Projected Future Test Year Reporting

SWPA will provide TUS, I&E, OCA and OSBA, on or before April 30, 2019, an update to SWPA Exhibit No. JDH-1 to include actual plant additions and retirements by month for the twelve months ending December 31, 2018. On or before October 31, 2019, SWPA shall update SWPA Exhibit No. JDH-1 for the twelve months ending June 30, 2019. In SWPA's next base rate proceeding, SWPA shall prepare and submit a comparison of its actual expenditures and rate base additions for the twelve months ending December 31, 2019, to its projections in this case.

k. Tax Cuts and Jobs Act ("TCJA")

(i) SWPA will begin amortizing the total excess ADIT (\$10,065,851) over 38 years, estimated to be \$264,891 annually, on the effective date of new rates approved in this proceeding. In its next base rate case, SWPA will true-up this amount and flow back any differences to ratepayers based on a change to the ARAM method that is currently being determined by the Company's tax consultant.

(ii) Tax savings resulting from TCJA prior to the effective date of new rates pursuant to this Settlement will be provided to ratepayers as follows:

- SWPA will flow back to ratepayers via a reconcilable surcharge mechanism over a one-year period, the net savings associated with the

reduction in federal income tax expense from January 1, 2018 through January 31, 2019 (“Federal Tax Adjustment Credit” or “FTAC”). The Company’s estimated net savings of \$2.42 million will be increased to provide for interest accrued during 2018 and 2019. The interest will be calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 *et seq.*) that is in effect on the last day of the month the over-collection or under-collection occurs.

- The FTAC will be based on the difference in total annual revenue requirement before and after implementing the 2018 effects of the TCJA and the calculation will reflect the reduction in required revenues plus interest for 2018 and January 2019. The reduction in required revenues will be calculated by estimating annual applicable base revenues to develop the FTAC to be applied to customers’ bills for service rendered during the twelve-month period beginning on the effective date of new rates.
- The parties agree that the surcharge mechanism will be added to the Company’s tariff as follows:

Federal Tax Adjustment Credit (FTAC)

The FTAC will refund the difference in revenue requirement created by the TCJA plus interest. A credit value of 4.91% will apply to all charges except the DSIC during the period February 1, 2019 through January 31, 2020 to pass the January 1, 2018 through January 31, 2019 tax expense effects of the Tax Cuts and Jobs Act (TCJA) to customers.

The difference between the actual reduction in required revenue and the reduction in revenues produced by the FTAC as applied will be subject to refund or recovery in the Company’s next base rate case. The actual reduction in required revenue will be calculated as the grossed-up difference between the tax expense for the period January 1, 2018 through January 31, 2019 after the TCJA and the tax expense for the same period as it would have been calculated pre-TCJA plus interest.

If, after the twelve-month refund period elapses, the calculated amount of tax expense savings to be refunded to customers is greater than the estimated refund amount of \$2.42 million or if the Company has not refunded the full

tax expense savings amount, the Company will provide interest on any necessary reconciliation at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 *et seq.*). If the calculated amount of tax expense savings to be refunded to customers is less than the estimated refund amount of \$2.42 million or the Company has refunded more than the actual tax expense savings amount, the Company will forego interest on any necessary reconciliation.

1. Treatment of Income Taxation of Contributions in Aid of Construction

Within 30 days of a final, unappealed Commission order on the tariff supplement filing of Pennsylvania-American Water Company at Docket No. R-2018-3002504, SWPA shall file a tariff supplement consistent with the Commission's resolution in that proceeding of the issue of cost responsibility for, and ratemaking treatment of, income taxation of Contributions in Aid of Construction ("CIAC"). Until such time as SWPA's tariff supplement becomes effective and unappealable, the Company shall either require the developer to present a letter of credit in the amount of grossed-up income tax that would be owed on the CIAC or to hold such amount in escrow; the letter of credit or escrow funds, as the case may be, shall be released to the appropriate party within 15 business days of the tariff supplement becoming effective and unappealable. The amount of grossed-up income tax owed will be calculated by multiplying the CIAC by a factor of 1.4063 and then deducting the CIAC amount from that number. Notwithstanding the foregoing, any existing CIAC agreement between SWPA and a developer shall remain in full force and effect without modification.

m. Rate Filing Stay-Out

SWPA shall not file with the Commission a tariff or tariff supplement proposing a general increase in base rates earlier than April 29, 2021; provided, however, that the foregoing provision shall not prevent SWPA from filing a tariff or tariff supplement: (a) proposing a

general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting SWPA's rates or (b) proposing a rate increase of less than \$1 million to be applied exclusively to customers in the service territory addressed in the Mahoning Transaction, in order to move such customers toward the Mahoning system's cost of service. Parties maintain their rights to participate in and contest any ratemaking item or issue relevant to such filing.

n. Quality of Service Commitments

(i) SWPA shall establish and document a valve maintenance program by January 1, 2019 that will set forth a minimum number of valves to exercise annually.

(ii) Within 60 days of Commission approval of this Settlement, SWPA shall meet with OCA and I&E to discuss proposed modifications to SWPA's social media outreach to consumers regarding quality of service events.

(iii) In SWPA's next base rate proceeding, SWPA shall prepare and submit a complaint log in sortable Excel format. The log will include complaints made to the Company about its service or facilities, showing the name and address of the complainant, the date and character of the complaint, and the final disposition of the complaint.

(iv) With regard to service-related issues, in response to concerns raised by OCA in its testimony in this case and by consumers at the Public Input Hearings, the Company has taken or will take the actions set forth below:

Response to Concerns of Douglas Hassenbein

Representatives of the Company met with Mr. Hassenbein on several occasions after the public input hearing in this proceeding. The Company has investigated each of Mr. Hassenbein's previous complaints about discolored water. In some cases, the Company was able to identify the cause of the discoloration (main breaks in the area or authorized/unauthorized water use). In other cases, the Company was not able to identify the cause of the discoloration. The Company explained to Mr. Hassenbein that the apartment complex in which

he lives is served by a lengthy galvanized service line, which is maintained by the owner of the apartment complex. To the extent that the discoloration is caused by this line, the owner of the apartment complex is responsible for addressing the problem. The Company continues to meet with Mr. Hassenbein to address his concerns and will update the OCA after each meeting with Mr. Hassenbein.

Response to Concerns of the Borough of Mechanicsburg

Representatives of the Company have been in contact with Roger Ciecierski, the Borough Manager of Mechanicsburg, throughout the line repair/replacement project, providing updates and addressing issues that were expressed to the Company. Nevertheless, in an effort to improve communications between the Company and the Borough, representatives of the Company met with representatives of the Borough of Mechanicsburg following the public input hearings in this case. In addition, the Company is developing a customer communication plan for future projects of an extended duration, such as the instant project. The Company will provide a draft of its communication plan to the OCA.

Response to Concerns of a Resident of the Cherrington Condo Community in Harrisburg

After the OCA brought this complaint to the attention of the Company, the Company investigated the resident's allegations of discolored water at the complex during July, 2018. This investigation determined that the discolored water was confined to the complex and was not a system-wide problem. To the extent that the discoloration is caused by the service line from the Company's main to the various buildings in the complex, the owner of the condominium community is responsible for addressing the problem.

Response to Concerns of a Resident located on Cardinal Drive, Harrisburg

After this customer filed a complaint against the rate case, the Company investigated the complainant's allegations of low water pressure and discolored water. The Company placed a pressure recording device on two hydrants near the customer's residence for seven days. The results indicated the pressure in the main ranged between 68 and 81 psi, which is above the 25 psi minimum required by the PUC's regulations. The Company will contact the customer to provide the pressure reading results and respond to the allegation of discolored water.

o. Miscellaneous

- (i) All other provisions of SWPA base rate filing as reflected in Tariff

Supplement No. 53 shall be adopted without modification in SWPA's base rate increase compliance tariff supplement filing.

(ii) It is recognized by the Joint Petitioners that this is a “black box settlement” that is a compromise of the settling parties’ positions on various issues.

IV. CONDITIONS OF SETTLEMENT

20. The Settlement is conditioned upon the Commission’s approval of the terms and conditions contained in this Settlement without modification. If the Commission modifies the Settlement, any Joint Petitioner may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an Order modifying the Settlement. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding.

21. This Settlement is proposed by the Joint Petitioners to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Joint Petitioners reserve their respective procedural rights, including the right to present additional testimony and to conduct full cross-examination, briefing and argument. The Settlement is made without any admission against, or prejudice to, any position which any Joint Petitioner may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

22. Joint Petitioners acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any party’s position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

23. Attached as **Appendices D through H** are the respective Statements in Support of

the Joint Petition for Approval of Settlement of Rate Proceeding submitted by SWPA, OCA, OSBA, I&E and PBA setting forth the bases upon which each Joint Petitioner believes the Settlement to be fair, just and reasonable and, therefore, in the public interest.

24. If the ALJ recommends approval of the Settlement without modification, the Joint Petitioners waive their rights to file Exceptions.

V. REQUEST FOR RELIEF

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that:

(a) The Honorable Administrative Law Judge David A. Salapa and the Commission approve this Settlement as submitted including all terms and conditions thereof without modification;

(b) The Commission's Investigation at Docket No. R-2018-3000834 be terminated and marked closed;

(c) The Complaint of the Office of Consumer Advocate at C-2018-3001706 be marked closed;

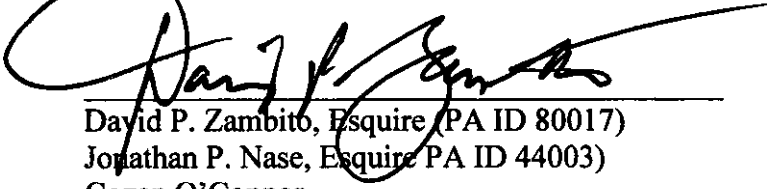
(d) The Complaint of the Office of Small Business Advocate at C-2018-3002132 be dismissed consistent with the Settlement and marked closed;

(e) The Complaint of James and Reva Crownover (C-2018-3003017) will be dismissed and marked closed in the discretion of the Honorable Administrative Law Judge David A. Salapa and the Commission with consideration of any comments and/or exceptions to the Settlement that may be filed by the Crownovers; and,

(f) The Commission enter an order consistent with this Settlement, terminating the proceeding and authorizing SUEZ Water Pennsylvania Inc. to file the tariff supplement attached

as **Appendix A** to be effective on February 1, 2019.

Respectfully submitted,



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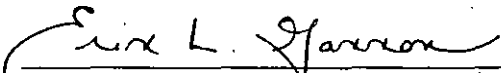
Date: 10/10/18

as **Appendix A** to be effective on February 1, 2019.

Respectfully submitted,

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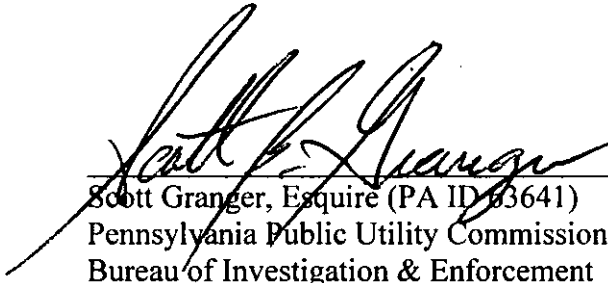


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10/3/18

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APPENDIX A

PRO FORMA TARIFF SUPPLEMENT

RECEIVED

OCT 10 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

SUEZ WATER PENNSYLVANIA INC.

Supplement No. 55 to:
Water – Pa. P.U.C. No. 7

SUEZ WATER PENNSYLVANIA INC.

Harrisburg, Pennsylvania,

Rates, Rules and Regulations

Governing the Distribution of Water in

(See Page 5 for Territories Served)

ISSUED: XXXX XX, XXXX

EFFECTIVE: February 1, 2019

BY: John Hollenbach, Vice President & General Manager
SUEZ Water Pennsylvania Inc.
4211 East Park Circle
Harrisburg, PA 17111

NOTICE

This tariff supplement is a general rate increase under Section 1308(d) of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1308(d), and updates the schedule with rates for customers pursuant to the Pennsylvania Public Utility Commission's Final Order at Docket No. R-2018-3000834.

LIST OF CHANGES MADE BY THIS SUPPLEMENT

Schedule of Meter Rates, Page 6, 6A, 6B, 7, 8, 9, and 10 – reflects rate increase in this case.

Page 6A modifies to whom the rate is applicable.

Page 7 modifies Large Industrial Tariff language; adds fixed minimum charge.

Page 10 reflects changes in terms of classification from regular Schedule of Rates to fire-service only rates.

Addition of Page 10A provides for continuation of Rates for Private Fire Sprinkler and Hose Service.

Page 11 is modified to add Non-Residential Standby Rates.

Page 63 is modified to reduce DSIC.

Addition of Page 64 to include Federal Tax Adjustment Credit ("FTAC").

- (I) Indicates an Increase
- (D) Indicates a Decrease
- (C) Indicates a Change

SUEZ WATER PENNSYLVANIA INC.

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SUEZ WATER PENNSYLVANIA INC.

Cancelling Eighth and Ninth Revised Page 6

SCHEDULE OF METER RATES

Application:

To all residential customers residing in all territories served by SUEZ Water Pennsylvania.

Volume Charges:

All consumption at \$0.90510 per 100 gallons (I)

Customer Service Charges:

<u>Meter Size</u>	<u>Per Month</u>	
5/8" – 3/4"	\$14.50	(I) (C)
1"	30.05	(I)
1 1/2"	60.11	(I)
2"	102.96	(I)
3"	193.12	(I)
4"	321.90	(I)
6"	643.80	(I)
8"	1,030.16	(I)
10"	1,480.85	(I)

Conditions of Contract:

The rate will consist of the total of (A) the Volume Charge and (B) the Customer Service charge. The volume charge is based on all metered water for the billing period.

Terms of Payment:

All bills shall be rendered monthly. Bills rendered will show a due date of twenty (20) days after the date the bill is mailed for residential customers and fifteen (15) days after the date the bill is mailed for commercial/public authority, industrial, sales for resale, public fire and private fire customers, except as provided by law for governmental entities. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

SCHEDULE OF METER RATES

Application:

To all commercial, commercial residence/apartments and public authority customers residing in all territories served by SUEZ Water Pennsylvania. (C)

Volume Charges:

	<u>Per Month</u>	<u>Rate Per</u> <u>100</u> <u>Gallons</u>	
First	25,000 Gallons	\$0.90510	(I)
Over	25,000 Gallons	0.65790	(I)

Customer Service Charges:

<u>Meter Size</u>	<u>Per Month</u>	
5/8" – 3/4"	\$14.50	(I) (C)
1"	30.05	(I)
1 1/2"	60.11	(I)
2"	102.96	(I)
3"	193.12	(I)
4"	321.90	(I)
6"	643.80	(I)
8"	1,030.16	(I)
10"	1,480.85	(I)

Conditions of Contract:

The rate will consist of the total of (A) the Volume Charge and (B) the Customer Service charge. The volume charge is based on all metered water for the billing period.

Terms of Payment:

All bills shall be rendered monthly. Bills rendered will show a due date of twenty (20) days after the date the bill is mailed for residential customers and fifteen (15) days after the date the bill is mailed for commercial/public authority, industrial, sales for resale, public fire and private fire customers, except as provided by law for governmental entities. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

SCHEDULE OF METER RATES

Application:

To all regular industrial customers residing in all territories served by SUEZ Water Pennsylvania.

Volume Charges:

	<u>Per Month</u>	<u>Rate Per</u> <u>100</u> <u>Gallons</u>	
First	25,000 Gallons	\$0.90510	(I)
Over	25,000 Gallons	0.74700	(I)

Customer Service Charges:

<u>Meter Size</u>	<u>Per Month</u>	
5/8" – 3/4"	\$14.50	(I) (C)
1"	30.05	(I)
1 1/2"	60.11	(I)
2"	102.96	(I)
3"	193.12	(I)
4"	321.90	(I)
6"	643.80	(I)
8"	1,030.16	(I)
10"	1,480.85	(I)

Conditions of Contract:

The rate will consist of the total of (A) the Volume Charge and (B) the Customer Service charge. The volume charge is based on all metered water for the billing period.

Terms of Payment:

All bills shall be rendered monthly. Bills rendered will show a due date of twenty (20) days after the date the bill is mailed for residential customers and fifteen (15) days after the date the bill is mailed for commercial/public authority, industrial, sales for resale, public fire and private fire customers, except as provided by law for governmental entities. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

SCHEDULE OF METER RATES

Application:

To all large industrial customers.

Large Industrial Tariff – Applicable to all Industrial customers that elect to be on the Large Industrial Tariff rate. Those Industrial customers will take or pay for 7 million gallons per month at a fixed minimum charge of \$28,490, with usage over 7 million gallons per month to be charged at \$0.407 per 100 gallons. Once an Industrial customer elects to be on the Large Industrial Tariff, they must remain on the Large Industrial Tariff for a minimum of six consecutive months before electing to be removed from the Large Industrial Tariff with a 30 day written notice to SUEZ PA's customer service department. (C)

<u>Service Charge</u>	<u>Per Month</u>	
3"	\$193.12	(I)
4"	321.90	(I)
6"	643.80	(I)
8"	1,030.16	(I)
10"	1,480.85	(I)

Consumption Charge

All usage over 7 million gallons per month to be charged at \$0.407 per 100 gallons. (I) (C)

Fixed minimum charge per month \$28,490.00. (C)

Conditions of Contract:

The rate will consist of the total of (A) the Volume Charge and (B) the Customer Service charge. The volume charge is based on all metered water for the billing period.

Terms of Payment:

All bills shall be rendered monthly. Bills rendered will show a due date of twenty (20) days after the date the bill is mailed for residential customers and fifteen (15) days after the date the bill is mailed for commercial/public authority, industrial, sales for resale, public fire and private fire customers, except as provided by law for governmental entities. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Rates for Public Fire Hydrant Service

Application:

To all political subdivisions.

Rates:

For fire hydrant installed and maintained by the Company at its expense.

		<u>Per Month</u>	
(Harrisburg)	Each fire hydrant	\$25.83	(1)
(Dallas)	Each fire hydrant	\$20.00	(1)
(Mechanicsburg)	Each fire hydrant	\$25.83	
(Bloomsburg)	Each fire hydrant	\$20.00	(1)

Conditions:

Water from fire hydrants is intended to be used for fighting fires. Any water used for purposes other than fighting fires shall be billed at the Residential rate on Page 6.

Water used from fire hydrants for other than fighting fires should be based on meter readings where possible. If a meter cannot be used, the Company will estimate the usage.

Rates for Private Fire Hydrant Service

Application:

To all customers having private fire hydrant installations.

Rates:

For a lateral connection from the main in a private easement to a hydrant valve at the curb, easement boundary or property line to serve a fire hydrant installed and maintained by the customer at his expense:

	<u>Per Month</u>	
Each fire hydrant	\$47.30	(l)

Conditions of Contract:

The Company reserves the right to meter any fire line where evidence indicates that water is being taken from the line for purposes other than fire fighting, and such metered service shall then be billed in accordance with the regular Schedule of Meter Rates in addition to the above rates, with proper allowance for water consumed in fire fighting.

Rates for Private Fire Sprinkler and Hose Service

Application:

To all customers having a separate fire sprinkler system and/or inside hose connection for fire fighting purposes.

Rates:

For fire service through a separate fire service line.

	<u>Per Month</u>	
For each 2" service line(or smaller)	\$ 21.23	(l)
For each 3" service line	57.26	(l)
For each 4" service line	73.44	(l)
For each 6" service line	122.08	(l)
For each 8" service line	181.96	(l)
For each 10" service line	260.05	(l)
For each 12" service line	361.50	(l)
For each 14" service line	664.08	(l)

There will be no additional charge for sprinkler heads, or hose connections, supplied from the service line. There shall be no additional charge for hydrants installed on a private fire sprinkler line

Conditions of Contract:

All new fire services will be metered by a meter approved by the Company. The Company reserves the right to determine the location of the meter/meter vault. All piping appurtenances and the vault will be at the sole cost of the customer and be maintained by the customer.

All new fire services shall be equipped with a backflow preventer device. The Customer shall provide a Company specified meter installed in a Company specified meter vault with a Company specified back flow preventer for all fire services. The cost of any piping modifications needed to accommodate the appropriate backflow preventer and or detector check will be at the customer's expense.

The Company reserves the right to meter any existing fire line where evidence indicates that water is being taken from the line for purposes other than fire fighting, and such metered service shall then be billed in accordance with the regular Schedule of Meter Rates in addition to the above rates, with proper allowance for water consumed in fire fighting. The Company shall also have the right to reclassify the customer to the regular Schedule of Meter Rates, in the same manner, when two or more months of usage are recorded within a rolling 12-month period unless the customer can demonstrate, by evidence acceptable to the Company that the usage was in fact for the purpose of firefighting. Following a reclassification, the customer shall not be returned to a fire service-only rate until the customer has made a request for such service and can demonstrate, by evidence acceptable to the Company, 12 continuous months of no usage for purposes other than firefighting. The customer will be responsible for the cost of the meter and any piping modifications needed to accommodate the meter.

(C)

Rates for Private Fire Sprinkler and Hose Service (continued)

The Company reserves the right to require the fire service line to be separate from the domestic service line.

For existing private fire services that are not metered, the customer must notify the Company three business days prior to any testing of the fire flow system. The Company will determine the acceptable rate of flow for testing purposes. The Company will assess a charge of \$250 per fire flow test. A penalty charge of \$1,000 will be assessed for any fire flow test conducted without notifying the Company.

The Company reserves the right to make system changes that may impact both the static and residual pressures. In such events, as long as the pressures meet the PUC pressure requirements, the Company will not be held responsible, or otherwise liable, for any required changes to the customer's fire suppression system as a result of the change to the Company's pressure.

NON-RESIDENTIAL STANDBY RATE

(C)

Application:

This rate is available to all non-residential customers that have an alternative supply source or a non-residential customer that purchases water from the Company and develops or obtains a new source of supply.

The Non-Residential Standby Rate is available on a firm basis, not interruptible.

The daily requirement, as nominated by the customer, shall be equal to the maximum day capacity of the non-residential customer's alternative supply or the new source of supply or another reasonable amount agreed to by the Company and the non-residential customer.

A monthly charge of \$14.18 per 100 gallons of daily requirement as nominated as well as a usage charge of \$2.87 per thousand gallons for any actual usage.

Standby Charge:

A monthly charge of \$14.18 per 100 gallons of daily requirement as nominated

Consumption Charge

All usage per 100 gallons	\$0.287
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Conditions of Contract:

The rate will consist of the total of (A) the Volume Charge and (B) the Customer Service Charge and (C) the Standby rate agreed to by the Company and the non-residential customer.

Terms of Payment:

All bills shall be rendered monthly. Bills rendered will show a due date of twenty (20) days after the date the bill is mailed for residential customers and fifteen (15) days after the date the bill is mailed for commercial/public authority, industrial, sales for resale, public fire and private fire customers, except as provided by law for governmental entities. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

EXCEPT PUBLIC FIRE PROTECTION

In addition to the net charges provided for in this Tariff, a charge of 0.00% will apply to all charges for bills rendered on or after February 1, 2019.

(C)

The above charge will be recomputed quarterly, using the elements prescribed by the Commission in its Order dated August 26, 1996 at Docket No. P-00961031.

FEDERAL TAX ADJUSTMENT CREDIT (“FTAC”)

(C)

The FTAC will refund the difference in revenue requirement created by the TCJA plus interest. A credit value of 4.91% will apply to all charges except the DSIC during the period February 1, 2019 through January 31, 2020 to pass the January 1, 2018 through January 31, 2019 tax expense effects of the Tax Cuts and Jobs Act (TCJA) to customers.

The difference between the actual reduction in required revenue and the reduction in revenues produced by the FTAC as applied will be subject to refund or recovery in the Company's next base rate case. The actual reduction in required revenue will be calculated as the grossed-up difference between the tax expense for the period January 1, 2018 through January 31, 2019 after the TCJA and the tax expense for the same period as it would have been calculated pre-TCJA plus interest.

If, after the twelve-month refund period elapses, the calculated amount of tax expense savings to be refunded to customers is greater than the estimated refund amount of \$2.42 million or if the Company has not refunded the full tax expense savings amount, the Company will provide interest on any necessary reconciliation at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 *et seq.*). If the calculated amount of tax expense savings to be refunded to customers is less than the estimated refund amount of \$2.42 million or the Company has refunded more than the actual tax expense savings amount, the Company will forego interest on any necessary reconciliation.

APPENDIX B

PROOF OF REVENUES

RECEIVED

OCT 10 2018

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

SUEZ WATER PENNSYLVANIA INC.

COMPARISON OF PRESENT AND SETTLEMENT RATES

MTR SIZE	Residential		
	Present	Settlement	%
	Rate	Rate	Increase
5/8"-3/4"	\$ 13.75	\$ 14.50	5.455%
1"	\$ 28.50	\$ 30.05	5.439%
1-1/2"	\$ 57.00	\$ 60.11	5.456%
2"	\$ 97.63	\$ 102.96	5.459%
3"	\$ 183.13	\$ 193.12	5.455%
4"	\$ 305.25	\$ 321.90	5.455%
6"	\$ 610.50	\$ 643.80	5.455%
8"	\$ 976.88	\$ 1,030.16	5.454%
10"	\$ 1,404.25	\$ 1,480.85	5.455%
	Consumption Charge		
No Block	\$ 7.7506	\$ 9.0510	16.778%
First 25 MGL			
All Over 25 MGL			

Commercial (Includes Apt)		
Present	Settlement	%
Rate	Rate	Increase
\$ 13.75	\$ 14.50	5.455%
\$ 28.50	\$ 30.05	5.439%
\$ 57.00	\$ 60.11	5.456%
\$ 97.63	\$ 102.96	5.459%
\$ 183.13	\$ 193.12	5.455%
\$ 305.25	\$ 321.90	5.455%
\$ 610.50	\$ 643.80	5.455%
\$ 976.88	\$ 1,030.16	5.454%
\$ 1,404.25	\$ 1,480.85	5.455%
Consumption Charge		
\$ 7.7506	\$ 9.0510	16.778%
\$ 5.4321	\$ 6.5790	21.113%

Industrial		
Present	Settlement	%
Rate	Rate	Increase
\$ 13.75	\$ 14.50	5.455%
\$ 28.50	\$ 30.05	5.439%
\$ 57.00	\$ 60.11	5.456%
\$ 97.63	\$ 102.96	5.459%
\$ 183.13	\$ 193.12	5.455%
\$ 305.25	\$ 321.90	5.455%
\$ 610.50	\$ 643.80	5.455%
\$ 976.88	\$ 1,030.16	5.454%
\$ 1,404.25	\$ 1,480.85	5.455%
Consumption Charge		
\$ 7.7506	\$ 9.0510	16.778%
\$ 5.7618	\$ 7.4700	29.647%

MTR SIZE	Public Authority		
	Present	Settlement	%
	Rate	Rate	Increase
5/8"-3/4"	\$ 13.75	\$ 14.50	5.455%
1"	\$ 28.50	\$ 30.05	5.439%
1-1/2"	\$ 57.00	\$ 60.11	5.456%
2"	\$ 97.63	\$ 102.96	5.459%
3"	\$ 183.13	\$ 193.12	5.455%
4"	\$ 305.25	\$ 321.90	5.455%
6"	\$ 610.50	\$ 643.80	5.455%
8"	\$ 976.88	\$ 1,030.16	5.454%
10"	\$ 1,404.25	\$ 1,480.85	5.455%
	Consumption Charge		
No Block	\$ 7.7506	\$ 9.0510	16.778%
First 25 MGL	\$ 5.4321	\$ 6.5790	21.113%

Large Industrial		
Present	Settlement	%
Rate	Rate	Increase
\$ 13.75	\$ 14.50	5.455%
\$ 28.50	\$ 30.05	5.439%
\$ 57.00	\$ 60.11	5.456%
\$ 97.63	\$ 102.96	5.459%
\$ 183.13	\$ 193.12	5.455%
\$ 305.25	\$ 321.90	5.455%
\$ 610.50	\$ 643.80	5.455%
\$ 976.88	\$ 1,030.16	5.454%
\$ 1,404.25	\$ 1,480.85	5.455%
Minimum Charge	\$ 28,490	
Consumption Charge		
\$ 3.60450	\$ 4.0700	12.914%

FIRE PROTECTION

Private Fire Protection-Monthly				Private Fire Hydrant-Monthly				Public Fire Protection-Monthly		
Current	Settlement	%		Current	Settlement	%		Current	Settlement	
Per Unit	Rate	Increase		Per Unit	Rate	Increase		Per Unit	Rate	
2"	\$ 19.30	\$ 21.23	10.000%					Hydrants-BMB	\$ 18.33	\$ 20.00
3"	\$ 52.05	\$ 57.26	10.010%					Hydrants-DAL	\$ 18.33	\$ 20.00
4"	\$ 66.76	\$ 73.44	10.006%	\$ 43.00	\$ 47.30	10.000%		Hydrants-HAR	\$ 24.17	\$ 25.83
6"	\$ 110.98	\$ 122.08	10.002%					Hydrants-MEC	\$ 25.83	\$ 25.83
8"	\$ 165.42	\$ 181.96	9.999%							
10"	\$ 236.86	\$ 260.55	10.002%							
12"	\$ 328.64	\$ 361.50	9.999%							
14"	\$ 603.72	\$ 664.08	9.998%							

SUEZ WATER PENNSYLVANIA INC.

SUMMARY OF PRO FORMA REVENUES UNDER SETTLEMENT RATES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2019
AND THE CALCULATION OF THE REVENUE INCREASE UNDER SETTLEMENT RATES

Customer Classification (1)	Pro Forma Revenues, Present Rates (Schedule 4) (2)	Bill Analysis Revenues, Settlement Rates (Schedule 3) (3)	Adjustment Factor (Sch. 4, col 4) (4)	Revenues, Settlement Rates (5)=(4)X(3)	Pro Forma Adjustments Settlement Rates (Schedules 3 and 7) (6)	Total Pro Forma Revenue Settlement Rates (7)=(5)+(6)	Settlement Increase (8)=(7)-(2)	Percent Increase (9)
METERED SALES								
Residential	\$ 28,877,255	\$ 30,303,764	0.99899003	\$ 30,273,158	\$ 47,783	\$ 30,320,941	\$ 1,443,686	5.0%
Commercial	11,767,147	12,865,555	0.99980693	12,863,071	(118,652)	12,744,419	977,271	8.3%
Industrial	1,467,311	1,626,925	0.99990886	1,626,776	-	1,626,776	159,466	10.9%
Municipal	1,835,763	2,120,257	0.99167720	2,102,611	(77,330)	2,025,280	189,518	10.3%
Total Metered Sales	43,947,476	46,916,501		46,865,617	(148,200)	46,717,417	2,769,941	6.3%
Private Fire	1,446,048	1,580,532	1.00000000	1,580,532	10,133	1,590,665	144,617	10.0%
Public Fire	923,861	1,008,895	1.00000000	1,008,895		1,008,895	85,034	9.2%
Other Operating Revenues	405,611	405,611		405,611		405,611	-	0.0%
Total	\$ 46,722,995	\$ 49,911,539		\$ 49,860,655	\$ (138,067)	\$ 49,722,587	\$ 2,999,592	6.4%

SUEZ WATER PENNSYLVANIA INC.

SUMMARY OF APPLICATION OF SETTLEMENT RATES TO CUSTOMER BILL ANALYSIS AND PRO FORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017 AND 2019

<u>Rate Zone</u> (1)	<u>Residential</u> (2)	<u>Commercial</u> (3)	<u>Industrial</u> (4)	<u>Large Industrial</u> (5)	<u>Municipal</u> (6)	<u>Metered Total</u> (7)
<u>Settlement Rate Application, Schedule 6</u>						
Total Revenue	\$ 30,303,764	\$ 12,865,555	\$ 836,736	\$ 790,188	\$ 2,120,257	\$ 46,916,501
Total	<u>\$ 30,303,764</u>	<u>\$ 12,865,555</u>	<u>\$ 836,736</u>	<u>\$ 790,188</u>	<u>\$ 2,120,257</u>	<u>\$ 46,916,501</u>
<u>Pro Forma Adjustments, Schedule 9 - 2018 and 2019</u>						
All Including Trunk Line Mahoning Twp.	\$ 47,783	\$ (118,652)	\$ -	\$ -	\$ (77,330)	\$ (148,200)
	\$ -	\$ -				\$ -
Total	<u>\$ 47,783</u>	<u>\$ (118,652)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (77,330)</u>	<u>\$ (148,200)</u>

SUEZ WATER PENNSYLVANIA INC.

SUMMARY OF REVENUE UNDER PRESENT RATES AND PRO FORMA REVENUES UNDER PRESENT RATES
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2019

Customer Classification (1)	Adjusted Revenues, Per Books Present Rates 12/31/2017 (a) (2)	Bill Analysis Revenues, Present Rates (Schedule 5) (3)	Ref.	Adjustment Factor (4)=(2)/(3)	Revenues Under Present Rates (5)=(4)X(3)	Pro Forma Adjustments Present Rates (Schedule 5 and 7) (6)	Add Back Annualized DSIC Revenue (7)	Total Pro Forma Revenue Present Rates (8)=(5)+(6)+(7)
METERED SALES								
Residential	\$ 26,796,924	\$ 26,824,015	Sch. 6	0.99899003	\$ 26,796,924	\$ 65,639	\$ 2,014,692	\$ 28,877,255
Commercial	11,045,912	11,048,045	Sch. 6	0.99980693	11,045,912	(99,728)	820,964	11,767,147
Industrial	1,278,641	1,278,758	Sch. 6	0.99990886	1,278,641	86,299	102,371	1,467,311
Public Sales	1,772,512	1,787,388	Sch. 6	0.99167720	1,772,512	(64,825)	128,076	1,835,763
Total Sales of Water	\$ 40,893,989	\$ 40,938,206			\$ 40,893,989	\$ (12,616)	\$ 3,066,103	\$ 43,947,476
Private Fire	\$ 1,436,836	\$ 1,436,836	Sch. 7	1.00000000	1,436,836	\$ 9,211		1,448,048
Public Fire	923,861	923,861	Sch 8	1.00000000	923,861			923,861
Other Operating Revenues	405,611	405,611			405,611			405,611
Total	\$ 43,660,297	\$ 43,704,514			\$ 43,660,297	\$ (3,404)	\$ 3,066,103	\$ 46,722,995

(a) Excludes DSIC and Unbilled Revenue.

(c) See Schedule 6.

(d) See Schedule 7.

SUEZ WATER PENNSYLVANIA INC.

SUMMARY OF APPLICATION OF PRESENT RATES TO CUSTOMER BILL ANALYSIS AND PRO FORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, 2018 AND 2019

<u>Rate Zone</u> (1)	<u>Residential</u> (2)	<u>Commercial</u> (3)	<u>Industrial</u> (4)	<u>Large Industrial</u> (5)	<u>Public Authority</u> (6)	<u>Metered Total</u> (7)
<u>Present Rate Application, Schedule 6</u>						
Total Revenue	\$ 26,824,015	\$ 11,048,045	\$ 664,035	\$ 614,723	\$ 1,787,388	\$ 40,938,206
Total	\$ 26,824,015	\$ 11,048,045	\$ 664,035	\$ 614,723	\$ 1,787,388	\$ 40,938,206
<u>Pro Forma Adjustments - Schedule 9 - 2018</u>						
Total Adjustments	\$ 13,018	\$ (49,897)		\$ 86,299	\$ (56,722)	\$ (7,302)
Subtotal	\$ 13,018	\$ (49,897)	\$ -	\$ 86,299	\$ (56,722)	\$ (7,302)
<u>Pro Forma Adjustments - Schedule 9 - 2019</u>						
All	\$ (67,241)	\$ (49,832)			\$ (8,103)	\$ (125,176)
Trunk Line	\$ 119,862		\$ -			\$ 119,862
Mahoning Twp.	\$ -	\$ -				\$ -
Subtotal	\$ 52,621	\$ (49,832)	\$ -	\$ -	\$ (8,103)	\$ (5,314)
Total Adjustments	\$ 65,639	\$ (99,728)	\$ -	\$ 86,299	\$ (64,825)	\$ (12,616)

SUEZ WATER PENNSYLVANIA INC.

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS
YEAR ENDED DECEMBER 31, 2017

Line No	Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Test Year Rate (4)	Revenue (5)	Settlement Consumption	Settlement Rate (6)	Settlement Revenue (7)	
Residential - Monthly									
1	Customer Charge								
2	5/8	844,460	-	\$ 13.75	\$ 8,861,329		\$ 14.50	\$ 9,344,674	
3	3/4	3,179	-	13.75	43,715		14.50	46,099	
4	1	3,234	-	28.50	92,162		30.05	97,174	
5	1 1/2	204	-	57.00	11,651		60.11	12,286	
6	2	60	-	97.63	5,868		102.98	6,188	
7	3	-	-	183.13	-		193.12	-	
8	Subtotal	851,138	-		9,014,725			9,506,422	
9									
10	First Block	-	2,297,795	7.7508	17,809,290	2,297,795	9.0510	20,797,343	
12	Subtotal	-	2,297,795		17,809,290	2,297,795		20,797,343	
13									
14	Total Residential	851,138	2,297,795		\$ 26,824,015	2,297,795		\$ 30,303,764	
15									
16									
17	Commercial - Monthly								
18	Customer Charge								
19	5/8	30,038	-	\$ 13.75	\$ 413,022		\$ 14.50	\$ 435,551	
20	3/4	326	-	13.75	4,477		14.50	4,721	
21	1	13,157	-	28.50	374,983		30.05	395,377	
22	1 1/2	6,172	-	57.00	351,828		60.11	371,024	
23	2	5,631	-	97.63	549,707		102.98	579,717	
24	3	336	-	183.13	61,532		193.12	64,889	
25	4	377	-	305.25	114,937		321.90	121,208	
26	6	289	-	610.50	176,679		643.80	186,316	
27	8	27	-	976.88	26,571		1,030.16	28,020	
28	Subtotal	58,353	-		2,073,736			2,186,821	
29									
30	First Block (First 25,000)	-	566,511	7.7508	4,390,804	566,511	9.0510	5,127,496	
31	Second Block (Over 25,000)	-	843,782	5.4321	4,583,505	843,782	6.5790	5,551,238	
32	Subtotal	-	1,410,293		8,974,309	1,410,293		10,678,734	
33									
34	Total Class	58,353	1,410,293		\$ 11,048,045	1,410,293		\$ 12,865,555	

SUEZ WATER PENNSYLVANIA INC.

APPLICATION OF PRESENT AND SETTLEMENT RATES TO PRIVATE FIRE CONNECTIONS AS OF 12-31-2017

Rate Zone, Connection Size (1)	Number (2)	Present Rates		Number (5)	Settlement Rates	
		Rate (3)	Revenue (4)		Rate (6)	Revenue (7)
2" or smaller	883	\$ 19.30	\$ 17,041	883	\$ 21.23	\$ 18,745
3"	60	52.05	3,123	60	57.26	3,436
4"	2,218	66.76	148,078	2,218	73.44	162,895
6"	3,725	110.98	413,441	3,725	122.08	454,793
8"	2,634	165.42	435,766	2,634	181.96	479,337
10"	360	236.86	85,364	360	260.55	93,902
12"	123	328.64	40,423	123	361.50	44,465
Hydrants	6,828	43.00	293,600	6,828	47.30	322,960
Total Private Fire	16,832		\$ 1,436,836	16,832		\$ 1,580,532
HTY, FTY and FPFTY 6"	83	110.98	9,211	83	122.08	10,133

SUEZ WATER PENNSYLVANIA INC.

APPLICATION OF PRESENT AND SETTLEMENT RATES TO
THE NUMBER OF PUBLIC FIRE HYDRANTS AS OF DECEMBER 31, 2017

<u>Service Area</u> (1)	<u>Pro Forma Number of Bills</u> (2)	<u>Present Monthly Rate</u> (3)	<u>Pro Forma Present Revenue</u> (4)	<u>Settlement Monthly Rate</u> (5)	<u>Pro Forma Settlement Revenue</u> (6)
Bloomsburg/Dallas	4,368	\$ 18.33	\$ 80,065	\$ 20.00	\$ 87,360
Harrisburg	27,024	24.17	653,170	25.83	698,030
Mechanicsburg	7,380	25.83	190,625	25.83	190,625
Mahoning	<u>1,644</u>			20.00	<u>32,880</u>
Total	<u>40,416</u>		<u>\$ 923,861</u>		<u>\$ 1,008,895</u>

SUEZ WATER PENNSYLVANIA INC.

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO PROFORMA ADJUSTMENTS
YEAR ENDED DECEMBER 31, 2017, 2018 AND 2019

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Test Year/Present Rate (4)	Revenue (5)	Settlement Rate (6)	Settlement Revenue (7)
<u>Residential - Monthly</u>						
Customer Charge						
5/8	18,542	-	\$ 13.75	\$ 254,953	\$ 14.50	\$ 268,859
Subtotal	18,542	-		254,953		268,859
All Usage - Test Year	-	(24,426)	7.7508	(189,313)	9.0510	(221,076)
Subtotal	-	(24,426)		(189,313)		(221,076)
Total Residential	18,542	(24,426)	-	65,639	-	47,783
<u>Commercial - Monthly</u>						
Customer Charge						
5/8		-	13.75	-	14.50	-
3/4		-	13.75	-	14.50	-
1	678	-	28.50	19,323	30.05	20,374
Subtotal	678	-		19,323		20,374
Test Year First Block (First 25)	-	(15,360)	7.7508	(119,051)	9.0510	(139,026)
Test Year Second Block (Over 25)	-	-	5.4321	-	6.5790	-
Subtotal	-	(15,360)		(119,051)		(139,026)
Total Class	678	(15,360)		(99,728)		(118,652)
<u>Large Industrial - Monthly</u>						
Customer Charge						
4		-	305.25	-	321.90	-
6		-	610.50	-	643.80	-
Subtotal	-	-		-		-
Take or Pay Volume	-	23,942	3.6045	86,299	-	-
Subtotal	-	23,942		86,299		-
Total	-	23,942		86,299		-
<u>Public Authority - Monthly</u>						
Customer Charge						
5/8	(112)	-	13.75	(1,540)	14.50	(1,624)
Subtotal	(112)	-		(1,540)		(1,624)
First Block (First 160)	-	(2,800)	7.7508	(21,702)	9.0510	(25,343)
Second Block (Over 160)	-	(7,655)	5.4321	(41,584)	6.5790	(50,364)
Subtotal	-	(10,455)		(63,286)		(75,706)
Total	(112)	(10,455)		(64,826)		(77,330)
Total	19,108	(50,241)		(98,915)		(148,200)

APPENDIX C

AVERAGE BILL IMPACT STATEMENT

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

APPENDIX C

SUEZ Water Pennsylvania, Inc Base Rate Proceeding, Docket No. R-2018-3000834

Settlement Rates – Average Bill Impact Statement

Residential Customers

Under the Settlement Rates, the monthly Residential Customer Charge will increase \$0.75 (or 5.45%) from \$13.75 to \$14.50 for customers with a 5/8-inch meter. This increase in the Customer Charge is in lieu of the Company's proposed Customer Charge of \$15.00 which would have represented an increase of \$1.25 (or 9.09%). In addition, under Settlement Rates, the bill for a typical Residential Customer using 3,500 gallons a month will increase by \$2.24 per month from \$43.94 (which includes the 7.5% DSIC surcharge) to \$46.18 (or 5.09%). In comparison, in the Company's proposed filing, the bill for a typical Residential Customer using an average of 3,500 gallons of water per month would increase by \$4.91 (or 11.2%) from \$43.94 to \$48.85. The existing DSIC surcharge of 7.50% and the existing STAS surcharge will be reset to 0.0%.

Commercial Customers

Under the Settlement Rates, the monthly Commercial Customer Charge will increase \$5.33 (or 5.45%) from \$97.63 to \$102.96 for customers with a 2-inch meter. This increase in the Customer Charge is in lieu of the Company's proposed Customer Charge of \$106.51 which would have represented an increase of \$8.88 (or 9.09%). In addition, under Settlement Rates, the bill for a typical Commercial Customer using 75,000 gallons a month will increase by \$52.96 per month from \$605.23 (which includes the 7.5% DSIC surcharge) to \$658.19 (or 8.75%). In comparison, in the Company's proposed filing, the bill for a typical Commercial Customer using 75,000 gallons of water per month would increase by 98.14 (or 16.2%) from \$605.23 to \$703.36. The existing DSIC surcharge of 7.50% and the existing STAS surcharge will be reset to 0.0%.

Industrial Customers

Under the Settlement Rates, the monthly Industrial Customer Charge will increase \$16.65 (or 5.45%) from \$305.25 to \$321.90 for customers with a 4-inch meter. This increase in the Customer Charge is in lieu of the Company's proposed Customer Charge of \$333.00 which would have represented an increase of \$27.75 (or 9.09%). In addition, under Settlement Rates, the bill for a typical Industrial Customer using 100,000 gallons a month will increase by \$107.44 per month from \$1,000.99 (which includes the 7.5% DSIC surcharge) to \$1,108.43 (or 10.73%). In comparison, in the Company's proposed filing, the bill for a typical Industrial Customer using 100,000 gallons of water per month would increase by \$170.01 from \$1,000.99 to \$1,171.00 (or by 17.0%). The existing DSIC surcharge of 7.50% and the existing STAS surcharge will be reset to 0.0%.

Public Authority Customers

Under the Settlement Rates, the monthly Public Authority Customer Charge will increase \$5.33 (or 5.45%) from \$97.63 to \$102.96 for customers with a 2-inch meter. This increase in the Customer Charge is in lieu of the Company's proposed Customer Charge of \$106.51 which would have represented an increase of \$8.88 (or 9.09%). In addition, under Settlement Rates, the bill for a typical Public Authority Customer using 93,000 gallons a month will increase by \$234.37 per month from \$710.34 (which includes the 7.5% DSIC surcharge) to \$776.61 (or 9.33%). In comparison, in the Company's proposed filing, the bill for a typical Public Authority Customer using 93,000 gallons of water per month would increase by \$120.86 (or 17.0%) from \$710.34 to \$831.20. The existing DSIC surcharge of 7.50% and the existing STAS surcharge will be reset to 0.0%.

APPENDIX D

**STATEMENT IN SUPPORT OF
SUEZ WATER PENNSYLVANIA INC.**

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Administrative Law Judge
David A. Salapa

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2018-3000834,
Office of Consumer Advocate,	:	C-2018-3001786,
Office of Small Business Advocate	:	C-2018-3002132,
James and Reva Crownover	:	C-2018-3003017
Pennsylvania Builders Association	:	
	:	
v.	:	
	:	
SUEZ Water Pennsylvania Inc.	:	

**STATEMENT OF SUEZ WATER PENNSYLVANIA INC.
IN SUPPORT OF THE JOINT PETITION FOR
APPROVAL OF SETTLEMENT OF RATE PROCEEDING**

I. INTRODUCTION

SUEZ Water Pennsylvania Inc. (“SWPA”) hereby files this Statement in Support of the Joint Petition for Approval of Settlement of Rate Proceeding (“Settlement”) entered into by SWPA, the Office of Small Business Advocate (“OSBA”), the Office of Consumer Advocate (“OCA”), the Pennsylvania Public Utility Commission’s Bureau of Investigation & Enforcement (“I&E”) and the Pennsylvania Builders Association (“PBA”) (hereinafter, collectively the “Joint Petitioners”) in the above-captioned base rate case proceeding. SWPA respectfully requests that the Honorable Administrative Law Judge David A. Salapa (“ALJ Salapa”) recommend approval

of, and that the Pennsylvania Public Utility Commission (“Commission”) approve, the Settlement, including all terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including revenue requirement, revenue allocation, and certain other rate design, operational and tariff issues. The Settlement is in the best interest of SWPA, its customers, and the Joint Petitioners and is otherwise in the public interest. It should, accordingly, be approved.

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully-litigated proceeding. *See* 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm’n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm’n v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991).

As an initial matter, the fact that the Settlement is unopposed by any active party in this major base rate proceeding is, in and of itself, strong evidence that the Settlement is reasonable and in the public interest -- particularly given the diverse interests of the Joint Petitioners and the active role that they have taken in this proceeding. Moreover, the Settlement was achieved only after a comprehensive investigation of SWPA’s claims and operations. In addition to informal discovery, SWPA responded to hundreds of formal discovery requests (many of which had multiple subparts). The active parties filed three rounds of testimony and accompanying exhibits, including the direct testimony of SWPA, I&E, OSBA, OCA and PBA, and the rebuttal testimony of SWPA, and the surrebuttal testimony of I&E and OCA. Moreover, the active

parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

Finally, the active parties in this proceeding, and their counsel and experts, have considerable experience in rate proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus on the settled issues.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners to this proceeding. For these reasons and the reasons set forth below, the Settlement is just and reasonable and should be approved without modification.

II. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. Revenue Requirement

The Settlement provides for a net revenue increase of \$3.0 million annually based upon the *pro forma* level of operations for the twelve months ended December 31, 2019 (*i.e.* the end of the Fully Projected Future Test Year (“FPFTY”)). This amount is approximately 48.4% of SWPA’s original request of \$6.2 million.

SWPA requires additional revenue to maintain its financial health and continue to provide safe, adequate, and reliable service to its customers. As explained by John D. Hollenbach, SWPA’s General Manager and Vice President: “[SWPA] understands its responsibility to provide an excellent level of services to its customers. Cutting costs simply to keep rates low is not an option where the public is dependent upon the quality and reliability of the services.” SWPA Statement No. 1, p. 8. The rate relief provided under the Settlement will allow SWPA to fulfill its commitment and obligations to its customers at just and reasonable rates.

SWPA's need for rate relief at this time arises principally from SWPA's capital additions since its last base rate case in 2015 and future capital additions that are anticipated to fall within the FPFTY.¹ SWPA Statement No. 1 pp. 19-20. SWPA's overall rate of return has declined since its last base rate case approximately three years ago, and would be anticipated -- without rate relief -- to continue to decline, to unreasonable levels. This decline in SWPA's rate of return is despite SWPA's substantial efforts to control costs and employ new technology to increase operational efficiency. SWPA Statement No. 1, pp. 7-11. The \$3.0 million increase in annual revenues, although less than that requested by SWPA, is expected to provide SWPA with the opportunity, but not guarantee, to earn a reasonable return and, thereby, attract capital on reasonable terms and conditions to allow SWPA to continue to provide safe, adequate, and reliable service to its customers.

Overall, the revenue increases that will result from the Settlement are reasonable in light of the significant costs incurred by SWPA since its last base rate relief in 2015. As explained by Mr. Hollenbach, SWPA has made significant investment and commitments to enhance service to its customers, including *inter alia*: permitting e-billing; striving to answer all customer calls within 30 seconds or less; having an average call abandonment rate of 3% to 5%; obtaining 99% of its customer meter reads on the first attempt; maintaining SWPA's "SUEZ Cares" program to assist those genuinely impacted by challenging economic times; and waiving its existing convenience fee for credit card payment. SWPA Statement No. 1, pp. 13-15. SWPA has also taken several proactive steps to improve customer outreach and education programs, as well as to receive input and feedback from customers. SWPA Statement No. 1, pp. 4-7.

¹ In addition, SWPA has hired, or plans to hire, additional personnel to provide better service to customers. SWPA Statement No. 1 pp. 15-16.

SWPA is undertaking several significant capital improvement projects, which will help to ensure continuity of service and enhance service to customers. SWPA Statement No. 1, pp. 19-21. The most significant and expensive of these capital projects, the Route 15 main extension to serve customers in Montour and Cooper Townships, is budgeted to cost approximately \$8.5 million and is on schedule to be completed by December 31, 2019 -- *i.e.* the end of the FPFTY. This extension will help provide service to an area that was recently acquired by SWPA. *Application of SUEZ Water Pennsylvania Inc., for approval of the right to offer, render, furnish or supply water service to the public in an additional portion of Montour Township, Columbia County, Pennsylvania, and in a portion of Cooper Township, Montour County, Pennsylvania, Docket No. A-2017-2626908 (Order entered January 18, 2018; Order on Reconsideration entered March 1, 2018).*

Another significant capital project, the Sixth Street Water Treatment Intake at Rockville and Bloomsburg Plant, is expected to cost approximately \$3.0 million and is to be in service no later than December 31, 2019 (*i.e.* the end of the FPFTY). SWPA Statement No. 1, pp. 19-20.

Despite having initially-differing positions on SWPA's revenue requirement, all active parties -- following extensive formal and informal discovery and settlement negotiations -- have concluded that the Settlement and the increase in annual revenue proposed therein are in the public interest. The anticipated increase in SWPA's annual operating revenues should enable it to meet the economic challenges caused by increases in its costs, address the reduction in overall consumption, and fund projects needed to maintain a high quality of service and reinforce its infrastructure. SWPA accordingly believes that the Settlement is in the interests of SWPA, its customers, and the public in general and should therefore be approved without modification.

B. Surcharges

Under the Settlement, SWPA's Distribution System Improvement Charge ("DSIC") will be established at 0% of billed revenues effective with the effective date of new base rates, as required by SWPA's DSIC tariff provisions. Settlement ¶ 19(h). The DSIC will remain at 0% of billed revenues until the later of: (i) the end of the FPFTY (December 31, 2019); or, (ii) the quarter following the point in time at which SWPA's DSIC-eligible investment, net of plant funded with customer advances and customer contributions, exceeds \$26.79 million. The \$26.79 million is calculated to include DSIC investment made beginning January 1, 2018 (*i.e.*, the beginning of the Future Test Year) and ending December 31, 2019 (*i.e.*, the end of the FPFTY). This DSIC-spend stay-out is intended to avoid any double-collection of DSIC-eligible claims that were included in SWPA's base rate filing. The stay-out amount was carefully negotiated by the Joint Petitioners and reflects a reduction of the originally-claimed DSIC spend.

Because the instant Settlement is "black box" in nature, there is no fully-litigated return on equity ("ROE") to be used for future DSIC calculation purposes. The Joint Petitioners have agreed that SWPA will use the equity return rate for water utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for water utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1). Settlement ¶ 19(h). SWPA considers the use of the Commission Staff-calculated ROE to be a fair compromise.

SWPA's state tax adjustment surcharge ("STAS") will be established at 0% effective with the effective date of new base rates. Settlement ¶ 19(g). The resetting of the surcharge is

required by 52 Pa. Code § 69.55 because SWPA's state tax expenses will be rolled into new base rates.

C. Class Revenue Requirements and Rate Design

The Settlement resolves issues related to class revenue requirements and rate design that arose during the course of this proceeding. The Joint Petitioners were in substantial accord with respect to class revenue requirement allocations, but with certain limited disagreements concerning customer charges and rate designs. The Joint Petitioners, however, were able to reach a consensus regarding a fair allocation of the revenue requirement between classes, and the design of rates for each class.

SWPA proposed an increase in its customer charge from \$13.75 per month to \$15.00 per month, reflecting a movement toward the indicated cost of service. SWPA Statement No. 6 pp. 10-11. This proposed customer charge was less than the current customer charge of Pennsylvania-American Water Company, Aqua Pennsylvania Inc. and York Water Company. SWPA Statement No. 6-R p. 11. Pursuant to the Settlement, all customer service charges for 5/8" – 3/4" meter size service will be increased to \$14.50. Settlement ¶ 19(c). SWPA believes this compromise is reasonable and should be approved.

Additionally, the Settlement provides that the Non-Residential Standby Rate will be nominated in 100 gallons per day units, rather than 1,000 gallons per day units. The Cost per Month per Hundred Gallons of Daily Demand will be \$14.18, and the cost per hundred gallons of standby usage will be \$0.287.

D. Tax Cuts and Jobs Act (“TCJA”)

The Settlement includes detailed provisions regarding the treatment of the tax savings resulting from the TCJA. Specifically, SWPA will begin amortizing the total excess Accumulated Deferred Income Tax (\$10,065,851) over 40 years, on the effective date of new rates. In its next base rate case, SWPA will true-up this amount and flow back any differences to ratepayers based on a change to the ARAM method that is currently being determined by the Company’s tax consultant.

Tax savings resulting from the TCJA prior to the effective date of new rates will be provided to ratepayers as follows:

- SWPA will flow back to ratepayers via a reconcilable surcharge mechanism over a one-year period, the net savings associated with the reduction in federal income tax expense from January 1, 2018 through January 31, 2019 (“Federal Tax Adjustment Credit” or “FTAC”). The Company’s estimated net savings of \$2.42 million will be increased to provide for interest accrued during 2018 and 2019. The interest will be calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 *et seq.*) that is in effect on the last day of the month the over-collection or under-collection occurs.
- The FTAC will be based on the difference in total annual revenue requirement before and after implementing the 2018 effects of the TCJA and the calculation will reflect the reduction in required revenues plus interest for 2018 and January 2019. The reduction in required revenues will be calculated by estimating annual applicable base revenues to develop the FTAC to be applied to customers’ bills for service rendered during the twelve-month period beginning on the effective date of new rates.

E. Treatment of Income Taxation of Contributions in Aid of Construction

The parties agreed that SWPA will file a tariff supplement consistent with the Commission’s resolution of the issue of cost responsibility for, and ratemaking treatment of, income taxation of Contributions in Aid of Construction (“CIAC”), in Pennsylvania-American

Water Company's filing at Docket No. R-2018-3002504. Until SWPA's tariff supplement becomes effective and unappealable, the Company will either require the developer to present a letter of credit in the amount of grossed-up income tax that would be owed on the CIAC or to hold such amount in escrow. Any existing CIAC agreement between SWPA and a developer, however, shall remain in full force and effect without modification. SWPA believes this provision is reasonable, as it avoids litigation in this case over a matter presently before the Commission in another proceeding. The parties' agreement to abide by the Commission's decision in that case is in the public interest, and should be approved.

F. Quality of Service Issues

At the public input hearings, several witnesses expressed concerns about the quality of the service provided by SWPA. The Settlement demonstrates that SWPA has met with these customers and/or has investigated their claims. Settlement ¶ 19m(iv). The Company has also agreed to take certain actions in the future, in response to the testimony of these witnesses. For example, SWPA will develop a customer communication plan for future projects of an extended duration, and will provide a draft of this plan to the OCA.

In addition, SWPA has agreed to (i) establish a valve maintenance program; (ii) meet with the OCA and I&E to discuss modifications to SWPA's social media outreach to consumers regarding quality of service events; and (iii) in its next base rate proceeding, submit a complaint log in sortable Excel format. Settlement ¶¶ 19m(i) through 19m(iii). These commitments demonstrate that SWPA has gone above and beyond to satisfy its obligations to customers under the Pennsylvania Public Utility Code. 66 Pa. C.S. §1501. These provisions demonstrate that the Settlement is reasonable and should be approved.

G. Rate Case Stay-Out

The Settlement provides that SWPA will not file for a general increase in base rates earlier than April 29, 2021, except that SWPA can (i) propose a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting SWPA's rates or (ii) proposing a rate increase of less than \$1 million to be applied exclusively to customers in the service territory addressed in the Mahoning Transaction, in order to move such customers toward the Mahoning system's cost of service. SWPA believes this provision is reasonable and in the public interest, considering that SWPA withdrew from its rate increase request any claims associated with its acquisition of the water system assets of Mahoning Township. Consequently, the Settlement should be approved.

H. Effective Date of New Rates

New rates under the Settlement will not become effective until February 1, 2019. This negotiated delay in the implementation of new rates will give customers additional time to prepare for the increase and does not materially interfere with SWPA's financial planning. SWPA therefore believes the Settlement is in the public interest and should be approved.

III. CONCLUSION

Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement is the result of a months-long detailed examination of SWPA's finances and operations through hundreds of discovery responses, multiple rounds of testimony and accompanying exhibits, and extensive settlement negotiations. A fair and reasonable compromise has been achieved in this case, as is evident by the fact that SWPA, I&E, OCA,

OSBA, and PBA all have agreed to the resolution of a broad array of issues in this proceeding. SWPA fully supports this Settlement and respectfully requests that the Honorable Administrative Law Judge David A. Salapa recommend approval of, and the Commission approve, the Settlement in its entirety, without modification.

WHEREFORE, SUEZ Water Pennsylvania Inc. respectfully requests that the Honorable Administrative Law Judge David A. Salapa recommend approval of, and that the Commission approve, the Settlement, including all terms and conditions thereof, and that the Commission enter an order consistent with the Settlement that terminates the proceeding, closes the above-referenced consolidated docket, and authorizes SUEZ Water Pennsylvania Inc. to issue the tariff supplement in the form attached as **Appendix A** to the Settlement to become effective on February 1, 2019 upon one day's notice.

Respectfully submitted,

A large, stylized handwritten signature in black ink, appearing to read "David P. Zambito". The signature is written over a horizontal line.

David P. Zambito, Esquire
Counsel for *SUEZ Water Pennsylvania Inc.*

Dated: October 10, 2018

APPENDIX E

**STATEMENT IN SUPPORT OF
OFFICE OF CONSUMER ADVOCATE**

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OCT 10 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission,	:	Docket Nos.	R-2018-3000834
Office of Consumer Advocate,	:		C-2018-3001786
Office of Small Business Advocate,	:		C-2018-3003017
James and Reva Crownover,	:		C-2018-3003017
Pennsylvania Builders Association	:		

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT
OF RATE PROCEEDING

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Rate Proceeding (Settlement), finds the terms and conditions of the Settlement to be in the public interest and in the interests of Suez Water Pennsylvania Inc.'s (SWPA or Company) ratepayers. The OCA respectfully requests that the Pennsylvania Public Utility Commission (Commission) approve the Settlement for the following reasons:

I. BACKGROUND

On April 30, 2018, SWPA filed proposed Supplement No. 53 to Tariff Water – Pa. P.U.C. No. 7 (Tariff Supplement No. 53) at Docket No. R-2018-3000834 and proposed a June 29, 2018 effective date. The Company is engaged in the business of providing water service to approximately 60,400 customers in portions of 8 counties and 39 municipalities in Pennsylvania. Through Tariff Supplement No. 53, the Company proposed an annual increase in base rate revenues of approximately \$6.2 million, or 13.2%. For the residential class, Suez proposed an

overall increase in rates of 11.2%. Under the Company's proposal, the total water bill for a residential customer using an average of 3,500 gallons per month would have increased from \$43.94 to \$48.85, or by 11.2%. As part of this increase, the Company proposed to increase the 5/8-inch customer charge from \$13.75 to \$15.00 per month, or by 9.1%.

The OCA filed a Formal Complaint and Public Statement against the proposed revenue increase on May 11, 2018. On May 4, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) entered a Notice of Appearance. On May 22, 2018, the Office of Small Business Advocate (OSBA) filed a Formal Complaint and Public Statement. James and Reva Crownover filed a Formal Complaint on June 25, 2018. The Pennsylvania Builders Association filed a Petition to Intervene on July 3, 2018.

On May 17, 2018, the Commission entered an Order initiating an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase in this filing and the Company's existing rates, rules, and regulations. The Commission's Order suspended the effective date of Tariff Supplement No. 53 until January 29, 2019, by operation of law. The case was assigned to Administrative Law Judge David A. Salapa, who issued a Prehearing Conference Order on May 17, 2018. A Prehearing Conference was held on May 25, 2018. Prehearing Order #2, issued May 28, 2018, established a procedural schedule and set forth modifications to the Commission's regulatory requirements regarding discovery matters. Smart Public Input Hearings were scheduled for and subsequently held on July 11, 2018 at 1:00 p.m. and 6:00 p.m. in Harrisburg. Six consumers testified. The OCA participated in both of the Public Input Hearings.

In accordance with the procedural schedule set forth in Prehearing Order #2, the OCA submitted the Direct Testimonies of Lafayette K. Morgan, OCA Statement No. 1;¹ Aaron L.

¹ Mr. Morgan is a Senior Regulatory Analyst with Exeter Associates, Inc. At Exeter, Mr. Morgan has been involved in the analysis of the operations of public utilities with particular emphasis on rate regulation. He has

Rothschild, OCA Statement No. 2;² Jerome D. Mierzwa, OCA Statement No. 3;³ and Terry L. Fought, OCA Statement No. 4.⁴ On August 31, 2018, the OCA submitted the Surrebuttal Testimonies of Lafayette K. Morgan, OCA St. No. 1-SR; Aaron L. Rothschild, OCA St. No. 2-SR; and Jerome D. Mierzwa, OCA St. No. 3-SR. The testimonies of the OCA witnesses, as identified above, will be entered into the record by a Joint Stipulation for Admission of Evidence that will be filed concurrently with this Settlement.

Prior to the hearing, several settlement conferences were held to attempt to reach a settlement in principle on the issues raised in the case. As a result of those conferences, the Joint Petitioners were able to reach a comprehensive agreement on all issues. The terms and conditions of the Settlement satisfactorily address the issues raised in the OCA's Formal Complaint and Testimony. The OCA recognizes that this Settlement contains modifications from the original recommendations proposed by the OCA. The OCA submits, however, that the agreed upon Settlement achieves a fair resolution of the many complex issues presented in this proceeding.

reviewed and analyzed utility rate filings, focusing primarily on revenue requirements determinations. This work has included water, natural gas, electric, and telephone utilities. Mr. Morgan is a Certified Public Accountant and has a Masters of Business Administration degree with a major are of concentration in Finance. His full background and qualifications are attached as OCA Statement 1 at 1-3, App. A.

² Mr. Rothschild is a financial consultant specializing in cost of capital issues in utility regulation. He has over twenty years of experience providing utility financial analysis. Mr. Rothschild has applied his expertise in numerous proceedings before the Pennsylvania Public Utility Commission, over twenty other state public service commissions, and the Federal Energy Regulatory Commission. His full background and qualifications are attached as Appendix A to OCA Statement 2.

³ Mr. Mierzwa is a Principal of Exeter Associates, Inc., with 20 years of public utility regulatory experience. Mr. Mierzwa has participated in developing utility class cost-of-service studies, presented testimony sponsoring water, wastewater, and natural gas utility cost-of-service studies, in addition to presenting testimony addressing utility rate base and revenues. His full background and qualifications are detailed at OCA Statement 3 at 1-2.

⁴ Mr. Fought is a consulting engineer with more than forty years of experience as a civil engineer. Mr. Fought is a registered Professional Engineer in Pennsylvania, New Jersey and Virginia and is a Professional Land Surveyor in Pennsylvania. Mr. Fought has prepared studies related to and designed water supply, treatment, transmission, distribution and storage for private and municipal wastewater agencies. He has also served as a consultant to the OCA for numerous water and sewer matters since 1984. Mr. Fought's background and qualifications are attached to OCA Statement 4 as Appendix A.

In this Statement in Support, the OCA addresses those areas of the Settlement that specifically relate to important issues that the OCA raised in this case. The OCA expects that other parties will discuss how the Settlement's terms and conditions address their respective issues and how those parts of the Settlement support the public interest standard required for Commission approval.

For these reasons, and those that are discussed in greater detail below, the OCA submits that the Settlement is in the public interest and the interest of SWPA's ratepayers, and should be approved by the Commission without modification.

II. SETTLEMENT TERMS AND CONDITIONS

A. Mahoning Township (Settlement ¶ 19(a))

The Settlement provides for the removal of SWPA's claims associated with the Company's acquisition of the water system assets of Mahoning Township. Settlement ¶ 19(a). The Mahoning Township application is currently pending before the Commission at Docket No. A-2018-3003519 (Mahoning Transaction). Settlement ¶ 19(a). The OCA and I&E opposed the inclusion of the proposed Mahoning Township system in SWPA's base rate proceeding. See OCA St. 1 at 10-14; OCA St. 3 at 4-5, 7-8, 13-14; I&E St. 1 at 2, 4-7. At the time of the Company's base rate filing, SWPA had not yet filed an application to acquire Mahoning Township, yet the Company included projected costs associated with the acquisition in its revenue requirement claim and proposed a rate increase for the customers that could potentially be acquired from Mahoning Township. Both OCA and I&E argued this was premature because it was unknown whether the Commission would approve the acquisition and there had been no determination regarding the value of the system for inclusion in rate base. OCA St. 1 at 11-12; I&E St. 1 at 7. In addition, the OCA and I&E raised

questions whether Mahoning Township costs could lawfully be included in rate base in a base rate proceeding filed prior to the disposition of an acquisition proceeding filed under Sections 1102 and 1329 of the Public Utility Code, 66 Pa. C.S. § 1102, 1329(d)(5),(g). Moreover, the Mahoning Township customers had not received any notice of the potential increase to their rates or opportunity to participate in the base rate proceeding. I&E St. 1 at 7. In Rebuttal Testimony, SWPA removed its claims related to the Mahoning Township water system. SWPA St. 1R at 2. For the reasons identified in the OCA's and I&E's testimony in this proceeding, this is the proper result. If the Mahoning Township acquisition is approved by the Commission before the end of the stay-out period, the Settlement provides that SWPA may file a base rate proceeding for less than \$1 million to be applied only to the customers in the service area acquired in the Mahoning Transaction, as discussed in Section D below and at Paragraph 19(m) of the Settlement.

B. Revenue Requirement (Settlement 19(b)(i))

As stated above, in its filing, SWPA proposed to increase its total annual operating revenues by approximately \$6.2 million per year, or 13.2%. Under the Settlement, SWPA will be permitted a total annual revenue increase of \$3.0 million. Settlement ¶ 19(b)(i), App. B, Sch. 2. This represents an increase of 6.4% over present revenues and is \$3.2 million less than the amount originally requested by SWPA.

The Settlement represents a "black box" approach to the revenue requirement and cost of capital issues. Black box settlements avoid the need for protracted disputes over the merits of individual revenue requirement adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ. As such, the parties have not specified a dollar amount for each issue or adjustment raised in this case. Attempting to reach agreement

regarding each adjustment in this proceeding would have likely prevented any settlement from being reached.

Based on the OCA's analysis of SWPA's filing, discovery responses received, and testimony by all parties, the revenue increase under the Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The increase is reasonable and yields a result that is in the public interest, particularly when accompanied by other important conditions contained in the Settlement. The increase agreed to in the Settlement provides adequate funding to allow the Company to continue to provide safe, adequate, reliable, and continuous service. As such, the OCA submits that the increase agreed to in this Settlement is in the public interest and in the interest of SWPA's ratepayers, and should be approved by the Commission.

C. Revenue Allocation (Settlement ¶ 19(b)(ii)-(iii), App. B)

1. Revenue Allocation (Settlement ¶ 19(b)(ii)-(iii), App. B)

The Settlement provides that SWPA can increase base distribution revenues by amounts designed to produce a net revenue increase of \$3 million in annual operating revenues, including the roll-in of the DSIC. In its filing, the Company proposed an annual increase in base rate revenues of approximately \$6.2 million. Under the Settlement, the rates will be scaled back proportionally in the same manner as identified in the Company's base rate filing, and the residential customer class will receive an increase of \$1,443,686 per year, or a 5.0% increase. Settlement App. B, Schedule 2.

OCA witness Mierzwa reviewed the Company's revenue allocation proposal and the Company's class cost of service studies (CCOSS) upon which the Company's allocation was based. OCA witness Mierzwa generally supported the Company's CCOSS in this matter, with the

exception of the inclusion of costs related to the Route 15 expansion and the potential acquisition of Mahoning Township.⁵ OCA St. 3 at 4; OCA St. 1 at 10-18. In the Company's Rebuttal Testimony, the Company withdrew its claims related to Mahoning Township, and the Settlement revenue allocation reflects the removal of those costs from the CCROSS. SWPA St. 1R at 2; OCA Sched. JDM-1; Settlement ¶ 19(a).

Based on the OCA's review of the cost of service studies presented in this proceeding, the OCA views the Settlement to be within the range of reasonable outcomes that would result from the full litigation of this case. The Settlement allocation ensures reasonable movement of all classes relative to the system average rate of return under all cost studies presented in this case. The OCA submits that the Settlement is reasonable, and when accompanied by other important conditions contained in the proposed Settlement, yields a result that is just and reasonable, in the public interest, and should be approved.

2. Rate Design (Settlement ¶ 19(c))

The Settlement provides that SWPA's monthly residential customer charge will increase from \$13.75 to \$14.50. Settlement ¶ 19(c). In its filing, the Company proposed increasing the residential customer charge to \$15.00, or an increase of 9.1%. OCA witness Mierzwa calculated a cost-based residential customer charge of \$13.73 and recommended that the monthly customer charge for customers with 5/8 inch meter be maintained. OCA St. 3 at 12, Sch. JDM-2.

The OCA submits that the Settlement customer charge and residential rate design established through the Settlement is reasonable and consistent with sound ratemaking principles.

⁵ SWPA prepared three cost of service studies in the proceeding: (1) the first study included the Company's projected fully forecasted future test year costs, including the costs associated with serving Mahoning Township, (2) the second study includes the same costs with the exception of the costs associated with the water main extension planned to serve the Route 15 service territory expansion (as required by the Commission's Order at Docket No. A-2017-2626908), and (3) at the request of the OCA, SWPA prepared a third study that excludes the costs associated with serving Mahoning Township. See OCA St. 3 at 4, OCA Sched. JDM-1; SWPA Exh. No. PRH-1; SWPA Exh. No. PRH-2.

Combined with the lower revenue requirement increase than the Company sought, these rate design change result in rates that are significantly below the rates originally proposed by the Company and within the range of likely outcomes in the event of full litigation of the case.

D. Distribution System Improvement Charge (DSIC) (Settlement ¶ 19(h))

In his Direct Testimony, OCA witness Morgan identified that the impact of Act 40 of 2017, 66 Pa. C.S. § 1301.1, on the treatment of income tax deductions and credits in the DSIC calculation was an issue litigated in the FirstEnergy DSIC case and is currently on appeal.⁶ OCA St. 1 at 32-33. Mr. Morgan recommended that, pending the outcome of that proceeding, any necessary changes to SWPA's DSIC calculation and tariff should be addressed in a future filing. Consistent with Mr. Morgan's testimony, the Settlement reserves the parties' right to challenge SWPA's DSIC calculation after the FirstEnergy case has been resolved. Settlement ¶ 19(h)(iii).

Additionally, the Company has agreed not to charge a DSIC until the later of the end of the Fully Projected Future Test Year or the first quarter following the point in time when the "net plant funded with customer advances and customer contributions exceeds \$26.79 million." Settlement ¶ 19(h)(i). The Settlement also specifies the rate of return on equity that the Company will use for the purpose of calculating the DSIC. Settlement ¶¶ (h)(ii). These provisions will help to ensure that DSIC rates are calculated properly.

E. Unaccounted-For Water (Settlement ¶ 19(i)(ii))

OCA witness Fought expressed concern regarding SWPA's level of unaccounted for water (UFW) and the difficulty of reconciling the Company's UFW calculations between its Section 500

⁶ Petitions of Metropolitan Edison Co. et al., for Approval of a DSIC, Office of Consumer Advocate v. Metropolitan Edison Co., Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948, et al.; McCloskey v. Pa. PUC, 697 C.D. 2018.

submissions and Chapter 110 Reports.⁷ Mr. Fought recommended that the Company prepare a separate Section 500 form for each system that for which it submits a Chapter 110 Report and that the Company include records supporting its estimate of water volumes for “Located and Repaired Breaks in Mains and Services” in its Section 500 submissions. OCA St. 4 at 2-10. The Settlement adopts OCA witness Fought’s recommendations and provides:

SWPA shall prepare Section 500 forms for each of its operating systems for which it submits a Chapter 110 Report and provide them to the OCA and the Pennsylvania Public Utility Commission’s Bureau of Technical Utility Services (“TUS”) in live Excel format at the time of its Chapter 110 Report submission. SWPA will include records supporting its estimate of “Located and Repaired Breaks in Mains & Services.”

Settlement ¶ 19(i)(ii). This will allow the parties to better analyze the UFW data, reconcile it with the DEP Chapter 110 Report information, and to more easily identify locations where improvement is necessary.

F. Tax Cuts and Jobs Act (TCJA) (Settlement ¶ 19(k))

The Settlement importantly provides a mechanism to flow-through to customers the 2018 and January 2019 tax savings resulting from the TCJA. Settlement ¶ 19(k). A Federal Tax Adjustment Credit (FTAC) of 4.91% will be added to SWPA’s tariff, which will refund the estimated expense savings created by the TCJA plus interest over a period of 12 months. Any difference between the actual reduction in required revenue and the reduction in revenues produced by the FTAC as applied will be subject to refund or recovery in the Company’s next base rate case,

⁷ The Section 500 Forms are filed as part of the Company’s PUC Annual Reports, and the Chapter 110 Reports are filed pursuant to the Company’s requirements in its Annual Department of Environmental Protection (DEP) reports. See OCA St. 4 at 5-6 for discussion of reports. As OCA witness Fought testified:

There are two significant differences: (1) Chapter 110 measures water drawn from the source of supply while Section 500 measures water entering the distribution system; and (2) Section 500 allows credits that reduce the amount of UFW while Chapter 110 does not.

OCA St. 4 at 5-6.

with interest on any amounts owed to customers. Settlement ¶ 19(k)(ii). New rates that take effect on February 1, 2019 will reflect the Company's ongoing tax expense savings and an amortization of the estimated amount of excess Accumulated Deferred Income Taxes (EDIT) generated by the TCJA. This amount will be trued up in SWPA's next base rate case and SWPA will flow back any differences to ratepayers resulting from a change to the accounting method used to determine the timing of the amortization. Settlement ¶ 19(k)(i).

The OCA submits that these provisions are consistent with the Commission's Order addressing the TCJA, which provided that "tax savings and associated reductions in utility revenue requirements should be flowed back to consumers on a current basis." Tax Cuts and Jobs Act of 2017, Docket No. M-2018-2641242 (Temporary Rates Order entered May 17, 2018, at 15). The Commission's Order further provided that, with regard to utilities with pending base rate cases, the Commission "expects the public utility and the parties in each such proceeding to address the effect of the federal tax rate reduction on the justness and reasonableness of the consumer rates charged during the term of the suspension period and, in particular, whether a retroactive surcharge or other measures is necessary to account for the tax rate changes." Id. at 20-21. The OCA also notes that the interest provision of the proposed Settlement reflects the treatment of interest directed by the Commission for other utilities in its Order." Id. at 18, 23.

Accordingly, the OCA submits that it is appropriate that the parties to this proceeding agreed that the Company will timely refund the 2018 TCJA savings to customers via a negative surcharge. The OCA further submits that returning TCJA savings to customers as provided in the Settlement is just and reasonable and in the public interest.

G. Effective Date and Stay-Out Provision (Settlement ¶¶ 19(b)(i), (m))

The rates agreed to in the Settlement will become effective no earlier than February 1, 2019, which is the end of the future test year and the beginning of the fully projected future test year. Settlement ¶ 19(b)(i). Importantly, the Settlement includes a stay-out provision wherein the Company has agreed not to file for another general rate increase prior to April 29, 2021. Settlement ¶ 19(m). This provision will provide a measure of rate stability for consumers and will prevent rate increases in quick succession.

As discussed above, the Company has filed an application for approval to acquire Mahoning Township at Docket No. A-2018-3003519. If the Commission approves SWPA's acquisition of the Mahoning Township water system assets, the Settlement provides that the Company may propose a "rate increase of less than \$1 million to be applied exclusively to customers in the service territory addressed in the Mahoning Transaction." Settlement ¶ 19(m). The Settlement preserves the rights of the parties to contest any ratemaking item or issue relevant to the filing. *Id.* The OCA submits that the Settlement provision, coupled with the removal of the Mahoning Transaction costs from SWPA's revenue requirement in this proceeding, ensures that rates for existing SWPA customers will not increase as a result of the proposed acquisition during the stay-out period. It also ensures that Mahoning Township customers will receive appropriate notice if SWPA seeks to increase their rates during the stay-out period.

H. Quality of Service Commitments Settlement ¶ 19(n)

A number of service quality issues were raised by OCA witness Fought, by consumers during the public input hearings, and through informal complaints. Mr. Fought raised issues regarding the Company's valve maintenance program, the need for a complaint log, and service related complaints from the public input hearings and consumer complaints in his Direct

Testimony. The Settlement addresses Mr. Fought's concerns and the service quality issues in specific locations as detailed below. Settlement ¶ 19(n).

1. Valve Maintenance Program (Settlement ¶ 19(n)(i))

In his Direct Testimony, OCA witness Fought identified concerns regarding the Company's current valve maintenance program. OCA St. 4 at 11-13. As Mr. Fought testified, the Company has a responsibility to properly maintain all of its water facilities, including exercising the isolation valves on a routine basis.⁸ OCA St. 4 at 13. As OCA witness Fought explained:

It is important to exercise isolation valves to prevent the valves from seizing-up and getting stuck from corrosion or other deposits adjacent to the valve. An isolation valve that cannot be fully closed will increase the water loss during a water main break and increase the customer of customers affected.

OCA St. 4 at 11. Mr. Fought recommended that the Company exercise all isolation valves on its system by January 1, 2021. OCA St. 4 at 13. As part of the Settlement, the Company will "establish and document a valve maintenance program by January 1, 2019 that will set forth a minimum number of valves to exercise annually." Settlement ¶ 19(n)(i). Through the Settlement provision, the Company will develop a regular isolation valve maintenance schedule to address OCA witness Fought's concerns regarding the importance of regular maintenance and the exercise of the isolation valves on all of the Company's systems.

2. Complaint Log (Settlement ¶ 19(n)(iii))

OCA witness Fought recommended that SWPA maintain a complaint log in sortable Excel format. OCA St. 4 at 2-3. The Settlement adopts this recommendation and provides that:

In SWPA's next base rate proceeding, SWPA shall prepare and submit a complaint log in sortable Excel format. The log will include complaints made to the Company about its service or facilities, showing the name and address of the complainant, the date and character of the complaint, and the final disposition of the complaint.

⁸ OCA witness Fought explained that exercising an isolation valve "is operating the valve through complete full open/close cycles until it operates with little resistance." OCA St. 4 at 11.

Settlement ¶ 19(n)(iii). As OCA witness Fought explained in his Direct Testimony, a complaint log will provide important information that will be necessary to investigate the Company's quality of service, including information regarding: (1) how quickly the Company responds to complaints; (2) whether or not an employee does an on-site inspection/evaluation and on-site tests or takes water samples for laboratory testing, when applicable; (3) how often that individual or nearby individuals have made similar complaints; and (4) how quickly the Company resolves the complaint. OCA St. 4 at 3.

3. Douglas Hassenbein (Settlement ¶ 19(n)(ii),(iv))

At the Public Input Hearing, Mr. Hassenbein testified that he has received discolored water over the past three years, including approximately 19 times in 2018. Tr. 75-76, 82-87; OCA St. 4 at 14; Settlement ¶ 19(n)(iv). Mr. Hassenbein included specific dates of these incidents in his Public Input testimony and testified that he had contacted the Company approximately 80% of the time these incidents occurred. Tr. 78, 80-81, 83-85; OCA St. 4 at 14; Settlement ¶ 19(n)(iv). Mr. Hassenbein also indicated that he is a consumer of SWPA water but not a customer, because he pays for water service in his apartment rent. Tr. 81; OCA St. 4 at 14; Settlement ¶ 19(n)(iv). As a result, the methods that the Company uses to inform its customers about localized quality of service issues, such as via telephone calls, door hangings or direct mailings, may not reach Mr. Hassenbein. Tr. at 77; OCA St. 4 at 14. Mr. Hassenbein testified that he looks for information pertaining to service quality on the Company's website or Facebook page and that it is sometimes difficult to find that information among the Company's other, non-service quality related postings. Tr. at 78-79; OCA St. 4 at 14.

The Settlement identifies that the Company has met with Mr. Hassenbein on several occasions, and the Company has investigated his complaints about the discolored water.

Settlement ¶ 19(n)(iv). As the Settlement states, in some cases, the Company was able to identify the cause of the discoloration, such as main breaks in the area or authorized or unauthorized water use. Settlement ¶ 19(n)(iv); see also SWPA St. 1 at 5-6. In other cases, the Company was not able to identify the cause of the water discoloration. According to the Settlement, the Company informed Mr. Hassenbein that a contributing factor may be “that the apartment complex in which he lives is served by a lengthy galvanized service line, which is maintained by the owner of the complex.” Settlement ¶ 19(n)(iv). To the extent that the discoloration is caused by the apartment complex’s line, the apartment complex would be responsible for addressing the problems. The Settlement also identifies that the Company continues to meet with Mr. Hassenbein regarding his concerns and will update the OCA after each meeting with the Company. Settlement ¶ 19(n)(iv).

Regarding Mr. Hassenbein’s concerns regarding information provided on social media, the Settlement provides:

Within 60 days of Commission approval of this Settlement, SWPA shall meet with OCA and I&E to discuss proposed modifications to SWPA’s social media outreach to consumers regarding quality of service events.

Settlement ¶ 19(n)(ii). The OCA will work with the Company through this collaborative to determine ways to improve SWPA’s social media outreach about quality of service events.

4. Borough of Mechanicsburg (Settlement ¶ 19(n)(iv)).

Mr. Kyle Miller testified at the Public Input Hearing on behalf of the Borough of Mechanicsburg and himself. Mr. Miller identified concerns regarding the restoration of the roadways and sidewalks due to the Company’s water main installation in Mechanicsburg. Tr. 52-72; OCA St. 4 at 14-15. He testified that SWPA had not finished the restoration of the roadways and sidewalks in a timely manner and that the Company had moved its main installation into other areas before it had completed a prior phase of the project. Tr. 52-72; OCA St. 4 at 14-15. The

Settlement identifies that the Company met with the Borough of Mechanicsburg representatives following the public input hearings, and SWPA is developing a communications plan for future projects of an extended duration, such as the Mechanicsburg project. Settlement ¶ 19(n)(iv); SWPA St. 1R at 4-5. The Settlement also provides that the Company will provide a draft of its communications plan to the OCA. Settlement ¶ 19(n)(iv).

5. Cherrington Condo Community in Harrisburg (Settlement ¶ 19(n)(iv)).

OCA witness Fought discussed discolored water complaints from residents in the Cherrington Condo Community in Harrisburg. OCA St. 4 at 15. The Settlement states that the Company investigated the resident's claims regarding discolored water at the complex in July 2018. Settlement ¶ 19(n)(iv); SWPA St. 1 at 6-7. The Company's investigation determined that the discolored water was confined to the complex. If the problem relates to a service line from the Company, then it would be the responsibility of the condominium community to address the problem. Settlement ¶ 19(n)(iv).

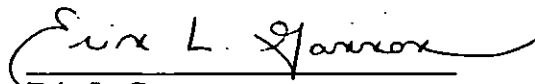
6. Informal Complaint of Resident on Cardinal Drive, Harrisburg (Settlement at ¶ 19(n)(iv)).

OCA witness Fought discussed in his Direct Testimony the informal complaint filed by the resident on Cardinal Drive in Harrisburg. OCA St. 4 at 15. As discussed in the Settlement, the Company investigated the customer's complaint and placed a pressure recording device on two hydrants near the customer's residence for seven days. Settlement ¶ 19(n)(iv); SWPA St. 1 at 6. The results of the tests indicated "the pressure in the main ranged between 68 and 81 psi, which is above the 25 psi minimum required by the PUC's regulations." SWPA agreed to reach out to the customer and to provide the pressure reading results to the customer and to respond to the claims regarding discolored water. Settlement ¶ 19(n)(iv).

III. CONCLUSION

The OCA submits that the terms and conditions of the proposed Settlement of this rate investigation, taken as a whole, represent a fair and reasonable resolution of the issues raised by the OCA in this matter. Therefore, the OCA submits that the Settlement should be approved by the Commission without modification as being in the public interest.

Respectfully Submitted,



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DATE: October 4, 2018
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APPENDIX F

**STATEMENT IN SUPPORT OF
OFFICE OF SMALL BUSINESS
ADVOCATE**

RECEIVED

OCT 10 2018

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	Docket No. R-2018-3000834
	:	
SUEZ WATER PENNSYLVANIA, INC.	:	

**OFFICE OF SMALL BUSINESS ADVOCATE
STATEMENT IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT**

I. Introduction

The Office of Small Business Advocate ("OSBA") is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission ("Commission").

II. Filing Background

On or about April 30, 2018, SUEZ Water Pennsylvania, Inc. ("SUEZ" or the "Company") filed proposed Supplement No. 53 to Tariff Water-Pa. P.U.C. No. 7 ("Supplement No. 53") with the Commission. The Company's April 30th filing requested an additional \$6.2 million in annual rate revenue.

On May 22, 2018, the OSBA filed a Complaint and a Public Statement against the proposed increase. By Order entered May 17, 2018, the Commission entered an Order at this

docket which suspended the proposed increase for investigation. As a result, the filing was suspended by operation of law through January 29, 2019.

A pre-hearing conference, at which a procedural schedule was established, was held on May 25, 2018. The OSBA, and other parties, filed Direct Testimony on July 20, 2018. Specifically, the OSBA filed the Direct Testimony of its witness, Brian Kalcic. Rebuttal Testimony was filed by the OSBA and other parties on August 17, 2018. Surrebuttal Testimony was scheduled to be filed on September 5, 2018.

The OSBA participated in the negotiations that led to the Joint Petition for Approval of Settlement ("Settlement") and is a signatory to the Settlement. The OSBA submits this statement in support of the Settlement.

III. OSBA's Principal Concerns

In its Complaint, Prehearing Memorandum, and testimony, the OSBA identified several issues of concern, including the following:

1. Whether SWPA's class cost-of-service study methodology is appropriate;
2. Whether the Company's proposed class revenue allocation is cost based; and
3. Whether the Company's proposed Commercial and Industrial rate designs are reasonable and appropriate.

IV. Settlement

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. This statement outlines the OSBA's specific reasons for concluding that the Settlement is in the best interests of small business customers.

A. Revenue Requirement

1. Summary

In its initial filing, SUEZ requested an overall revenue increase of \$6.2 million per year.¹ In the Settlement, SUEZ has agreed to a revenue increase of \$3.0 million per year.² At a time when all types of utility service are becoming more expensive, the significant reduction in the distribution revenue increase provided by the Settlement will benefit SUEZ's small business customers.

B. Rate Design

1. Non-Residential Standby Rate

In its initial filing, SUEZ's proposed standby charges were designed to reflect the average cost per unit of capacity and consumption necessary to recover 100% of the base, maximum day- and maximum hour extra capacity cost ("BEC") portions of the Company's claimed revenue requirement.³ However, as Mr. Kalcic testified, while the revenue requirement used by the Company to develop its proposed stand-by charges include 100% of the Company's claimed BEC costs, the standby rates would only apply to *non-residential* customers.⁴

The OSBA proposed an alternative to the Company's standby charges based on the total amount of BEC related costs allocated to non-residential customers, i.e., the Commercial, Industrial, Large Industrial and Public Authority classes. The OSBA's proposed stand-by rates, which are derived in Schedule BK-1, were slightly lower than the Company's proposed charges.

¹ SUEZ Statement No. 2 at 3.

² Settlement, Para. 19 (b).

³ SUEZ Statement No. 6 at 13 and OSBA Statement No. 1 at 3

⁴ OSBA Statement No. 1 at 3.

Mr. Kalcic also recommended that the Company's standby tariff permit customers to nominate daily standby capacity in 100-gallon per day units, and that standby rates be subject to scaleback at the conclusion of the proceeding. Consistent with Mr. Kalcic's recommendations, the Settlement includes reduced standby charges of \$14.18 per 100 gallons of nominated daily demand, and a cost per 100 gallons of standby usage of \$0.287.⁵ As such, the OSBA concludes that the standby charge rate design contained in the Settlement represents a fair and reasonable resolution of this issue.

C. Class Revenue Allocation

The OSBA did not object to the Company's filed revenue allocation proposal. However, the OSBA did object to the OCA's revenue allocation proposal, which would have imposed excessive increases on the Company's Large Industrial, Public Authority and Private Fire classes.⁶

The Settlement incorporates the Company's proposed revenue allocation.⁷ Accordingly, the OSBA concludes that the Settlement revenue allocation is reasonable, and will benefit small business customers.

⁵ Settlement, Para. 19 (d).

⁶ OSBA Statement No. 2 at 3.

⁷ Settlement, Para. 19 (b)(ii).

V. Conclusion

For the reasons set forth in the Joint Petition itself, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed Settlement and respectfully requests that the ALJ and the Commission approve the Settlement in its entirety and without modification.

Respectfully submitted,



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Assistant Small Business Advocate
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For:

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Dated: October 10, 2018

APPENDIX G

**STATEMENT IN SUPPORT OF
BUREAU OF INVESTIGATION AND
ENFORCEMENT**

RECEIVED

OCT 10 2018

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF
JOINT PETITION FOR APPROVAL OF
SETTLEMENT OF RATE PROCEEDING**

TO: ADMINISTRATIVE LAW JUDGE DAVID A. SALAPA:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through Prosecutor Scott B. Granger, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Approval of Settlement of Rate Proceeding (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, and reasonable balance of the interests of SUEZ Water Pennsylvania, Inc. (“SWPA” or “Company”), I&E, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Pennsylvania Builders Association (“PBA”) (parties in the above-captioned proceeding and hereinafter collectively referred to as the “Parties” or ‘Joint Petitioners”), and the SWPA customers.

I. BACKGROUND

1. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E's analysis of SWPA's base rate filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judge David A. Salapa (the "ALJ") and the Commission approve the Settlement in its entirety.

2. On April 30, 2018 SWPA filed its proposed Supplement No. 53 to Tariff Water - PA. P.U.C. No. 7 ("Supplement 53") with a proposed effective date of June 29, 2018. SWPA proposed, in Supplement 53, an increase in rates designed to produce an increase in base rate revenues of approximately \$6.2 million per year. SWPA also noted the \$6.2 million increase did not include the current surcharges assessed to customers.

3. SWPA asserted the proposed \$6.2 million increase in base rates will allow SWPA to recover costs associated with recent capital investments across its eight-county service area. Also, SWPA offered that the \$6.2 million proposed increase is in addition to the revenues generated by current rates and charges assessed to SWPA customers as of the date of the filing.

4. SWPA alleged if the Company's entire request was approved, the total bill for a residential customer using an average of 3,500 gallons of water per month would increase from \$43.94 to \$48.85 or by 11.2 percent, equating to an approximate increase

of \$4.91 per month or 16 cents per day. The cost of tap water, according to SWPA, would remain at about one penny per gallon for a typical family or most small businesses.

5. I&E filed its Notice of Appearance on May 4, 2018.

6. The OCA filed a Formal Complaint regarding the SWPA filing at Docket No. C-2018-3001786 on May 10, 2018.

7. On May 17, 2018, the Commission entered an Order suspending the implementation of proposed Supplement No. 53 to Tariff - Water - PA. P.U.C. No. 7 by operation of law until January 29, 2019, and opening an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed Supplement No. 53.

8. On May 18, 2018, the Commission issued a Secretarial Letter consolidating the temporary rates proceeding regarding the effect of the federal tax rate reductions and other changes in the Tax Cuts and Jobs Act at Docket No. R-2018-30000770 with SWPA's pending Section 1308(d) rate proceeding at this docket.

9. On May 23, 2018 the OSBA filed a Formal Complaint regarding the SWPA base rate filing at Docket No. C-2018-3002132.

10. ALJ Salapa was assigned to this proceeding for purposes of conducting hearings and issuing a Recommended Decision.

11. The ALJ held a prehearing conference on May 25, 2018, during which the Parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings.

12. The PBA filed a Petition to Intervene in this proceeding on July 3, 2018 which was unopposed and subsequently granted.

13. Two public input hearings were held on July 11, 2018, one at 1:00 pm and one at 6:00 pm, in Hearing Room 1 of the Commonwealth Keystone Building using “smart” technology allowing ratepayers to participate via live streaming on the internet and by telephone.

14. All the Parties undertook thorough discovery in this proceeding. I&E commenced discovery shortly after the filing was made and continued to conduct *discovery throughout the litigation process.*

15. Pursuant to the procedural schedule established at the prehearing conference, I&E served to all active parties the following 7 pieces of testimony and accompanying exhibits from three I&E witnesses addressing the subjects of O&M expenses, real estate taxes, rate case expense, cash working capital, Tax Cuts and Jobs Act, cost of long-term debt, cost of common equity, overall rate of return, test year, rate base, plant-in-service, depreciation, average rate base, FTY and FPFTY reporting, materials and supplies, present rate revenue, proposed rate revenue, customer cost analysis, customer charge, and scale back of rates:

I&E Statement No. 1 and I&E Exhibit No. 1 - the Direct Testimony of I&E witness Brenton Grab;

I&E Statement No. 1-R and I&E Exhibit No. 1-R - the Rebuttal Testimony and accompanying Exhibit of I&E witness Brenton Grab;

I&E Statement No. 1-SR and I&E Exhibit No. 1-SR - the Surrebuttal Testimony and accompanying Exhibit of I&E witness Brenton Grab;

I&E Statement No. 2 and I&E Exhibit No. 2 - the Direct Testimony and accompanying Exhibit of I&E witness D.C. Patel;

I&E Statement No. 2-SR - the Surrebuttal Testimony of I&E witness D.C. Patel;

I&E Statement No. 3 and I&E Exhibit No. 3 - the Direct Testimony and accompanying Exhibit of I&E witness Ethan Cline; and,

I&E Statement No. 3-SR and I&E Exhibit No. 3-SR - the Surrebuttal Testimony and accompanying Exhibit of I&E witness Ethan Cline.

16. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple in-person and telephonic settlement discussions with the Company and the other Parties to the proceeding. Following extensive settlement negotiations and recognizing that a settlement is the result of compromises made by all Parties, the Parties in this proceeding reached a full and complete Settlement of all issues.

17. The Parties' requested the Hearings scheduled for September 10-12, 2018 be cancelled and the Parties agreed to admit witness testimonies and exhibits into the record by stipulation with accompanying signed verifications of the sponsoring witnesses.

II. TERMS AND CONDITIONS OF SETTLEMENT

18. "The prime determinant in the consideration of a proposed Settlement is whether the settlement is in the public interest."¹ The Commission has recognized that a

¹ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”²

19. I&E submits that the Settlement in the instant proceeding balances the interests of the Company, its customers, and the Parties in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Joint Petition. Accordingly, for the specific reasons articulated below to achieve the full scope of benefits addressed in the Settlement; I&E requests that the Settlement be recommended by ALJ Salapa, and approved by the Commission, without modification.

20. In settlement of all issues in this base rate proceeding, the Joint Petitioners agree as follows:

a. Removal of Mahoning Township Section 1329 Acquisition (Joint Petition ¶ 19(a)).

SWPA and the Parties agree, SWPA’s claims associated with SWPA’s acquisition of the water assets of Mahoning Township, currently pending for approval by the Commission at Docket No. A-2018-3003519 (“Mahoning Transaction”), are removed from its claims in this proceeding.

The Mahoning Township Water System (“MTWS”) is a water system that SWPA stated it is attempting to acquire, for an agreed-upon purchase price of \$9.5 million (SWPA has also filed an application with the Commission to simultaneously acquire the Mahoning Township wastewater system). SWPA stated that it plans to, at some

² *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

unspecified time in the second quarter of 2018, file a Section 1329 (66 Pa. C.S. § 1329) application with the Commission to officially acquire the MTWS. SWPA St. No. 1 at 26. However, as of the date of the filing of direct testimony, SWPA had not yet filed the application. I&E St. No. 3 at 2. The Company was proposing to include 60% of the \$9.5 million purchase price in rate base, though the Company stated it may adjust the claim based on the appraisals. SWPA St. No. 1 at 25. The Company was also proposing to include O&M expenses and an increase of 1,200 customers in the present filing because of the potential acquisition of the MTWS. SWPA St. No. 1 at 27.

I&E opposed the inclusion of the acquisition of the MTWS system in this base rate proceeding for a variety of reasons. *See* I&E St. No. 3 at 3-9. First, at the time of the filing of the SWPA base rate case, the SWPA had not yet filed the application for approval of the Section 1329 acquisition of MTWS. *Id.* at 4. I&E argued Section 1329 only allows for the ratemaking rate base to be incorporated into the next base rate case after approval of the Section 1329 acquisition by the Commission. *Id.* Further, the definition of ratemaking rate base in Section 1329 clearly states that the inclusion of the plant into the acquiring utility's rate base is intended to occur post acquisition in the next base rate case. *Id.* at 4-5.

Second, the SWPA proposed to immediately alter the rates of the MTWS customers in the current base rate proceeding. I&E St. No. 3 at 5. But, Section 1329 clearly states that the rates that are incorporated into the acquiring company's tariff will be equal to the rates which the customers of the selling utility are currently paying until the acquiring company's next base rate case. *Id.* Additionally, the current MTWS

customers have not received any notice regarding any potential acquisition by SWPA much less any notice of any potential rate increase as part of the current proceeding. *Id.*

Third, the Company argued that inclusion of the MTWS purchase price and rate base in this proceeding is appropriate because the SWPA proposed that the acquisition will close at some time during the FPFTY. SWPA St. No. 1 at 26; I&E St. No. 3 at 7-8. I&E rejected this argument and noted that the Company's timeline did not account for any stumbling blocks during the Section 1329 application approval proceeding or any potential appeal. I&E St. No. 3 at 7-8.

For all the above reasons, I&E argued that it was against Commission regulations and not just and reasonable to include the proposed, and yet to be filed, Section 1329 acquisition of MTWS in the current SWPA base rate proceeding. I&E St. No. 3 at 8-9. Additionally, the OCA presented similar opposition to the inclusion of the MTWS acquisition in this proceeding. *See* OCA St. 1 at 10-14; OCA St. 3 at 13-14.

This issue was discussed at length in settlement negotiations. Ultimately SWPA agreed to remove the Section 1329 acquisition of the MTWS assets from this base rate proceeding. SWPA St. No. 1R at 2. I&E supports the removal. I&E believes that this Settlement maintains the proper balance of the interests of the Joint Petitioners, as well as the SWPA ratepayers. I&E recognizes that this Settlement is the result of compromises by the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. Also note, the Section 1329 Application was eventually filed and accepted by the Commission on August 8, 2018 at Docket No. A-2018-3003519.

b. Revenue Requirement (Joint Petition ¶ 19(b)).

The Joint Petitioners agree as follows in sub-paragraphs 1, 2, and 3:

1. Following entry of a Commission final Order approving this Settlement, SWPA shall file a compliance tariff supplement, effective no sooner than February 1, 2019, with new rates designed to produce \$3.0 million in additional annual operating revenue based upon the pro forma level of residential usage of 2,273,369 thousand gallons and commercial usage of 1,394,933 thousand gallons for the test period ending December 31, 2017 (“Settlement Rates”). The level of revenue requirement included in this Settlement reflects the resolution of the parties’ positions regarding 66 Pa. C.S. § 1301.1 for this case.

I&E fully supports the negotiated \$3.0 million annual operating revenue increase as compared to the requested \$6.2 million in SWPA’s original filing. While the overall revenue requirement is a “black box” compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the Parties. I&E’s stated recommendations on the identified issues were set forth in I&E’s extensive direct, rebuttal and surrebuttal testimony.³ And, as a “black box” settlement, unless specifically addressed below, the Settlement does not reflect agreement upon individual issues. Finally, I&E recognizes that this Settlement is the result of compromises by the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated.

³ See I&E pre-served testimony identified in paragraph 15 *supra*.

2. SWPA's allowed revenue requirement shall be allocated to rates among the rate classes in the same manner as proposed in its base rate filing.

This issue was fully vetted during settlement negotiations. Ultimately the Joint Petitioners agreed that the \$3.0 million additional annual operating revenue should be allocated among the rate classes in the same manner as proposed in SWPA's base rate filing.

Both OCA and OSBA witnesses presented testimony regarding the cost of service study and revenue allocation issues. OCA witness Jerome D. Mierzwa proposed a revenue distribution that moved revenues more closely toward the indicated cost of service than the distribution proposed by SWPA. OCA St. 3 at 4-10. Mr. Mierzwa also proposed using the cost of service study prepared by SWPA that excluded MTWS and the Route 15 expansion rather than the one that included them. *Id.* at 7-9. Ultimately Mr. Mierzwa concluded that if the Commission authorizes an increase that is less than the total increase reflected in his testimony, then he recommends a proportionate scale back of the proposed customer class increases as reflected in his direct testimony. *Id.* at 9-10.

OSBA witness Brian Kalcic opined that Mr. Mierzwa's proposed revenue allocation results in some class increases that exceed 1.50 times the system average increase. OSBA St. No. 1-R at 1-4. Mr. Kalcic added, it is his experience that it is rare for assigned class increases to exceed 150% of the system average, in recognition of gradualism. *Id.* at 3. Mr. Kalcic also stated he believed SWPA's "proposed limit of 1.63 times the filed system average is reasonable, since it provides for meaningful movement

toward class cost of service, without imposing an excessive increase on any rate class.”

Id.

While I&E did not present testimony specifically discussing the Company’s proposed revenue allocation, I&E did review the testimony presented by OCA witness Mierzwa and OSBA witness Kalcic. Further, I&E did present testimony regarding the customer cost analysis portion (direct versus indirect customer costs) of SWPA’s cost of service study, as well as the application of scale back to any approved revenue requirement increase. I&E St. No. 3 at 42-50; I&E St. No. 3-SR at 16-31.

I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(b)(ii). I&E recognizes that this Settlement is the result of compromises by the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated.

3. The proposed increases to the separate customer classes shall be scaled back proportionately under the Settlement; with the exception that no change shall be made to proposed, as-filed rates for Public Fire Hydrant Service.

I&E filed direct and surrebuttal testimony regarding the scale back of any approved revenue requirement increase (I&E St. No. 3 at 50; I&E St. No. 3-SR at 30-31) and this issue was fully vetted in the settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(b)(iii).

c. Customer Service Charges (Joint Petition ¶ 19(c)).

All Customer Service Charges for 5/8”-3/4” meter size service shall be \$14.50.

SWPA proposed to increase the Customer Service Charges for 5/8"-3/4" from \$13.75 to \$15.00. I&E St. No. 3 at 47, *citing* SWPA Ex. No. PRH-1, Sch. 1, p. 1.

I&E submitted extensive direct and surrebuttal testimony regarding the customer service charges. I&E St. No. 3 at 47-49; I&E St. No. 3-SR at 16-29. I&E recommended a \$14.00 customer charge for 5/8"-3/4" meter service. I&E St. No. 3-SR at 29. This issue was thoroughly vetted in settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(c).

d. Non-Residential Standby Rate (Joint Petition ¶ 19(d)).

Tariff Supplement No. 53 shall be revised to allow the Non-Residential Standby Rate to be nominated in 100 gallons per day units. The Cost per Month per Hundred Gallons of Daily Demand shall be \$14.18, and the cost per thousand gallons of standby usage shall be \$2.87.

I&E did not submit testimony regarding this issue. I&E, however, was involved in the discussion of this issue during settlement negotiations and did review the direct testimony presented by OSBA witness Brian Kalcic. *See* OSBA St. No. 1 at 1-5. I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(d).

e. Amortizations (Joint Petition ¶ 19(e)).

The Parties agree that there shall be no additional amortizations (*i.e.*, beyond those previously-recognized by the Commission) recognized as a result of this proceeding.

I&E did not submit testimony regarding this issue. I&E, however, was involved in the discussion of this issue during settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(e).

f. Depreciation (Joint Petition ¶ 19(f)).

SWPA shall use the proposed depreciation rates as filed in its base rate filing. I&E did not submit testimony regarding this specific issue. I&E did, however, submit testimony regarding the Company's annual depreciation expense and accumulated depreciation. I&E St. No. 3 at 23-27; I&E St. No. 3-SR at 7-10. Additionally, I&E was involved in the discussion of this issue during settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition Paragraph 19(f).

g. State Tax Adjustment Surcharge (Joint Petition ¶ 19(g)).

In accordance with 52 Pa. Code § 69.55, the State Tax Adjustment Surcharge ("STAS") for SWPA shall be established at 0% effective with the effective date of Settlement Rates in this proceeding.

I&E did not submit testimony regarding this issue. I&E, however, was involved in the discussion of this issue during settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition Paragraph 19(g).

h. Distribution System Improvement Charge (Joint Petition ¶ 19(h)).

1. The Distribution System Improvement Charge ("DSIC") for SWPA shall be established at 0% of billed revenues effective with the effective date of Settlement Rates. The DSIC shall remain at 0% of billed revenues until the later of: (a) the end of the FPFTY; or, (b) the quarter following the point in time at which SWPA's DSIC-eligible investment, net of plant funded with customer advances and customer contributions, exceeds \$26.79 million. The \$26.79 million is calculated to include DSIC investment made beginning January 1, 2018 (*i.e.*, the beginning of the Future Test Year)

and ending December 31, 2019 (*i.e.*, the end of the FPFTY). The foregoing provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing.

2. For purposes of calculating its DSIC, SWPA shall use the equity return rate for water utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for water utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

3. The parties acknowledge that issues regarding the impact of 66 Pa. C.S. § 1301.1 on the treatment of federal and state income tax deductions in calculating DSIC charges are currently being litigated before the Commission in *Petition of Metropolitan Edison Co., et al., for Approval of a DSIC*, Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948 ("*Petition of Met-Ed*"). The Company will not contest the right of a party to raise issues regarding the impact of 66 Pa. C.S. § 1301.1 on the treatment of federal and state income tax deductions in calculating DSIC charges by filing a complaint against the Company's first quarterly DSIC charge filed after the resolution of the *Petition of Met-Ed* or by filing a pleading to initiate a generic proceeding.

Regarding Paragraphs 19(h)(i), (ii) and (iii), I&E did not submit testimony regarding these DSIC issues. I&E, however, was involved in the discussion of these issues and they were fully vetted during settlement negotiations. I&E fully supports the negotiated Settlement terms in Joint Petition Paragraphs 19(h)(i), (ii) and (iii).

i. Unaccounted for Water (Joint Petition ¶ 19(i)).

1. SWPA will continue to employ the methods to reduce Unaccounted-For Water as set forth on page 17 of John Hollenbach's direct testimony, SWPA Statement No. 1, and in the currently-effective version of 52 Pa. Code § 65.20.

2. SWPA shall prepare Section 500 forms for each of its operating systems for which it submits a Chapter 110 Report and provide them to the OCA and TUS in live Excel format at the time of its Chapter 110 Report submission. SWPA will include records supporting its estimate of "Located and Repaired Breaks in Mains & Services."

Regarding Paragraphs 19(i)(i) and (ii), I&E did not submit testimony regarding these unaccounted-for water issues. I&E, however, was involved in the discussion of these issues and did review the direct testimony presented by OCA witness Terry L. Fought. See OCA St. 4 at 3-10. Further, these issues were fully vetted during settlement negotiations. I&E fully supports the negotiated settlement terms in Joint Petition Paragraphs 19(i)(i) and (ii).

j. Fully-Projected Future Test Year Reporting (Joint Petition ¶ 19(j)).

SWPA will provide the Commission's Bureau of Technical Utility Services, I&E, OCA and OSBA, on or before April 30, 2019, an update to SWPA Exhibit

No. JDH-1 to include actual plant additions and retirements by month for the twelve months ending December 31, 2018. On or before October 31, 2019, SWPA shall update SWPA Exhibit No. JDH-1 for the twelve months ending June 30, 2019. In SWPA's next base rate proceeding, SWPA shall prepare and submit a comparison of its actual expenditures and rate base additions for the twelve months ending December 31, 2019, to its projections in this case.

I&E witness Ethan Cline recommended that SWPA provide the Commission's Bureaus of Technical utility Services and Investigation and Enforcement with an update to SWPA Exh. No. JDH-1 no later than April 1, 2019 and an additional update for actuals from January 1, 2019 through December 31, 2019 no later than April 1, 2020. *See* I&E St. No. 3 at 32-33. This issue was fully vetted during settlement negotiations and I&E fully supports the negotiated Settlement terms in Joint Petition paragraph 19(j).

k. Tax Cuts and Jobs Act ("TCJA") (Joint Petition ¶ 19(k)).

1. SWPA will begin amortizing the total excess ADIT (\$10,065,851) over 38 years, estimated to be \$264,891 annually, on the effective date of new rates approved in this proceeding. In its next base rate case, SWPA will true-up this amount and flow back any differences to ratepayers based on a change to the ARAM method that is currently being determined by the Company's tax consultant.

2. Tax savings resulting from TCJA prior to the effective date of new rates pursuant to this Settlement will be provided to ratepayers as follows:

a. SWPA will flow back to ratepayers via a reconcilable surcharge mechanism over a one-year period, the net savings associated with the

reduction in federal income tax expense from January 1, 2018 through January 31, 2019 (“Federal Tax Adjustment Credit” or “FTAC”). The Company’s estimated net savings of \$2.42 million will be increased to provide for interest accrued during 2018 and 2019. The interest will be calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 *et seq.*) that is in effect on the last day of the month the over-collection or under-collection occurs.

b. The FTAC will be based on the difference in total annual revenue requirement before and after implementing the 2018 effects of the TCJA and the calculation will reflect the reduction in required revenues plus interest for 2018 and January 2019. The reduction in required revenues will be calculated by estimating annual applicable base revenues to develop the FTAC to be applied to customers’ bills for service rendered during the twelve-month period beginning on the effective date of new rates.

c. The parties agree that the surcharge mechanism will be added to the Company’s tariff as set forth in the Joint Petition at Paragraph 19(k)(ii).

I&E submitted extensive testimony regarding the excess Accumulated Deferred Income Taxes (“ADIT”) and the TCJA issues. *See* I&E St. No. 1 at 39-49.

I&E recommended that SWPA provide excess ADIT calculations and breakdowns for protected and unprotected balances for the Historic Test Year, the Future Test Year and the FPFTY in order to determine the correct amount to be placed in a deferred liability account and returned to ratepayers over a period of time. I&E St. No. 1 at 45-49.

And, I&E recommended that SWPA be required to continue reducing rate base in future filings for the remaining balance until the full amount is refunded to ratepayers. *Id.*

Further, I&E recommended that SWPA use its claimed 38-year amortization for the protected portion and a 5-year amortization for the unprotected portion. *Id.* at 47.

Regarding the TCJA tax credit, I&E recommended that the Company be required to flow back to ratepayers via a reconcilable Section 1307 surcharge mechanism (which I&E recommended be called the Federal Tax Adjustment Credit (“FTAC”)) the net savings associated with the reduction in federal income taxes from January 1, 2018 through the effective date of the new rates, or December 31, 2018, whichever occurs first. *Id.* at 42. Further, I&E provided proposed language for the FTAC in direct testimony. *Id.* at 42-43. Finally, I&E recommended the credit be flowed back to taxpayers over a one-year period. *Id.* at 44.

The excess ADIT and the TCJA issues were fully vetted during settlement negotiations and I&E fully supports the negotiated Settlement terms in Joint Petition paragraphs 19(k)(i) and (ii).

I. Treatment of Income Taxation of Contributions in Aid of Construction (Joint Petition ¶ 19(l)).

Within 30 days of a final, un-appealed Commission order on the tariff supplement filing of Pennsylvania-American Water Company at Docket No. R-2018-3002504, SWPA shall file a tariff supplement consistent with the Commission’s resolution in that proceeding of the issue of cost responsibility for, and ratemaking treatment of, income taxation of Contributions in Aid of Construction (“CIAC”). Until such time as SWPA’s tariff supplement becomes effective and unappealable, the Company shall either require

the developer to present a letter of credit in the amount of grossed-up income tax that would be owed on the CIAC or to hold such amount in escrow; the letter of credit or escrow funds, as the case may be, shall be released to the appropriate party within 15 business days of the tariff supplement becoming effective and unappealable. The amount of grossed-up income tax owed will be calculated by multiplying the CIAC by a factor of 1.4063 and then deducting the CIAC amount from that number. Notwithstanding the foregoing, any existing CIAC agreement between SWPA and a developer shall remain in full force and effect without modification.

I&E submitted extensive testimony and supporting exhibits regarding the CIAC issue. See I&E St. No. 1-R at 1-10; I&E Exh. No. 1-R. Ultimately, I&E recommended that SWPA's proposed gross-up methodology be approved because it appropriately recommends that the contributor, not existing SWPA customers, pay for the income taxes associated with the contribution. See I&E St. No. 1-R at 5-10. In making its recommendation, I&E generally relied on the Commission Order in *Investigation of Accounting and Ratemaking Associated with Contributions in Aid of Construction and Customer Advances*, Docket No. I-880083 (Order entered June 14, 1989). See I&E Exh. No. 1-R, Sch. 1.

The CIAC issue was fully vetted during settlement negotiations and I&E fully supports the negotiated Settlement terms in Joint Petition Paragraph 19(l).

m. Rate Filing Stay-Out (Joint Petition ¶ 19(m)).

SWPA shall not file with the Commission a tariff or tariff supplement proposing a general increase in base rates earlier than April 29, 2021; provided, however, that the

foregoing provision shall not prevent SWPA from filing a tariff or tariff supplement: (a) proposing a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting SWPA's rates or (b) proposing a rate increase of less than \$1 million to be applied exclusively to customers in the service territory addressed in the Mahoning Transaction, in order to move such customers toward the Mahoning system's cost of service. Parties maintain their rights to participate in and contest any ratemaking item or issue relevant to such filing.

This issue arose out of SWPA's inclusion of the MTWS Section 1329 acquisition in this base rate proceeding. SWPA St. No. 1 at 26; I&E St. No. 3 at 2. SWPA stated that it plans to, at some unspecified time in the second quarter of 2018, file a Section 1329 application with the Commission to officially acquire the MTWS. SWPA St. No. 1 at 25; I&E St. No. 3 at 2. However, SWPA's proposal was met with strong opposition from both I&E and OCA. Both I&E and OCA filed testimony opposing the inclusion of the as-yet-filed and approved Section 1329 acquisition of the MTWS system in this base rate proceeding. I&E St. No. 3 at 2-9; OCA St. 1 at 10-14; OCA St. 3 at 10-13.

In rebuttal, SWPA proposed to withdraw the MTWS acquisition from this base rate proceeding. SWPA St. No. 1R at 2. Further, in response to OCA witness Mierzwa's testimony regarding separate cost of service studies for the MTWS service territory and the SWPA service territory excluding MTWS, SWPA witness John D. Hollebach stated "the Company has withdrawn the acquisition of the MTWS from this filing and therefore

[Mr. Mierzwa's] recommendation should be tabled and addressed in the Company's next base rate filing." SWPA St. No. 1R at 3.

After extensive settlement negotiations which included various proposals, the Parties ultimately agreed that to balance the interests of all of the Parties, including the current SWPA customers, the proposed compromise struck an amicable balance of the competing interests.

Therefore, I&E fully supports the negotiated terms in Joint Petition Paragraph 19(m). I&E recognizes that this Settlement is the result of compromises by the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. Finally, I&E considers this proceeding and Settlement to be unique.

n. Quality of Service Commitments (Joint Petition ¶ 19(n)).

1. SWPA shall establish and document a valve maintenance program by January 1, 2019 that will set forth a minimum number of valves to exercise annually.

2. Within 60 days of Commission approval of this Settlement, SWPA shall meet with OCA and I&E to discuss proposed modifications to SWPA's social media outreach to consumers regarding quality of service events.

3. In SWPA's next base rate proceeding, SWPA shall prepare and submit a complaint log in sortable Excel format. The log will include complaints made to the Company about its service or facilities, showing the name and address of the

complainant, the date and character of the complaint, and the final disposition of the complaint.

4. With regard to service-related issues, in response to concerns raised by OCA in its testimony in this case and by consumers at the Public Input Hearings, the Company has taken or will take the actions set forth in the Joint Petition at paragraph 19(n)(iv).

The referenced quality-of-service issues were raised by OCA witness Terry L. Fought (*See* OCA St. 4) and SWPA customers through formal complaints and testimony at the public input hearings. I&E did not submit testimony regarding the quality of service issues. I&E, however, did review the testimony presented by OCA, the formal complaints, and all the testimony and supporting documents presented by the SWPA customers. The quality-of-service issues were fully vetted during the settlement negotiations. I&E fully supports the agreed to settlement terms in Joint Petition Paragraphs 19(n)(i), (ii), (iii) and (iv).

o. Miscellaneous (Joint Petition ¶ 19(o)).

1. All other provisions of SWPA base rate filing as reflected in Tariff Supplement No. 53 shall be adopted without modification in SWPA's base rate increase compliance tariff supplement filing.

2. It is recognized by the Joint Petitioners that this is a "black box settlement" that is a compromise of the settling parties' positions on various issues.

I&E supports the negotiated and agreed to settlement terms in Joint Petition paragraphs 19(o)(i) and (ii).

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

21. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. The Parties have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this base rate proceeding complete.

22. Based upon I&E's analysis of the filing, resolution of this case by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty.

23. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all

customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all the Parties agree benefits their discrete interests.

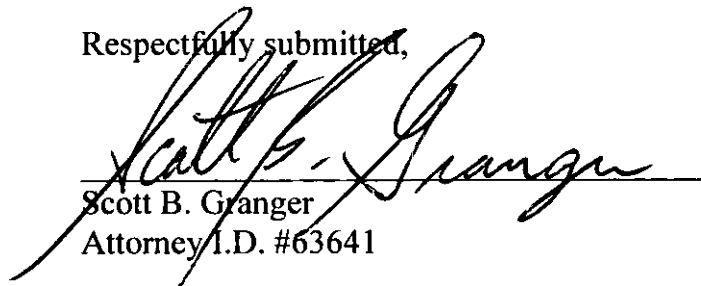
24. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Party.

25. This Settlement is being presented only in the context of this base rate proceeding to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event the Settlement is rejected by the Commission or otherwise properly withdrawn by any other Parties to the Settlement. Furthermore, the Settlement reflects compromises on all sides, and is presented without prejudice to the positions that any of the parties may advance in future SUEZ Water Pennsylvania, Inc. proceedings on the merits of the issues.

26. If ALJ Salapa recommends that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by ALJ Salapa in his Recommended Decision. Further, I&E does not waive the right to file Replies in the event *any* party files Exceptions.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the Joint Petition for Approval of Settlement of Rate Proceeding as being in the public interest and respectfully requests that Administrative Law Judge David A. Salapa recommends, and the Commission approves, the terms and conditions contained in the Settlement.

Respectfully submitted,



Scott B. Granger
Attorney I.D. #63641

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
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(717) 787-4887

Dated: October 10, 2018

APPENDIX H

**STATEMENT IN SUPPORT OF
PENNSYLVANIA BUILDERS
ASSOCIATION**

RECEIVED

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3000834
	:	
Office of Consumer Advocate	:	C-2018-3001786
	:	
Office of Small Business Advocate	:	C-2018-3002132
	:	
v.	:	
	:	
Suez Water Pennsylvania, Inc.	:	

**THE PENNSYLVANIA BUILDERS ASSOCIATION
STATEMENT IN SUPPORT
OF THE JOINT PETITION FOR APPROVAL
OF SETTLEMENT OF RATE PROCEEDING**

The Pennsylvania Builders Association (the “PBA” or the “Company”) submits this Statement in Support of the Joint Petition for Approval of Settlement of Rate Proceeding (“Joint Petition” or “Settlement”). The PBA submits that the Settlement is in the public interest and respectfully requests that Administrative Law Judge David A. Salapa (“ALJ Salapa”) and the Pennsylvania Public Utility Commission (“Commission”) approve the Settlement without modification.

I. PROCEDURAL HISTORY

On April 30, 2018 and pursuant to Section 1308(d) of the Public Utility Code (“Code”), 66 Pa. C.S. § 1308(d), Suez Water Pennsylvania, Inc. (“Suez,” “SWPA,” or the “Company”) filed Supplement No. 53 to Tariff - Water – Pa. P.U.C. No. 7 (“Supplement No. 53”) along with direct testimony and exhibits and other supporting information. Among other things, Supplement No. 53 proposed an increase in rates designed to produce an annual increase in base rate revenues of approximately \$6.2 million and had an effective date of June 29, 2018.

Counsel for I&E filed a Notice of Appearance on May 4, 2018. The OCA filed a formal complaint at Docket No. C-2018-3001786 that was served by the Commission’s Secretary on May 11, 2018.

By Order dated May 17, 2018, the Commission suspended Supplement No. 53 by operation of law until January 29, 2019, unless otherwise directed by Order of the Commission. The case was assigned to the Office of Administrative Law Judge and was further assigned to ALJ Salapa. On May 23, 2018, the Office of Small Business Advocate (“OSBA”) filed a Formal Complaint. On May 25, 2018, ALJ Salapa convened a Prehearing Conference, at which time a procedural schedule was established. The PBA filed a Petition to Intervene on July 3, 2018, which ALJ Salapa granted on July 24, 2018.

In accordance with the procedural schedule established in this proceeding, the PBA, I&E, OCA, and OSBA served Direct Testimony on July 20, 2018. The Company, I&E, and OSBA served Rebuttal Testimony on August 17, 2018. On August 31, 2018, Suez contacted ALJ Salapa via e-mail, indicating that the parties had agreed to request an extension of the deadline for filing Surrebuttal Testimony until September 5, 2018, so they could continue settlement negotiations. Suez’s request was granted. Nevertheless, the OCA and I&E served Surrebuttal Testimony on August 31, 2018.

The parties engaged in several settlement negotiations throughout the course of this proceeding. As a result of these negotiations, the parties reached a settlement in principle prior to the date of the evidentiary hearing. On September 6, 2018, the parties advised ALJ Salapa of the settlement in principle. The evidentiary hearings were cancelled, and an Order Suspending Litigation Schedule was issued on September 11, 2018. The PBA submits this Statement in Support of the Joint Petition, which outlines the terms of the settlement in principle.

II. SETTLEMENT

The PBA's interest in this proceeding was limited to the Company's proposal regarding the impact of the Federal Tax Cuts and Jobs Act ("TCJA") on the requirement for water and sewer utilities to recognize Contributions in Aid of Construction ("CIAC") as taxable income and the associated effect on charges to developers and customers who remit those CIAC charges. In its rate case filing, the Company sought Commission authority to require developers, or others requesting service line extensions, to pay the entirety of the income tax consequences of CIAC. Specifically, the Company proposed that it be permitted to gross-up the CIAC charged to developers at the net present value of cash flows resulting from the taxability of the CIAC and the future deductibility for income tax purposes of the resulting asset. The Company also proposed that the deferred income tax impact of said transaction be held outside the ratemaking process, so that water service customers are not impacted. *See* SWPA Statement No. 3 at 8-9.

The PBA filed testimony opposing the Company's proposal. In its testimony, the PBA explained that the Company's proposal puts an extreme financial burden on developers in the development and construction of main and service line extensions. This new financial burden may serve as a deterrent for developers to undertake such projects. The PBA explained that main and service line extensions are necessary to expand utility services to new customers or locations. It is the PBA's position that it is in the public interest for Suez to have adequate

resources to invest in new infrastructure and capital developments and to increase consumer access to water supply. Providing more customers access to water supply from Suez also gives the Company a larger customer base in which to spread its overall cost of service. The PBA also explained that by imposing the tax on the customer or developer seeking the service extension, Suez is creating a disincentive to use public utilities to serve a new customer's water needs and could push new users to rely instead on wells. This scenario robs the utility of the ability to spread fixed costs over a greater number of customers, which results in increased costs in the long run to all customers. The PBA suggested that Suez, instead, adopt the "no gross-up method," consistent with the proposal of Pennsylvania American Water Company ("PAWC") at Docket No. R-2018-3002504, noting that the no gross-up method benefits ratepayers and is consistent with reasonable ratemaking policy. PBA St. 1 at 3-5.

The OCA filed testimony stating that it does not object to the gross-up method proposed by the Company. OCA St. No. 1 at 37-38. I&E filed testimony strongly supporting the Company's proposal related to this issue. *See* I&E St. No. 1-R. In Rebuttal, the Company responded to the testimony presented by the PBA on this issue and indicated that it "believes that consistent regulatory policy is critical on this issue" and suggested that the Commission order that the outcome of the PAWC case be applied uniformly to all Pennsylvania water utilities, "be it a full gross-up, a net present value gross-up, or a no gross-up methodology." SWPA St. No. 3-R at 10-11.

The PBA submits that the Settlement provides a reasonable resolution to the different positions taken by the parties. Pursuant to the Settlement, the Company has agreed to file a tariff supplement within 30 days of a final, unappealed Commission order in the PAWC proceeding at Docket No. R-2018-3002504. The Company's filing shall be consistent with the Commission's resolution in that proceeding regarding the income taxation of CIAC. In the interim, the

Company shall require developers to present a letter of credit in the amount of the grossed-up income tax that would be owed on the CIAC, or to hold such amount in escrow. The letter of credit or escrow funds will be released to the appropriate party within 15 business days of the tariff supplement becoming effective and unappealable. Joint Petition at ¶ 1.

The PBA submits that this settlement provision is in the public interest and is a reasonable compromise. As noted, PAWC's proposal in Docket No. R-2018-3002504 is consistent with PBA's proposal in this case. As such, if the Commission approves PAWC's proposal, Suez will be required to make a filing consistent with PBA's recommendation. Additionally, the PBA, I&E, and the OCA are all parties to the PAWC proceeding. As such, the parties will have the opportunity to litigate this issue in that proceeding without delaying Suez's rate case. Settlement on this issue will save the unnecessary expenditure of time and resources that would result if the same parties had to litigate the same issue in two separate proceedings. Additionally, the terms of the Settlement will ensure that the appropriate parties will be responsible for the additional cost of the taxed CIAC pending a final Commission decision. As such, the PBA submits that this Settlement is in the public interest and in the interest of PBA's members.

III. CONCLUSION

For the foregoing reasons, the Pennsylvania Builders Association submits that the Joint Petition provides a reasonable resolution to the Company's filing and is in the public interest. The PBA respectfully requests that the Joint Petition be approved without modification.

Respectfully submitted,

Kristine E. Marsilio

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

SUEZ Water Pennsylvania Inc.

Docket No. R-2018-3000834

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing copy of the **Joint Petition for Approval of Settlement of Rate Proceeding**, upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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DATED: October 10, 2018



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