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|  | Public Meeting held October 25, 2018 |
| Commissioners Present: |  |
| Gladys M. Brown, ChairmanAndrew G. Place, Vice ChairmanNorman J. KennardDavid W. SweetJohn F. Coleman, Jr. |
|  |
| Pennsylvania Public Utility Commissionv.West Hickory Water Company | R-2018-3001507 |

**ORDER**

**BY THE COMMISSION:**

On July 26, 2018, West Hickory Water Company (West Hickory), Utility Code 213410, filed Supplement No. 8 To Water - Pa. P.U.C. No. 3 to become effective November 15, 2018. The subject tariff would increase West Hickory’s total annual operating revenues for water service by approximately $18,393, or 31.18%.

Analysis of the proposed tariff filing and supporting data indicates that the proposed changes in rates, rules, and regulations may be unlawful, unjust, unreasonable, and contrary to public interest. It also appears that consideration should be given to the reasonableness of West Hickory’s existing rates, rules, and regulations. At the same time, analysis of the tariff filing and supporting data indicates that a lesser increase in rates may be just and reasonable;[[1]](#footnote-1) **THEREFORE,**

**IT IS ORDERED:**

1. That if, on or before ten (10) days after the date of entry of this Order, West Hickory Water Company files a tariff or tariff supplement, effective upon five (5) days’ notice to the Commission, which cancels and supersedes Supplement No. 8 To Water - Pa. P.U.C. No. 3, and which contains proposed changes in rates calculated to produce additional annual revenues of approximately $13,546.99 incorporating the schedule of rates shown on Attachment A, attached hereto, the tariff or tariff supplement proposing the increase shall be permitted to become effective upon five (5) days’ notice.
2. That if West Hickory Water Company has not filed a tariff or tariff supplement cancelling and superseding Supplement No. 8 To Water - Pa. P.U.C. No. 3 as described in Ordering Paragraph 1 of this Order, on or before ten (10) days of the date of entry of this Order, or been granted additional time to do so by Order of the Commission, the following shall apply:
	1. That an investigation on Commission motion shall be instituted, without further Order of the Commission, to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in West Hickory Water Company’s proposed Supplement No. 8 To Water - Pa. P.U.C. No. 3;
	2. That Supplement No. 8 To Water - Pa. P.U.C. No. 3 shall be, without further Order of the Commission, suspended until June 15, 2019, unless otherwise directed by Order of the Commission;
	3. That within ten days following the suspension of Supplement No. 8 To Water - Pa. P.U.C. No. 3, pursuant to 52 Pa. Code § 53.71, West Hickory Water Company shall file (or e-file) a tariff supplement, which shall bear no effective date, with the Commission and post the tariff supplement at the offices of West Hickory Water Company announcing that the aforementioned tariff is suspended until June 15, 2019. A sample copy of a suspension supplement is attached to this Order as Attachment B;
	4. That this investigation shall include consideration of the lawfulness, justness, and reasonableness of the existing rates, rules, and regulations of West Hickory Water Company; and
	5. That this case be assigned to the Office of Administrative Law Judge for Alternative Dispute Resolution, if possible, for the prompt scheduling of such hearings as may be necessary culminating in the issuance of a recommended decision.
3. That a copy of this Order shall be served upon West Hickory Water Company, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, and any persons who have filed formal complaints against the West Hickory Water Company’s proposed tariff.
4. That this Order is without prejudice to any formal complaints timely filed against the West Hickory Water Company’s proposed rate increase.

**BY THE COMMISSION,**

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: October 25, 2018

ORDER ENTERED: October 25, 2018

ATTACHMENT A

**Schedule of Rates**

Service Charge

 5/8” meter, per month $24.31

 3/4” meter, per month $32.77

 1” meter, per month $60.94

 2” meter, per month $194.37

Consumption Charges

 Per 1,000 gallons $5.99

ATTACHMENT B

Sample Suspension Supplement

Supp. No. \_\_\_\_\_\_ to

\_\_\_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_

(COMPANY NAME)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(TERRITORY SERVED BY COMPANY)

The application of rates proposed in Tariff \_\_\_\_\_\_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_\_ filed to become effective \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, is hereby suspended until \_\_\_\_\_\_\_\_\_\_\_\_\_, at Docket No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Presently effective rates contained in Tariff \_\_\_\_\_\_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_\_ and supplements thereto, will continue in effect until otherwise amended. Issued in compliance with Title 66 Pa. C.S. § 1308.

ATTACHMENT C

**Adjustments and Reductions to West Hickory Water Company Claims**

1. Water Revenues - The Commission adjusted West Hickory’s claim for water revenues by $1,008.66 to annualize customer count changes. After applying Commission adjustments, the anticipated income available for return under proposed rates of $18,393.20 represents a 9.97% return on the original cost rate base of $188,330.39, which is excessive. If West Hickory accepts the Commission’s recommendation to increase revenues approximately $13,546 rather than West Hickory’s proposal of $18,393, the anticipated income available for return would be approximately $14,124 which would produce a return of 7.50% on the original cost rate base.
2. Operating Labor - The Commission adjusted West Hickory’s claim for operating labor by -$543.55. West Hickory’s sister company, Venango Water Company, provided a response to TUS Data Request R-19 indicating it incorrectly allocated its share of distributed wages, joint expenses and insurance costs and provided a corrected allocation. The adjustment is consistent with the corrected allocation provided by Venango. Additionally, West Hickory’s response to TUS Data Request R-16 indicates $210 was incorrectly expensed for changing meters.
3. Depreciation - The Commission adjusted West Hickory’s claim for depreciation by
-$88.58. The adjustment is largely due to the early retirement of certain West Hickory assets and the adjustment of the proposed service life for a new water main in West Hickory Account No. 69 from 50 years to 60 years. The adjustment is partially offset by the capitalization of certain 2016 and 2017 meter installation expenses.
4. Rate Base at Original Cost - The Commission adjusted West Hickory’s net plant in service by -$1,227.39. This adjustment consists of the following:
	* -$753.50 to adjust net plant in service due to the early retirement of certain West Hickory assets, the capitalization of certain 2016 and 2017 meter installation expenses, and the adjustment of the proposed service life for a new water main in West Hickory Account No. 69 from 50 years to 60 years.
	* -$341.45 to adjust West Hickory’s cash working capital claim both to agree with other adjustments or reductions and to exclude tax expenses from West Hickory’s calculation; and
	* -$132.44 to adjust West Hickory’s material and supplies claim to exclude non-depreciable plant and to agree with other adjustments.
5. Rate Case Expense - The Commission reduced West Hickory’s rate case expense by

-$1,200 to reflect a 5-year normalization period as opposed to West Hickory’s proposed 2-year normalization period.

1. Non-Operating Income/Expense - The Commission adjusted West Hickory’s non-operating income/expense by $60.72 to exclude these revenues and expenses from rates.

**Rate Base**

|  |  |  |  |
| --- | --- | --- | --- |
| **Test Year Ended 2017** | Company ($) | Adjust ($) | Commission ($) |
| Total Depr. Plant in Service  |  322,299  |  (6,982) |  315,317  |
| Less: Accrued Depr.  |  153,989  |  (6,229) |  147,760  |
| Net Depreciable Plant |  168,310  |  (754) |  167,556  |
| Add: Non-Depr. Plant |  12,574  |  -  |  12,574  |
| Net Plant in Service |  180,884  |  (754) |  180,130  |
| Add: |   |   |   |
| Cash Working Capital  |  6,866  |  (341) |  6,525  |
| Materials and Supplies |  1,808  |  (132) |  1,676  |
| **Rate Base** |  189,558  |  (1,227) |  188,330  |

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| ATTACHMENT D**RATE OF RETURN ANALYSIS SHEET** |
|  |  |  |  |  |
|  |  |  | **Capital Structure Employed** | **Interest Expense Used for Tax Calculation** |
| Docket Number: | R-2018-3001507 |  |  |  |
| Date: |  |  | ( ) | Company | (X) | Actual |
| Name: | West Hickory Water Company |  | ( ) | Cons. System | ( ) | Hypothetical |
| Affiliation: |  |  | (X) | Hypothetical | ( ) | Normalized |
| Test Year End: | December 31, 2017 |  | ( ) | Other | ( ) | Other |

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| **Capital Structure and Cost Rates**  |
| **Per Commission**  | **Company Claimed** |
|  |  |
| Debt | 50 | x | 5.00  | = | 2.50 |  | Debt | n/a | x |  n/a  | = | n/a |
| P/S | 0 | x | 0 | = | 0  |  | P/S | n/a | x | n/a | = |  |
| C/E | 50 | x | 10.00 | = | 5.00 |  | C/E | n/a | x | n/a | = | n/a |
| Total | 100 |  |  |  | 7.50 |  | Total |  n/a |  | n/a |

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West Hickory Water Company (West Hickory or the Company) is financed at test year end with no long-term debt and $195,048 equity. This capitalization is considered atypical for the water utility industry. The Commission has previously utilized hypothetical capital structures when a utility’s capitalization is atypical relative to the barometer group used to determine the return on equity. The Commission has based its return recommendation on a market-based water utility barometer group because the water utility industry offers the most suitable surrogate for determining a rate of return. The hypothetical capital structure (50% debt and 50% equity capital) is a market determined capitalization profile reflecting the risks associated with the industry. The market DCF equity cost rate relates to this structure.

 The Commission recommends a 5.00% cost rate to be applied to the debt capital portion of the West Hickory’s capitalization. This rate is based on an estimated debt cost of Baa corporate bonds. The pre-adjusted cost of equity is based on a Discounted Cash Flow analysis of a barometer group of water utilities with actively traded common stock. The barometer group-related range of appropriate, market-derived returns is currently 6.41 to 12.93% with a mean of 9.67%. The Commission recommends a return to the Company’s equity of 10.00% based upon adjusting their return to reflect size, current market conditions and the scope of operations differentials vis-à-vis the barometer group. The resulting return on the Company’s rate base is 7.50%.

 \_ Andrew Herster\_

 Andrew Herster

**Rate of Return-Company Claimed and Per Commission**

**West Hickory Water Company**

**Commission Rate of Return:**

 Capital Capital Cost Weighted

 Components Ratios Rates Cost

 % % %

 Total Debt 50 5.00 2.50

 Preferred Stock

 Common Equity 50 10.00 5.00

 Total Return 100.0 7.50

**Company Claimed Rate of Return:**

 Capital Capital Cost Weighted

 Components Ratios Rates Cost

 % % %

 Total Debt n/a n/a n/a

 Preferred Stock

 Common Equity n/a n/a n/a

 Total Return n/a n/a

1. See Attachments A, C and D of this Order for the adjusted rate schedule and summary of the Commission analysis and adjustments. [↑](#footnote-ref-1)