

Daniel Clearfield
717.237.7173
dclearfield@eckertseamans.com

December 7, 2018

Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

Re: PA PUC v. Pittsburgh Water and Sewer Authority
Docket Nos. R-2018-3002645 and R-2018-3002647

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Pittsburgh Water and Sewer Authority's Statement in Support of the Joint Petition for Settlement with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

On behalf of the Pittsburgh Water and Sewer Authority, we would respectfully request that the Recommended Decision be issued as soon as possible in light of the provision in the Joint Petition for Settlement that the rate increase may go into effect on or after January 1, 2019 — once the Commission has approved the Joint Petition.

Sincerely,



Daniel Clearfield

DC/jls
Enclosure

cc: Hon. Mark Hoyer w/enc.
Hon. Conrad Johnson w/enc.
Certificate of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of the foregoing Statement in Support of Joint Petition for Settlement, upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

Via Email and/or First Class Mail

Sharon Webb, Esq.
Erin K. Fure, Esq.
Office of Small Business Advocate
300 North Second St., Suite 202
Harrisburg, PA 17101
swebb@pa.gov
efure@pa.gov

Christine Maloni Hoover, Esq.
Lauren M. Burge, Esq.
Erin L. Gannon, Esq.
Office of Consumer Advocate
555 Walnut St., 5th Fl., Forum Place
Harrisburg, PA 17101-1923
choover@paoca.org
lburge@paoca.org
egannon@paoca.org

Gina L. Miller, Esq.
John M. Coogan, Esq.
Bureau of Investigation & Enforcement
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
ginmiller@pa.gov
jcoogan@pa.gov

James Ferlo
1118 N. St. Clair St.
Pittsburgh, PA 15206
senatorferlo@gmail.com

Susan Simms Marsh, Esq.
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033
Susan.marsh@amwater.com

Michael A. Gruin, Esq.
Stevens & Lee
17 North Second St., 16th Fl.
Harrisburg, PA 17101
mag@stevenslee.com

Dimple Chaudhary, Esquire
Peter J. DeMarco, Esquire
Cecilia Segal, Esquire
Natural Resources Defense Council
1152 15th Street, NW, Ste. 300
Washington, DC 20005
dchaudhary@nrdc.org
pdemarco@nrdc.org
segal@nrdc.org

Elizabeth R. Marx, Esq.
John Sweet, Esq.
The Pennsylvania Utility Law Project
118 Locust St.
Harrisburg, PA 17101
pulp@palegalaid.net
jsweetpulp@palegalaid.net

Tishekia Williams, Esq.
Michael Zimmerman, Esq.
Emily M. Farah, Esq.
Duquesne Light Company
411 Seventh Avenue, 15th Fl.
Pittsburgh, PA 15219
twilliams@duqlight.com
mzimmerman@duqlight.com
efarah@duqlight.com

Pamela C. Polacek, Esq.
Adeolu A. Bakare, Esq.
Alessandra L. Hylander, Esq.
McNEES WALLACE & NURICK LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
ppolacek@mcneeslaw.com
abakare@mcneeslaw.com
ahylander@mcneeslaw.com

Dated: December 7, 2018



Carl R. Shultz, Esquire

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, <i>et al.</i>	:	
	:	Docket No. R-2018-3002645, <i>et al.</i>
v.	:	
	:	
Pittsburgh Water and Sewer Authority - Water	:	
	:	
Pennsylvania Public Utility Commission, <i>et al.</i>	:	
	:	Docket No. R-2018-3002647, <i>et al.</i>
v.	:	
	:	
Pittsburgh Water and Sewer Authority -	:	
Wastewater	:	

**THE PITTSBURGH WATER AND SEWER AUTHORITY'S
STATEMENT IN SUPPORT OF
THE JOINT PETITION FOR SETTLEMENT**

I. INTRODUCTION

The Pittsburgh Water and Sewer Authority (“PWSA” or the “Authority”) hereby submits this Statement in Support of the Joint Petition for Settlement (“Settlement” or “Joint Petition”) in the above-captioned proceedings.

This is PWSA’s first base rate case as a “public utility” regulated by the Pennsylvania Public Utility Commission (“PUC” or “Commission”).¹ This case includes PWSA’s proposed initial tariffs and requests for increases in retail user rates.²

¹ PWSA is a municipal authority organized and existing under the laws of the Commonwealth of Pennsylvania that is regulated as a public utility by the Commission. See 66 Pa.C.S. §§ 102, 3201, 3202(a); Joint Petition at ¶ 1. The Pennsylvania Public Utility Code was amended to add 66 Pa.C.S. § 3201, et al (“Chapter 32”). Chapter 32 addresses the Commission’s jurisdiction over Pennsylvania water and sewer authorities established by cities of the second class under the Municipal Authorities Act. Under Chapter 32, the Commission gained regulatory jurisdiction over PWSA. *Implementation of Chapter 32 of the Public Utility Code Re Pittsburgh Water And Sewer Authority*, Docket No. M-2018-2640802 and M-2018-2640803, Final Implementation Order entered March 15, 2018 (“FIO”) at 25.

² See Joint Petition at ¶ 2. Chapter 32 directed that initial tariffs be filed by July 2, 2018. See 66 Pa.C.S. § 3204(a); FIO at 44. On July 2, 2018, the PWSA filed Tariff Water – Pa. P.U.C. No. 1 and Tariff Wastewater – Pa.

PWSA's key goals in filing for an increase in retail user rates was to ensure that it could maintain its financial health while continuing to make the infrastructure modernization and other improvements in its water supply, treatment and distribution network to which it has committed in order to enhance the safety, reliability and efficiency of its systems. Simply put, PWSA will be experiencing a significant increase in operations and construction activity in 2019, the fully projected future test year ("FPFTY"), and beyond.³ Such activity includes (but is not limited to) lead service line replacements, orthophosphate addition for corrosion control, and other steps to reduce lead levels.⁴ The rate increase requested here was driven largely by the increased operating and construction expenditures related to water treatment plant upgrades, pumping system replacements, river water intake upgrades, and major water main capital projects (which increased debt service) and commencement of "pay-go" financing⁵ needed to ensure the compliance with all regulatory requirements and the provision of the highest quality service to customers.⁶

P.U.C. No. 1 to become effective August 31, 2018 with the Commission (collectively, the "July 2, 2018 base rate increase filing"). *See* Joint Petition at ¶ 2. On July 12, 2018, the Commission issued Suspension Orders in the above-captioned proceedings ordering investigations into the lawfulness, justness and reasonableness of the proposed rate increases. The Tariffs were suspended by operation of law until March 31, 2019, unless permitted by Commission Order to become effective at an earlier date. *See* Joint Petition at ¶ 6.

³ PWSA has undertaken a comprehensive Capital Improvement Plan ("CIP") that is set to result in a significant increase in spending from less than \$40 million a year (as in 2017, the historic test year or "HTY") to up to \$300 million per year in 2020, the year AFTER the FPFTY. *See* PWSA St. 1 at 15-17; PWSA St. 2-R at 11-12. In years past, inadequate investment resulted in equipment failures, water quality issues, and a general public concern about its utility systems. *See* PWSA St. 1 at 16.

⁴ PWSA St. 1 at 9-10, 15-17; 20-21.

⁵ "Pay-go" refers to pay-as-you-go capital, which is funding for capital projects out of annual rate revenues (not financed with long-term debt).

⁶ PWSA St. 1 at 15-17. Notably, in 2019, PWSA plans to issue about \$150.2 million in additional long-term debt. PWSA St. 1 at 15. Another driver of the rate request is revised sales projections. PWSA revised its 2019 demand forecast to eliminate the effect of past billing system issues and to better reflect 2017 experienced sales. PWSA St. 1 at 16. Those revisions show a reduction in sales compared to the 2018 forecast. *See*, Section II.A.

PWSA believes that the Settlement is fair, just and reasonable, non-discriminatory, lawful and in the public interest. As explained herein, PWSA submits that the Settlement as achieving the above-described goals while properly considering the interests of ratepayers and other stakeholders. PWSA also believes that the Settlement is in the best interests of PWSA and its customers, and provides 2019 infrastructure and customer service enhancements that will directly benefit low-income and residential customers. The Settlement was reached by and between the “Joint Petitioners”⁷ only after considerable review of PWSA’s operations⁸ – PWSA responded to more than 1970 discovery requests – and the submission of extensive testimony by the active parties.⁹ After a series of negotiations and discussions concerning all of the issues raised by PWSA’s July 2, 2018 base rate increase filing, including the appropriate level¹⁰ and allocation of the proposed rate increase,¹¹ tariff and rate design,¹² and enhanced programs to benefit low-income and other customers, the full settlement was reached.¹³

The Settlement formally commits PWSA to continued cooperation and sharing with the parties and the community on issues of high importance to all stakeholders, by creating a Community Lead Response Advisory Committee” and a Low Income Assistance Advisory Committee. These advisory groups will enhance PWSA’s transparency and openness as it deals with these issues of vital importance. Initially, the Settlement properly limits the scope of this

⁷ The Settlement is joined in by the Bureau of Investigation and Enforcement, (“BIE” or “I&E”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and Pittsburgh UNITED (“UNITED”) (collectively, the Joint Petitioners”) and was not opposed by Pennsylvania-American Water Company (“PAWC”) and Duquesne Light Company (“DLC”).

⁸ PWSA responded to more than 1,970 discovery requests from the active parties.

⁹ See Joint Petition at ¶ 1, 17-23.

¹⁰ See Joint Petition at ¶ III.A.

¹¹ See Joint Petition at ¶ III.B.

¹² See Joint Petition at ¶ III.B. III.E.

¹³ See Joint Petition at ¶ III.C, III.D, III.F.

base rate case. As a part of this rate case, ratepayers and other stakeholders raised issues — not normally presented in a “traditional” rate case — because this case was the first opportunity for ratepayers and other stakeholders to raise issues and concerns with the Commission.¹⁴ It is anticipated that any issue not fully resolved in this rate case will be addressed in a separate proceeding(s)¹⁵ before the Commission — as explained in the Settlement,¹⁶ in the FIO,¹⁷ and in the Secretarial Letters issued on September 26 2018¹⁸ and November 27, 2018.¹⁹ This approach will enable the Commission and PWSA to prioritize issues that are both important and urgent.²⁰

Therefore, the Settlement is a reasonable resolution of this rate case and should be approved expeditiously and without modification.²¹

¹⁴ Both the Legislature and the Commission contemplated a two-step process for making PWSA subject to Commission regulation: (1) this proceeding wherein PWSA’s initial PUC Tariff and rates is being reviewed and determined to be just and reasonable; and (2) a second separate proceeding in which PWSA’s overall operations, contracts and arrangements would be carefully reviewed and a plan would be established to bring those contracts and service arrangements into compliance with “rules, regulations and orders of the Commission.” See 66 Pa.C.S. § 3204(a), (b); FIO at p. 31, 32.

Chapter 32 directed the PWSA’s Compliance Plan and Long-Term Infrastructure Improvement Plan be filed by September 28, 2018. See 66 Pa.C.S. § 3204(a); FIO at 8 and Ordering Paragraph 3.

¹⁵ Please note that, in Paragraph III.H.1 of the Settlement, PWSA agreed to Petition with the Commission to consolidate PWSA’s Compliance Plan and Long Term Infrastructure Improvement Plan (“LTIIP”). On September 28, 2018, PWSA filed (a) its Compliance Plan at Docket Nos. M-2018-2640802 (water) and M-2018-2640803 (wastewater); and (b) its LTIIP, which was docketed at Docket Nos. P-2018-3005037 (water) and P-2018-3005039 (wastewater).

¹⁶ See Joint Petition at ¶ III.H.

¹⁷ In the FIO, the Commission reinforced this bifurcated approach by stating that it will provide “stakeholders with flexibility to coordinate issues between the tariff filings and compliance plans” and that it expects “the parties to harmonize the two proceedings.” FIO at 32. In reiterating a directive in its Tentative Implementation Order, the PUC provides that “in its compliance plans, PWSA will propose plans to achieve full regulatory compliance for matters not addressed in its July 2018 tariff filings.” FIO at 31.

¹⁸ Secretarial Letter issued on September 26, 2018 at Docket Nos. M-2018-2640802 (water) and M-2018-2640803 (wastewater), which can be found at: <http://www.puc.state.pa.us/pdocs/1587126.docx>.

¹⁹ Secretarial Letter issued on November 27, 2018 at Docket Nos. M-2018-2640802 (water) and M-2018-2640803 (wastewater), which can be found at: <http://www.puc.state.pa.us/pdocs/1595705.docx>.

²⁰ *Id.*

²¹ See Joint Petition at ¶¶ 18-35.

A. Factual Background

As set forth in more detail in the Joint Petition, on July 2, 2018, PWSA filed Tariff Water – Pa. P.U.C. No. 1 and Tariff Wastewater – Pa. P.U.C. No. 1 to become effective August 31, 2018, seeking a general rate increase calculated to produce \$27 million in additional annual revenues, or a 16.7% overall increase.²² Through this filing, PWSA requested that the Commission approve its new tariffs pursuant to Act 65 of 2017, 66 Pa.C.S. § 3201 et seq. By Order entered July 12, 2018, the Commission issued Suspension Orders in the above-captioned proceedings ordering investigations into the lawfulness, justness and reasonableness of the proposed rate increases. PWSA’s tariffs were suspended by operation of law until March 31, 2019, unless permitted by Commission Order to become effective at an earlier date. The above-captioned proceedings were assigned to Administrative Law Judge Mark A. Hoyer and Administrative Law Judge Conrad A. Johnson (“ALJs”) for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision.

On July 2, 2018, PWSA also filed two petitions: a petition for consolidation of proceedings and for authorization to use combined water and wastewater revenue requirements; and a petition for waiver of the statutory definition of FPFTY to permit a FPFTY beginning January 1, 2019. *See* 66 Pa.C.S. § 315(e). The ALJs issued a Prehearing Order on July 20, 2018, granting: (a) PWSA’s Petition of PWSA for waiver of the statutory definition of FPFTY; and (b) PWSA’s Petition for consolidation of proceedings and to use combined water and wastewater revenue requirements.

²² *See* Joint Petition at ¶ 1. While the increases to nonjurisdictional wholesale contracts and miscellaneous revenue, the increase was \$27.4 million. PWSA St. 2 at 5.

Extensive formal and informal discovery was conducted throughout the proceeding. The active parties submitted direct, rebuttal and surrebuttal testimony.²³ The active parties also engaged in extensive discussions to try and achieve a settlement of some or all of the issues in this case. As a result of those negotiations, the Joint Petitioners were able to reach the Settlement set forth in the Joint Petition for Settlement. The Parties were able to come to agreement on all issues, as set forth more fully in the Joint Petition, while expressly reserving a number of issues for further investigation as part of PWSA's currently pending Compliance Plan and LTIIP proceedings.²⁴

II. DISCUSSION OF WHY SPECIFIC SETTLEMENT TERMS ARE IN THE PUBLIC INTEREST

A. Revenue Requirement

In its rate filing, PWSA requested that it be permitted to increase its retail revenues by \$27 million, based upon the Fully Projected Future Test Year ("FPFTY") of January 1, 2019 – December 31, 2019.²⁵ This is the first case in which PWSA's revenue requirement will be determined by the Commission as a regulated public utility that is subject to most chapters of the Public Utility Code.²⁶ Chapter 32 of the Public Utility Code, added in 2018, gives the Commission jurisdiction over PWSA's provision of water, wastewater and stormwater service and the establishment of just and reasonable rates.²⁷ The Commission has directed that PWSA's revenue requirement will be determined using the "Cash Flow" method, the traditional method of

²³ See Joint Petition at ¶ 24.

²⁴ See Joint Petition at ¶ 27.

²⁵ PWSA St. 1 at 23-24; PWSA St. 2 at 5, 12-17.

²⁶ See, 66 Pa.C.S. § § 102, 3201, 3202(a).

²⁷ *Id.*, The Commission has determined that it has jurisdiction over stormwater service provided by PWSA. *Implementation of Chapter 32 of the Public Utility Code Re Pittsburgh Water and Sewer Authority*, Docket Nos. M-2018-2640802 (water) and M-2018-2640804 (wastewater), Final Implementation Order entered March 15, 2018, at p. 5. A Tariff for Stormwater service will be filed in a subsequent rate case.

determining just and reasonable rates for municipal utilities such as PWSA.²⁸ This is appropriate because PWSA has no shareholders and does not pay a dividend or a rate of return to its owner.²⁹ Accordingly, PWSA does not have access to shareholder equity-generated capital so all funds raised by the Authority must come directly from ratepayers or borrowings from municipal debt markets (the costs of which are borne by ratepayers). Therefore, rather than having its revenue requirement determined on the basis of a fair rate of return on a used and useful rate base, PWSA's rates are set by determining the levels of cash necessary to fund an operating budget that enables PWSA to operate and maintain the system, pay for needed capital improvements and maintain access to the capital markets at reasonable rates. PWSA's calculation of its revenue requirement using the "Cash Flow" method is consistent with the PUC's Policy Statement, which sets forth the financial and other considerations that are reviewed in setting just and reasonable levels using the Cash Flow method.³⁰

PWSA's direct testimony explained that its requested \$27 million in Retail User Charges³¹ (\$27.4 million in total revenues) could be related to four main items (compared to its 2018 Budget).

²⁸ FIO at 27-28.

²⁹ PWSA St. 2 at 4. *See also* PWSA St. 2R at 12.

³⁰ *See*, 52 Pa. Code § 69.2702, 2703.

³¹ PWSA's total increase included wholesale "bulk water" charges and miscellaneous revenues. PWSA St. 3 at 5.

ITEM		AMOUNT (000)
1.	Increase in Budgeted Operating Expenses and ALCOSAN Billing	\$ 1,400
2.	Increase in Debt Service	\$13,200
3.	Increase to Create "Paygo" and Fund Rate Stabilization Fund	\$ 5,200
4.	Increment to cover Reduced FPFTY Test Year Revenues (compared to 2018 Budget)	\$ 7,600
TOTAL		\$27,400

Each of these rate increase drivers was explained in PWSA's direct testimony. Notably only a small portion (\$1.2 million) was attributable to an increase in PWSA's operating budget compared to 2018.³² The largest driver of the rate increase (\$13.2 million) was the increase in debt service, principally from changes in principal and interest levels (in accordance with existing debt payment schedules) as well as debt service on approximately \$150 million of new debt to be issued in 2019.³³

Based upon these budget inputs, PWSA's FPFTY financial results at present rates were calculated as follows:

PWSA

FPFTY Days of Cash on Hand (Day O&M)	Senior Debt	Total Debt Service Coverage
(8.4) days	0.95x ³⁴ (minimum requirement: 1.25x)	0.79x ³⁵ (minimum requirement: 1.10)

³² PWSA St. 3 at 5-7.

³³ See PWSA St. 2 at 6.

³⁴ Exh. DML-1, p. 3.

³⁵ Exh. DML-1, p. 3.

PWSA explained that, without rate relief, its debt service coverage was projected to go below 1.1x in the FPFTY, which would mean technical default and likely lead to bond downgrades, and its cash on hand would be inadequate to support the Authority's operations:

As is outlined in Exhibit DML-1, which is part of Ms. Lestitian's testimony, if the current rates remain in place, the Authority will not be able to comply with its current bond rate covenant. As described previously in order to comply with the legal requirement, the Authority must generate revenues in the FPFTY in an amount that will generate senior debt service coverage of at least 1.25 times. Balances in the Rate Stabilization Fund ("RSF") may be counted as revenue, but without the rate increases, the RSF will have a zero balance. The Authority's financial metrics require debt service coverage of 1.35 times as a minimum target to provide a cushion in the event actual collections are lower than anticipated or expenses are higher. Without the rate increase the debt service coverage in FPFTY will be .95 times for senior debt service [compared to] 1.25 times legal covenant) and .79 for total debt service ([compared to] 1.1 times legal covenant). This would cause the Authority to be in con-compliance with its bond documents.

* * *

In addition to debt service coverage, the other critical metric is days cash on hand. As discussed previously, the Authority has targeted 65 days for the FPFTY and as indicated in Exhibit DML-1, without the rate increase days cash on hand fall to a negative 8.4 days cash on hand. This would result in the total depletion of the operating reserve fund, all other available cash and no funding of the rate stabilization fund. ... It should be noted that both rating agencies mention an appropriate level of days cash on hand for the Authority as closer to 100 days.³⁶

Accordingly, PWSA's testimony clearly justified the awarding of substantial rate relief.

PWSA witness Clupper also testified that PWSA's rate request was structured to fund its 2019 operating and construction budgets as well as to produce financial metrics at necessary levels.³⁷ She explained that PWSA's maintenance of reasonable financial metrics was crucial to its ability to continue to access the financial markets on reasonable terms.³⁸ She further testified that to maintain its rating, PWSA must not only satisfy its "minimum" debt service coverage

³⁶ PWSA St. 3 at 12-14.

³⁷ PWSA St. 3.

³⁸ PWSA St. 3 at 12-20.

requirements (1.25x on senior debt and 1.1x on overall debt) but must achieve coverages sufficiently above the minimums to meet bond rating agency expectations and to provide a cushion to protect against unforeseen additional expense increases or revenue decreases.³⁹

PWSA targeted 1.35x (on senior securities) as a level to achieve these goals.⁴⁰

PWSA witness Clupper also explained that a second critical metric is days cash on hand (unrestricted cash and investments [including operating reserve cash] divided by total operating and maintenance expense shown on a per day basis).⁴¹ Days of cash on hand measures liquidity and is used by rating agencies to measure financial resources available to survive temporary revenue disruptions and unexpected expenses.⁴² PWSA determined that it should be increasing its cash levels to 100 days over the next five years.⁴³

The third metric important to maintaining PWSA financially is the percentage of pay-go financing (i.e., funding capital improvements from current revenues rather than borrowing).⁴⁴ PWSA has not been able to fund construction from current revenues recently, but its rate filing targeted a nominal amount (\$1.5 million) in order to begin to build its “pay-go” financing up, with a goal of financing 10% of its construction in this way over the next five years (comparable companies have levels of similar systems range from 45% to 65%).⁴⁵ The \$27 million rate increase request would place PWSA’s financial metrics above its minimum requirements, and headed towards its goals, in modest amounts as shown below.

³⁹ PWSA St. 3 at 9-10.

⁴⁰ PWSA St. 3 at 12.

⁴¹ PWSA St. 3 at 11-12.

⁴² PWSA St. 3 at 11.

⁴³ PWSA St. 3 at 12.

⁴⁴ PWSA St. 3 at 11-12.

⁴⁵ PWSA St. 3 at 11-12.

PWSA Original \$27 Million Request

Days Cash On Hand (FPFTY)	Debt Service Coverage (Senior)	Total Debt Service
Add about 5 days ⁴⁶	1.47x (1.25x minimum)	1.23x ⁴⁷ (1.1x minimum)

In response to PWSA’s testimony, the OCA and I&E (the only parties making revenue requirement recommendations) testified that PWSA be permitted to increase its rates but at levels less than PWSA’s \$27 million request.

Their recommendations were summarized by PWSA as follows:

	Recommended Rate Increase	Resulting Senior Debt Service	Resulting Total Debt Service Costs
I&E	\$19.6M ⁴⁸	1.31x ⁴⁹	1.09x ⁵⁰
OCA	\$10.3M ⁵¹	1.13x ⁵²	0.95x ⁵³

Many of the adjustments made by both I&E and OCA focused on claims that PWSA’s 2019 FPFTY projections might not come to fruition, and therefore removed those amounts from their recommended rate increase.⁵⁴

⁴⁶ PWSA St. 3 at 11 states that PWSA is targeting 65 days of cash for the FPFTY. That would result in about 5 additional days of cash. *See* Exh. KLC-3 at 1, wherein Moody’s calculates that PWSA will end 2018 with roughly 60 days of cash. *See also* Exh. DML-2, p. 3.

⁴⁷ Exh. DML-2, p. 3.

⁴⁸ I&E proposed an increase of \$15.5 million to water operating revenue and a \$4.1 million increase to wastewater operations. I&E St. 1 at 20-21

⁴⁹ PWSA St. 3R at 7.

⁵⁰ PWSA St. 3R at 7.

⁵¹ OCA’s recommendation was for a \$12 million increase in water revenues and a \$1.7 million decrease in wastewater revenues; however rather than decreasing existing revenues OCA recommended that PWSA’s wastewater rates be maintained. OCA St. 1 at 31.

⁵² PWSA St. 3R at 10.

⁵³ PWSA St. 3R at 10.

⁵⁴ *See*, OCA St. 1 at 4.

The Settlement

In summary, the Joint Petition for Settlement established the following terms regarding revenue requirement:

1. Reduces the authorized rate increase to \$21 million rather than PWSA's proposed \$27 million increase in Retail User Revenues.
2. Agrees that rate increase shall be allocated as proposed by OCA witness Scott Rubin, with approximately the same proportionate increase to all existing rates (approximately a 17.3% increase in all water rates and approximately a 7.4% increase in wastewater rates).
3. Provides that PWSA will submit quarterly reports to the parties until the next base rate case providing information on PWSA's actually experienced revenues, filled vacancies, debt service, new debt and lead service line replacement.⁵⁵
4. Provides that to the extent that 2019 actual revenues net of expenses produces a surplus greater than PWSA's FPFTY projections PWSA will, in its discretion to; (1) maintain or add to its year end "days cash on hand"; (2) pay down its operating or construction line of credit; and/or (3) repay an item in PWSA's borrowing portfolio. PWSA also agreed to provide a report to the Parties detailing the amount of the excess, the use of the funds, and the rationale for the use of the funds no later than April 1, 2020. This provision means that, to the extent that PWSA's budgeted operating expenses are not realized and result in a greater than projected surplus, PWSA will use 100% of any such surplus for the benefit of ratepayers. All the items for which the surplus may be utilized (i.e., increasing days cash on hand, paying down its operating or construction lines of credit, or repaying a bond or other item in PWSA's borrowing portfolio) will reduce future revenue requirement needs. This in turn will reduce future rate increases.

⁵⁵ Settlement, Section III.A.2.

5. Provides that the settlement rate increase may go into effect on or after January 1, 2019 once the PUC has approved the Joint Petition.

PWSA submits that overall, the revenue requirement portion of the settlement is reasonable and in the public interest because:

- The agreed upon rate increase is within the range of the increases proposed by PWSA (\$27 million) and I&E (\$19.6 million);
- The Settlement will permit the parties to monitor PWSA's actual 2019 results in order to evaluate the PWSA's budgeting accuracy due to the reports that it will submit that will track and report on PWSA's actual 2019 monthly expenses as well as provide a host of other data;
- Significantly, the Settlement assures that if PWSA's actual 2019 expenses turn out to be lower than FPPTY projections 100% of any excess will be used for the future benefit of ratepayers; and
- The Settlement permits PWSA to maintain financial metrics that meet its bond covenant obligations and will be viewed as reasonable by bond rating agencies. PWSA calculated that the \$21 million rate increase will produce debt service coverage of 1.34x on senior debt and 1.12x on total debt. PWSA's calculated end of 2019 days cash on hand at the Settlement rates will be roughly the same or better than the 2018 days cash on hand. These metrics will permit PWSA to fund its operations, provide for contingences and should permit it to continue to access the borrowing market on reasonable terms given its bond rating. Again, if PWSA's expenses net of revenues are less than those projected PWSA will be able to (as one option) increase its days cash on hand; which, in turn, can be used to fund construction on a "pay-go" basis. This will assist PWSA in starting to experience pay-go financing, which will reduce its dependence on long term debt

financing and decrease its leverage (the extent to which its assets are financed via borrowing).

A material term of the revenue requirement portion of the Settlement was the provision permitting the Settlement rates, once approved by the Commission, to go into effect on January 1, 2019 or as soon thereafter as practicable.⁵⁶

PWSA's financial analyst witness Clupper testified that it was important for PWSA to maintain debt service coverages of approximately 1.35x⁵⁷ and to maintain or improve days' cash on hand.⁵⁸ Accordingly, the Settlement rate increase will help PWSA maintain its current financial outlook and will be the starting point for future improvement. To the extent that PWSA can maintain or improve its bond rating, it will reduce long term borrowing costs. For all of these reasons, PWSA submits that the revenue requirement provisions of the Settlement produce just and reasonable rates and are in the public interest.

B. Revenue Allocation and Rate Design

PWSA presented a Class Cost of Service Study ("CCOSS"),⁵⁹ sponsored by the direct testimony of Harold J. Smith,⁶⁰ Vice President of Raftelis Financial Consultants, Inc., a consulting firm specializing in the areas of water and wastewater finance and pricing. The purpose of the CCOSS was to allocate PWSA's costs of providing service to each rate class and to develop cost based rates and charges for both water and wastewater conveyance service.⁶¹

⁵⁶ All of PWSA's financial calculations assumed a full year of rate increase in 2019. Therefore, having the rate increase go into effect as soon as possible after January 1, 2019 will serve PWSA in meeting the financial metrics it has projected and adds materially to the financial reasonableness of the Settlement.

⁵⁷ PWSA St. 3 at 12.

⁵⁸ PWSA St. 3 at 11.

⁵⁹ PWSA Exhibits HJS-1W – HJS15W; HJS-1WW-HJS-15WW.

⁶⁰ PWSA St. No. 5.

⁶¹ PWSA St. No. 5 at 2.

Through his Direct Testimony, Mr. Smith testified that water service costs were allocated in a manner consistent with the methodology set forth in the American Water Works Association Manual M-1 “Principles of Water Rates, Fees and Charges 7th Edition.”⁶² Specifically, Mr. Smith described how the CCOSS allocated PWSA’s operating and maintenance costs, customer service costs, engineering and construction costs, capital costs and debt service to functional categories.⁶³ Mr. Smith also discussed the next step of allocating the functionalized costs to Base/Extra Capacity cost categories.⁶⁴ He then explained how costs were allocated to each customer class in a manner that reflects the way each class demands service.⁶⁵ In that discussion, he noted that because wholesale rates are determined based on existing contractual relationships, costs were not allocated to wholesale customers.⁶⁶

As to water rate design, Mr. Smith identified the existing water customer classes and indicated that the current rate structure was not significantly changed for this case because it was not feasible to do so given the 90-day timeframe for making the filing. For example, he indicated that had PWSA been allowed more time to prepare its rate filing, it might have proposed the elimination of the usage allowance included in the Minimum Charge.⁶⁷

Based on the water CCOSS, PWSA proposed varying levels of increases by customer class, ranging from 10.7% to 31.0%.⁶⁸ Mr. Smith also discussed the inconsistencies of the proposed rates for the Residential and Health or Education classes, relative to the CCOSS, as

⁶² PWSA St. No. 5 at 6-7.

⁶³ PWSA St. No. 5 at 6-8.

⁶⁴ PWSA St. No. 5 at 9-12.

⁶⁵ PWSA St. No. 5 at 12-15.

⁶⁶ PWSA St. No. 5 at 15.

⁶⁷ PWSA St. No. 5 at 16-19.

⁶⁸ PWSA Exhibits HJS-11W and HJS-12W.

being the result of a long-standing PWSA policy of setting the Health or Education rate at a level in excess of the indicated cost of service and using the excess revenue to subsidize the Residential Volume Charge. Since PWSA could not eliminate the subsidy completely without causing potential “rate shock” for the Residential class, Mr. Smith explained PWSA’s plan to fully eliminate it in the next rate filing.⁶⁹

With respect to wastewater conveyance cost allocation, Mr. Smith’s Direct Testimony noted that these costs were allocated according to standard industry practice as described in the Water Environment Federation’s Manual of Practice No. 27, “Financing and Charges for Wastewater Systems.” Similar to the allocation methodology used for determining PWSA’s water rates, the allocation process involved three steps: 1) assigning costs to functional categories; 2) assigning the costs from each functional category to cost categories; and 3) allocating the costs from each cost category to customer classes.⁷⁰

As with water rate structure, Mr. Smith testified that it was not feasible to perform the analysis necessary to support changes to the existing wastewater conveyance rate structure.⁷¹ Based on the wastewater CCROSS, PWSA proposed varying levels of increases by customer class, ranging from -3.5% to 21.4%.⁷²

In their Direct Testimony, witnesses for the other parties raised various issues concerning the water and wastewater CCROSSs and suggested a number of changes to PWSA’s rate structure, rate design, cost allocations and revenue allocations. Many of these concerns centered on PWSA’s failure to allocate costs to the City of Pittsburgh (“City”) and the lack of a public fire

⁶⁹ PWSA St. No. 5 at 21.

⁷⁰ PWSA St. No. 5 at 22-27.

⁷¹ PWSA St. No. 5 at 27.

⁷² PWSA Exhibits HJS-11WW and HJS-12WW.

hydrant rate.⁷³ Through Rebuttal Testimony of Mr. Smith, PWSA addressed these issues and proposals, noting concurrence with some of the positions advanced by other parties, including the need to allocate water service costs to the City, while highlighting the constraints on PWSA's ability to resolve them in this case due to an existing agreement with the City, the unavailability of data and the compressed timeframe for this filing.⁷⁴

During settlement discussions, PWSA was able to meaningfully discuss the concerns and proposals of the other parties, which resulted in several compromises by PWSA and the other parties, as well as a series of commitments by PWSA for further steps to be taken during the next base rate proceeding. The specific agreements relating to revenue allocation and rate design are described below.

1. Allocation of Settlement Rate Increase

Based upon the various parties' positions regarding allocation of the settlement rate increase and in an effort to reach a mutually acceptable compromise, PWSA agreed to allocate the increase in a manner that is consistent with the approach recommended by OCA's witness. Through this method, all customer classes will receive approximately the same proportionate increase, which is roughly 17.3% in water rates and about 7.4% in wastewater rates.⁷⁵ This approach also includes proportionate increases for wholesale customers, to the extent permitted by existing contracts.⁷⁶

Given the issues raised by the other parties regarding certain shortcomings of each CCOSS, due to circumstances beyond PWSA's control, PWSA believes it is reasonable to

⁷³ I&E Statement No. 3; OCA Statement No. 2; OSBA Statement No. 1; UNITED Statement No. 2; PAWC Statement No. 1.

⁷⁴ PWSA St. No. 5-R.

⁷⁵ Joint Petition at ¶ III.B.1.

⁷⁶ Joint Petition at ¶ III.B.9.

implement across-the-board increases to the customer classes in this base rate proceeding. Because of the plans that PWSA already had for making future changes to rate structure, and the many commitments that PWSA has made as part of the Settlement relating to cost allocation, PWSA will have a solid foundation in the next base rate case to adjust rates of the customer classes in a manner that moves them closer to the costs that are incurred to serve them.

2. Commitments for Next Base Rate Cases

As part of this base rate proceeding, PWSA made a series of commitments that will improve its CCOSs in the next base rate case, allowing it to propose increases in the rates for each customer class that move rates in the direction of the CCOS results and reduce or eliminate existing subsidies. Specifically, PWSA has committed to: (i) using at least two years of billing data in the next base rate case and at least three years of data in future cases, as a general standard that is subject to deviation if warranted;⁷⁷ (ii) allocating costs to wholesale water customers in the next base rate case, with the understanding that rate changes will be made only if they are permitted by the terms of existing contracts;⁷⁸ (iii) showing the cost of public fire hydrant service in the next base rate case, while deferring the timing of a public fire hydrant rate until the Compliance Plan proceeding;⁷⁹ (iv) separately identifying and allocating uncollectible accounts expense in the water and wastewater CCOSs by customer class in the next base rate case;⁸⁰ (v) gathering detailed customer class consumption data necessary to implement class specific max-day and max-hour adjustment factors in the next wastewater base rate case;⁸¹ (vi) proposing removal of the minimum usage allowances in the next base rate case, subject to an

⁷⁷ Joint Petition at ¶ III.B.2.

⁷⁸ Joint Petition at ¶ III.B.3.

⁷⁹ Joint Petition at ¶ III.B.4.

⁸⁰ Joint Petition at ¶ III.B.5.

⁸¹ Joint Petition at ¶ III.B.6.

ability to offer alternative proposals if the removal results in an unreasonable increase for affected customers;⁸² and (vii) submitting a plan to address infiltration cost remediation in the next wastewater base rate case.⁸³ These comprehensive measures entailing the use of enhanced data and allowing more robust allocation of costs will improve the results of the water and wastewater CCOSs. By more accurately showing the costs that are incurred by PWSA to serve the various customer classes, the CCOSs in the next base rate case will enable PWSA to better align proposed rates with principles of cost causation.

Also, as part of the Settlement, the parties agree that no precedent has been established in this base rate case for the allocation of recovery of low income assistance program costs and lead service line replacement costs. Rather than litigating whether PWSA appropriately allocated these costs to all customer classes in its CCOSs, the parties have reserved the right to make proposals in the next rate proceedings regarding the proper allocation of costs for lead service line replacement and low income programming.⁸⁴ This is an appropriate result in this base rate case, particularly since the Settlement provides for across-the-board increases to all customer classes in this proceeding and establishes a framework for improved CCOSs in the next base rate case. Accordingly, PWSA submits that the Revenue Allocation and Rate Design portions of the Settlement are just, reasonable and in the public interest.

C. Infrastructure/Operations/Lead

Through Direct Testimony, PWSA's Executive Director, Robert Weimar, provided an overview of the organization's operations and its program to expedite the rate of lead service line

⁸² Joint Petition at ¶ III.B.7.

⁸³ Joint Petition at ¶ III.B.8.

⁸⁴ Joint Petition at ¶ III.B.10.

replacements.⁸⁵ Mr. Weimar's Direct Testimony also identified PWSA's plans to submit a Compliance Plan as directed by Section 3204 of the Public Utility Code.⁸⁶ As indicated in the outline of PWSA's compliance filing provided in Exhibit RAW-4, PWSA's intention from the outset of this rate proceeding was to address lead levels in the water supply and the replacement of lead service lines in its Compliance Plan and accompanying Long Term Infrastructure Improvement Plan ("LTIP").⁸⁷ This was specifically directed by the PUC in the PWSA Implementation Order. PWSA's objective of providing an outline of its compliance filing was to provide clarity to the parties and it was PWSA's hope that bifurcation would make this rate case more manageable.⁸⁸

Notwithstanding PWSA's plans to comply with the PUC directive and to defer the copious and complex issues relating to long term mitigation of lead levels in the water supply and the replacement of lead service lines to its Compliance Plan, Pittsburgh UNITED and I&E submitted testimony with specific recommendations regarding how PWSA should address lead levels and the replacement of lead service lines. PWSA filed rebuttal testimony to the testimony regarding PWSA's lead service line replacement program/policies. Mr. Weimar explained in his Rebuttal Testimony the various steps PWSA is currently taking to address lead levels in water supply and the replacement of lead service lines.⁸⁹ Through testimony and discovery, the parties to this proceeding gained a better understanding of PWSA's program to expedite the rate of lead service line replacements and associated policies.

⁸⁵ PWSA St. No. 1 at 7-14.

⁸⁶ PWSA St. No. 1 at 22-23;

⁸⁷ Exhibit RAW-4.

⁸⁸ PWSA St. No. 1 at 22-23.

⁸⁹ PWSA St. 1R at 14-39.

After extensive negotiation on a multitude of issues relating to lead service lines and replacement of those lines, the Joint Petitioners achieved a balanced compromise to resolve those issues. The “Infrastructure/Operations/Lead” section of the Settlement (Section III.C) represents the results of the Joint Petitioners’ extensive settlement discussions and good faith compromises. As a whole, this section of the Settlement sets forth lead remediation related concessions for 2019, leaving the establishment of longer term lead remediation policy to the Compliance Filing and LTIIP proceedings. As such, they constitute a reasonable resolution of the competing positions of the Joint Petitioners. The Settlement terms provide some enhancements to PWSA’s programs and policies relating to lead and infrastructure in 2019. The particular agreements of the Joint Petitioners with regard to various issues relating to lead service lines, replacement of lead service lines, and post-replacement procedures are described below.

- Community Lead Response Advisory Committee (“CLRAC”). PWSA agreed in the Settlement to form a Community Lead Response Advisory Committee (“CLRAC”) consisting of interested parties in the above-captioned proceedings, representatives from local community groups, and a public health expert to advise PWSA. The CLRAC will provide consultation and feedback on PWSA’s lead service line replacement program and lead remediation efforts in 2019 and 2020.⁹⁰
- Replacement of Private-Side Lead Service Lines At No Cost to Customers. As part of its 2019 lead service line replacement program, PWSA agreed to continue replacing private-side lead service lines at no cost to customers when replacing public-side lead service lines.⁹¹
- Participation in PWSA’s Lead Service Line Replacement Program. PWSA agreed to develop and implement a plan, in consultation with the CLRAC, to encourage greater participation in its replacement program and reduce the number of property owners that refuse their private-side service line replacement in 2019. PWSA also committed to track and record customers’ reasons for rejecting service line replacements and provide that information to CLRAC on a quarterly basis in 2019.⁹²

⁹⁰ See Joint Petition at III.C.1.a.

⁹¹ See Joint Petition at III.C.1.d.iii.

⁹² See Joint Petition at III.C.1.a.i.

- Efforts to Secure Agreement with PennVEST. For the 2019 lead service line replacement program, PWSA committed to continue to work to secure an agreement with PennVEST to enable PWSA to obtain customer consent for private-side lead service line replacements at any point prior to completion of lead service line replacements for the work order covering the customer's property. PWSA agreed to apply its current outreach procedures for obtaining customer consent as well as additional or modified outreach procedures it develops in consultation with the CLRAC, if successful in securing an agreement with PennVEST.⁹³
- Historical Service Line Records and Website Mapping Functions. For the 2019 program, PWSA agreed to make all historical service line records available for public viewing on its website mapping function. Correspondingly, PWSA committed to procedures to notify residents and property owners of the results of curb box inspections.⁹⁴ In addition, PWSA agreed as part of its 2019 program to update its website mapping function at least on a monthly basis to reflect the locations of all service line replacements conducted by PWSA to date and planned work orders.⁹⁵
- Lead Service Line Replacement Costs. PWSA agreed to present an analysis of its 2019 per-line costs for replacing lead service lines to the CLRAC and will consider suggestions provided by CLRAC for methods to reduce those costs.⁹⁶
- Coordination with CLRAC and Low Income Assistance Advisory Committee. PWSA agreed to develop and implement a plan in consultation with CLRAC and the Low Income Assistance Advisory Committee to: (1) encourage greater participation in its customer requested lead sampling program; and (2) provide NSF-certified filters and replacement cartridges until December 31, 2019, free of charge and prior to service line replacement, to households that qualify for an existing PWSA customer assistance program at properties where service line(s) are made of lead or unknown material.⁹⁷
- Prioritization Efforts. PWSA agreed to develop and implement a plan for prioritizing lead service line replacements in 2019 where curb box inspections are complete in certain neighborhoods based on a set of health-protective factors.⁹⁸
- Private-Side-Only Lead Service Lines. PWSA agreed to work in conjunction with CLRAC to prepare a study on the feasibility of including all lead service lines, including private-side-only service lines, in PWSA's 2019 lead service line

⁹³ See Joint Petition at III.C.1.d.iv.

⁹⁴ See Joint Petition at III.C.1.a.ii.

⁹⁵ See Joint Petition at III.C.1.d.ii.

⁹⁶ See Joint Petition at III.C.1.a.iii.

⁹⁷ See Joint Petition at III.C.1.a.iv.

⁹⁸ See Joint Petition at III.C.1.a.v.

replacement program and 2020-2026 small diameter water main replacement program.⁹⁹

- Partial Lead Service Line Replacements. In addition to PWSA's current outreach and post-replacement sampling and filter procedures, PWSA agreed to consult with the CLRAC regarding adoption of modified or additional outreach and post-replacement procedures. Further, in 2019, PWSA agreed to conduct partial replacements of lead service lines only under specified circumstances.¹⁰⁰
- Non-Resident Property Owner Declination of Free Private-Side Lead Service Line Replacement. PWSA agreed to consult with CLRAC regarding whether and how to seek authorization from the City of Pittsburgh to compel private-side lead service line replacements when a property owner does not reside at the property declines a free private-side lead service line replacement. If PWSA unable to resolve this issue with the City, for the 2019 program, PWSA agrees to not conduct a non-emergency partial service line replacement at residences where the property owner who does not reside at the property declines a no-cost private side line replacement.¹⁰¹
- Documentation of Partial Lead Service Line Replacements. PWSA agreed to consult with CLRAC regarding whether to ask the City of Pittsburgh to establish a process through which partial lead service line replacements are documented in the relevant property record.¹⁰²
- Post-Replacement Efforts. For its 2019 lead service line replacement program, PWSA agreed to continue to provide residents who had their service lines replaced with water testing kits and NSF-certified filters and six months of replacement cartridges at no cost immediately after replacement.¹⁰³

Taken together, these provisions are a reasonable way to address concerns voiced by the parties relating to lead levels and the replacement of lead service lines. For service line replacements that take place after 2019, an evaluation of the above-referenced practices and procedures will be addressed in PWSA's Compliance Plan/LTIIP proceedings.¹⁰⁴

⁹⁹ See Joint Petition at III.C.1.a.vi.

¹⁰⁰ See Joint Petition at III.C.1.b.

¹⁰¹ See Joint Petition at III.C.1.c.

¹⁰² See Joint Petition at III.C.1.d.i.

¹⁰³ See Joint Petition at III.C.1.d.v.

¹⁰⁴ See Joint Petition at III.H.7.k.

As discussed further in Section II.H. of this Statement in Support, various issues relating to PWSA's infrastructure and operations were deferred to PWSA's Compliance Plan and LTIP for evaluation.¹⁰⁵ Insufficient time was available in this proceeding to consider the enormous range and scope of operational and infrastructure related issues raised by the parties in this proceeding. Another issue grappled with by the parties was the role of PWSA's Compliance Plan proceeding and how (and in what proceeding) issues should be addressed. To resolve certain operational and infrastructure matters, the Joint Petitioners set forth the issues in the Joint Petition that they would address in the Compliance Plan proceeding. The infrastructure and operational issues of concern to the parties to be evaluated in the Compliance Plan/LTIP are interspersed in Settlement Paragraph III.H. Given the nature and breadth of the issues evaluated in this rate proceeding, the Joint Petitioners' agreement to defer various lead, operational and infrastructure issues to the Compliance Plan/LTIP proceeding is a reasonable compromise.

D. Customer Service Issues

During the course of the proceeding, the Parties undertook a thorough review of PWSA's customer service policies and procedures. Topics reviewed include all aspects of PWSA's processes for handling customer issues from initiating new service, to handling complaints, terminating and restoring service and seeking collection of unpaid amounts for services rendered.¹⁰⁶ A substantial amount of the 1,973 discovery requests served to PWSA as well as the testimony of two OCA and two UNITED witnesses focused extensively on customer service issues. Accordingly, PWSA spent significant time considering the views of the parties and how

¹⁰⁵ However, one operational-related term of this Settlement is that, to address concerns raised by OCA regarding unaccounted for water, PWSA agreed to submit a Section 500 form as part of its Annual Report to the Commission. *See* Joint Petition at III.C.2.

¹⁰⁶ Issues related to low-income customers are discussed in Section II.F. of this Statement.

best to respond to and to address the concerns raised. As explained in the Rebuttal Testimony of Julie Quigley:

PWSA evaluated all proposals in consideration of its current processes and procedures. As part of this evaluation, PWSA identified a number of proposals that are based on outdated PWSA policies and procedures and do not reflect changes by PWSA effective April 1, 2018, when it became subject to the Commission's jurisdiction. PWSA also analyzed the resources, cost and time that would be involved in implementing the proposals. This evaluation also included an analysis of the extent of any consumer benefit that could be achieved by implementing the proposal. PWSA also had to consider how to prioritize various proposals and whether such proposals would be better addressed in the pending Compliance Plan proceeding. Importantly, PWSA is in a unique situation having only recently come under the PUC's jurisdiction with a currently open Compliance Plan proceeding that is focused squarely on how to bring PWSA's operations into compliance with Commission requirements. Therefore, to the extent PWSA may be amenable to implementing some of the proposals as part of this proceeding, PWSA's preferred approach is to more comprehensively evaluate many of them in the context of the Compliance Plan proceeding.¹⁰⁷

Through settlement discussions, PWSA was able to cooperatively interactively discuss the concerns of the parties and both explain PWSA's processes and better understand the viewpoints of the other parties. While each party has specifically reserved all rights regarding whether PWSA is in compliance with all applicable regulatory and legal requirements,¹⁰⁸ the parties were able to successfully identify a number of areas and approaches on which they could agree for the purposes of this proceeding. To that end, and as explained more fully below, the Settlement Petition: (1) identifies concrete immediate actions that PWSA will take to satisfy some concerns identified by the parties; (2) sets forth a process for PWSA to work cooperatively with the parties going-forward regarding specific issues; and, (3) defers resolution of some of the

¹⁰⁷ PWSA St. No. 4-R at 3.

¹⁰⁸ Joint Petition for Settlement at D.1.

more complex issues to the Compliance Plan proceeding. Going forward in this matter is reasonable because doing so prioritizes those issues that PWSA can address immediately, sets forth an avenue for cooperation with the other parties regarding other issues, and specifically defers to PWSA's Compliance Plan proceeding some of the more complicated issues where more time is available to consider an appropriate resolution of the concerns.

1. Immediate Actions

PWSA has agreed to take a number of immediate actions to address concerns raised by the parties regarding customer service issues.¹⁰⁹ For example, in Section D.2, PWSA agreed to continue tracking informal complaint information but will enhance the process to specifically note whether the complaint relates to water, sewer, or stormwater. In addition, PWSA agreed to conduct a regular review of its informal complaint tracking to determine trends and whether there is a need to implement any changes to internal training policies.

In Sections D.6 and D.8, PWSA agreed to ensure that its customer service representatives are informing customers about the availability of PWSA's complaint procedures and the availability of payment arrangements (noting that Chapter 14 does not apply to victims of domestic violence with a Protection From Abuse Order) while being careful not to evaluate or express a subject view about the efficacy of an individual's concerns.

For some issues, PWSA has agreed to take specific action to update its consumer-facing written materials. For example, in Section D.5, PWSA agreed to revise its 3-day and 48-hour termination notices to clarify that all residential customers have the right to negotiate a payment plan to avoid termination of service. Similarly, in Section D.10, PWSA agreed to create a new

¹⁰⁹ Per Section D.11 of the Settlement, these immediate action items will be implemented consistent with the timeframes established by the final order in the proceeding and a copy of the changes will be shared with the Low Income Assistance Advisory Committee.

form that must be submitted and notarized by owners desiring to voluntarily discontinue service to a residential property occupied by a tenant.

Finally, for some issues, the Joint Settlement sets forth in detail the specific policy PWSA will follow and, where needed, PWSA agreed to update its internal training materials. For example, in Section D.7 PWSA agreed to ensure that its internal medical certificate policies are consistent with the detailed process and procedures set forth in paragraphs a through f. In Section D.4 PWSA agrees to continue to issue written confirmation of payment arrangement terms and will add this practice to its customer service training materials. Finally, in Section D.9, PWSA agreed to accept from tenants wishing to exercise their rights pursuant to DSLPA¹¹⁰ any document issued by a public agency or public utility containing name and address as proof of identification.¹¹¹

Taken together, the immediate actions PWSA has agreed to take regarding these customer service issues represents a reasonable compromise whereby the issues will be addressed as soon as practicable and in a manner consistent with the understanding of the parties.

2. To Be Addressed Cooperatively With Parties

In addition to the actions discussed in the prior section, the Joint Settlement sets forth a pathway for PWSA and the parties to establish an on-going cooperative process to: (1) determine an appropriate informal complaint tracking information review process;¹¹² and, (2) provide input regarding PWSA's current bill redesign process.¹¹³ Cooperative involvement in PWSA's current bill redesign process is particularly important since PWSA only recently came under the

¹¹⁰ Discontinuance of Services to Leased Premises Act ("DSLPA"), 66 Pa.C.S. § 1521, *et seq.*

¹¹¹ PWSA also revised its Part III, Section A(3)(c)(ii) of its proposed tariffs to reflect this. *See* Exhibits 1(a) and 2(a) attached to Joint Petition.

¹¹² Joint Petition at D.2.

¹¹³ Joint Petition at D.3.

jurisdiction of the Commission. As such, PWSA's prior bills did not consider the legal and regulatory requirements governing public utilities. In Section D.3, PWSA identifies five specific elements that it will incorporate into its redesigned bill and agrees to provide a draft of its redesigned bill to the parties with enough time allotted to consider any feedback and/or host a collaborative meeting if requested. The agreed-to processes set forth in the Joint Petition will enable PWSA and the parties to work together in a reasonable and timely way to positively influence the ability of PWSA to continue the process of reforming its systems to be compliance with regulation as a public utility.

3. Deferred to Compliance Plan

Throughout the course of this proceeding, issues were identified for which the parties could not reach an amicable solution on how to resolve. These issues were difficult primarily because they involve a number of complex, interrelated issues and there was not enough time in this rate case proceeding to fully address each and every one of them. Another complicating factor the parties had to address was the role of PWSA's Compliance Plan proceeding and how the issues being addressed in this rate case fit in with the expectations for that proceeding. To resolve these matters, the Joint Petitioners agreed to identify specific issues in the Joint Petition that would be addressed in the Compliance Plan proceeding. This was to ensure that the appropriate review will occur there. The specific issues are identified in Section H.8.a through g of the Settlement Petition.¹¹⁴ To further the discussion of these issues, PWSA additionally agreed in Section H.8 to provide an explanation of PWSA's current customer service policies and practices related thereto in its direct testimony filed in the Compliance Plan Proceeding. By

¹¹⁴ PWSA also revised its proposed tariffs to reflect the applicability of the DSLPA. See Part II, No. 45 (Definitions in Water Tariff, Exhibit 1), Part II, No. 54 (Definitions in Wastewater Tariff, Exhibit 2), Part III, Section A(3)(c) (in both Water and Wastewater Tariffs), and Part III, Section C(3)(j)(iii) in both Water and Wastewater Tariffs).

identifying the issues of concern to the parties and ensuring that PWSA provides an explanation of current policies and procedures, the Joint Petition offers a reasonable way to balance the purpose of, and the time available in this rate case and the Compliance Plan to most effectively utilize the time and resources of the parties and the Commission to achieve the best result possible.

E. Tariff Issues

Exhibits 1(a) and 2(a) submitted with the Joint Petition show in red-line all of the changes to the tariffs made pursuant to the settlement agreement.¹¹⁵ The table below identifies some of the specific changes made pursuant to Section E of the Joint Petition:

Settlement Term	Change made	Water	Wastewater
Section E(1)	Added language that customer will not be assessed fee if paid one pursuant to PWSA water tariff		Part I, Section C Returned Check Charge
Section E(1)	Added clarification that charges/fees assessed per account		Part I, Section H Miscellaneous Charges and Fees
Section E(2)	Clarification re: need customer express written consent to receive electronic notice of termination & if electronic notice returned as undeliverable other method to be undertaken	Part III, Section C(3)(j)(v) Electronic Notice of Termination	Part III, Section C(3)(j)(v) Electronic Notice of Termination
Section E(3)	New language added to address role of medical certificate to stop a termination	Part III, Section C(3)(k)	Part III, Section C(3)(k)
Section E(3)	New language added to address role of medical certificate to stop a termination	Part III, Section C(3)(k)	Part III, Section C(3)(k)
Section E(4)	Removed & relocated to Supplemental Service Conditions	Part I, Section G Collection Expenses and Fees	Part I, Section G Collection Expenses and Fees
Section E(6)	Added new section regarding new tenant responsibilities regarding prior debt at a property	Part III, Section A(3)(b)(iii)	Part III, Section A(3)(b)(iii)

¹¹⁵ In addition to the issues identified in Section E of the Joint Petition, changes were made to the tariffs to revise the rates and implement other parts of the Joint Settlement not specifically set forth in Section E.

Section E(7)	New language to clarify no cash deposit required for customers eligible for PWSA's BDP	Part III, Section F(2)(d) Cash Deposits	Part III, Section F(2)(d) Cash Deposits
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The tariff changes described above pursuant to Sections E.2, E.3, E.6, and E.7 of the Joint Petition memorialize many of the issues detailed in Section D of the Joint Petition as discussed in more detail here in the prior section. Each of the proposed tariff revisions is a reasonable way to ensure that the agreed-to changes are implemented and that they are conveyed to the public in PWSA's official tariffs. Each of the revisions are a reasonable resolution of the various concerns raised by the parties and should be approved.

F. Low-Income Customer Issues

PWSA presented the Direct Testimony of Julie Quigley, Director of Administration for PWSA, to describe its existing low-income customer program.¹¹⁶ Ms. Quigley testified that prior to October 2017, low income Residential customers had no PWSA-sponsored financial relief, with the most negative impact felt when faced with termination of their water service for non-payment. Today, PWSA's low-income customer program includes three major components: (i) a Winter Shut Off Moratorium, which was passed by the PWSA Board of Directors ("Board") on October 26, 2017; (ii) a Bill Discount Program ("BDP"), which was authorized by the PWSA Board on November 8, 2017; and (iii) a Hardship Cash Assistance Program ("Hardship Program"), which was established by the Board on January 26, 2018.¹¹⁷

As explained by Ms. Quigley, the Winter Shut-Off Moratorium protects customers who are at or below 250% of the Federal Poverty Level ("FPL") from termination in the winter months (December 1st through March 31st). The BDP involves a 50% reduction of fixed monthly

¹¹⁶ PWSA St. No. 4.

¹¹⁷ PWSA St. No. 4 at 2.

water and sewer conveyance charges for customers at or below 150% of the FPL. Under the Hardship Program, PWSA issues cash grants up to \$300 per year for customers at or below 150% of the FPL.¹¹⁸ Noting PWSA's commitment to assisting low income Residential customer, Ms. Quigley expressed the belief that this package of programs is reasonable and appropriate to continue as part of this proceeding. Since the programs are relatively new, she opined that it would be best to maintain the current programs without change, so that their effectiveness can be accurately assessed. Ms. Quigley stressed, however, that PWSA was looking forward to working with the Commission and the parties on a going forward basis to evaluate and make needed improvements in the existing programs.¹¹⁹

In his direct testimony, UNITED witness Mitchell Miller observed that "PWSA is off to a commendable start, having recognized the need for low income assistance programs and established basic program parameters."¹²⁰ Similarly, OCA witness Roger D. Colton stated in direct testimony that "PWSA should be commended for seeking to deliver some level of benefit to income-eligible households prior to the transfer of regulatory jurisdiction over its operations" to the Commission.¹²¹ Nonetheless, both witnesses expressed concerns about the adequacy of these efforts and identified specific program changes and other measures that they believed are necessary to ensure that PWSA's low-income programs are adequately funded and designed to sufficiently assist low income customers.¹²²

The discussions among the parties regarding these issues led to a number of compromises being reached, along with commitments being made by PWSA for a series of enhancements to

¹¹⁸ PWSA St. No. 4 at 2.

¹¹⁹ PWSA St. No. 4 at 2-3.

¹²⁰ UNITED St. No. 2 at 65.

¹²¹ OCA St. No. 4 at 16.

¹²² OCA St. No. 4; UNITED St. No. 2 at 63-83.

its low income customer assistance program. As a result of the Settlement provisions relating to low income customer issues, PWSA will be positioned to better identify its low income customer population and evaluate the effectiveness of its low income customer assistance programs, fund the BDP at a higher level, improve customer outreach efforts and expand the pool of customers who are eligible to receive assistance from the programs. Specific commitments made by PWSA are discussed below.

1. Data Collection

PWSA has agreed to immediately begin additional collection of data including amounts of billed revenue; amounts of collected receipts; number of accounts in arrears; number of accounts receiving disconnection notices; number of BDP participants with unpaid account balances; dollars of unpaid account balances for BDP participants; number of BDP participants by poverty ranges; average usage; number of customers receiving hardship grants, along with average amount; and average arrearage of customers receiving a hardship grant.¹²³ Through the collection of this additional data, PWSA will be better able to identify its low income customer population and to more accurately evaluate the effectiveness of its programs.

2. Low Income Assistance Advisory Committee

Another key commitment made by PWSA in the Settlement is the formation of a Low Income Assistance Advisory Committee (“Advisory Committee”), consisting of interested parties from this proceeding, the Commission’s Bureau of Consumer Services (“BCS”), Dollar Energy Fund (“DEF”), and local community and social service groups. With an initial term of two years, the Advisory Committee will hold quarterly meetings, beginning within 90 days of the effective date of rates in this proceeding. The Advisory Committee will review program metrics

¹²³ Joint Petition ¶ III.F.1.

and provide input and feedback on program terms and conditions, as well as outreach documents. PWSA will have full discretion as to whether to accept the Advisory Committee's feedback and will submit proposals to the Commission for approval, as required. Specific issues that are identified in the Settlement for the Advisory Committee to address include: (i) improving outreach and messaging for programs; (ii) launching a social media campaign; (iii) assessing the feasibility and associated costs and benefits of transitioning the BDP to a format based on income levels; (iv) assessing applicable data; and (v) reviewing changes to PWSA's customer service policies.¹²⁴

As Ms. Quigley testified, PWSA values a collaborative and community approach, noting that it already participates in the Western Pennsylvania Utility Group, which coordinates on issues affecting low income customer assistance, and works closely with community-based organizations. Additionally, PWSA has established a cooperative relationship with BCS and DEF to address these types of issues.¹²⁵ The creation of the Advisory Committee will be a welcome expansion of these efforts, giving PWSA an opportunity to gain valuable feedback and input that will improve the overall effectiveness of its low income customer assistance programs.

3. Revisions to BDP

Under the Settlement, PWSA agreed to an increase in funding for the BDP¹²⁶ and committed to revising its BDP to provide for a 75% discount (rather than 50% discount) on the minimum water and/or wastewater charge for customers with income at or below 150% of the FPL. Also, as part of its next base rate proceeding, PWSA will submit a detailed plan outlining the program parameters for each of its low income customer programs. This plan will address

¹²⁴ Joint Petition ¶ III.F.3.

¹²⁵ PWSA St. 4-R at 40.

¹²⁶ Joint Petition ¶ III.F.2.

eligibility parameters, benefits, budget, needs assessment, outreach activities, details of average bills, BDP structure and other issues related to assistance that is available to low income customers.¹²⁷

Through the additional funding that will be made available for the BDP and the larger discount that is provided for by the Settlement, PWSA will be in a position to offer more assistance to low income customers. Also, PWSA's commitments for the next base rate case related to the BDP represent a significant step toward further development and facilitating the effectiveness of this program.

4. Hardship Program

Due to concerns raised by the parties about the practices of DEF and community-based organizations ("CBOs") requesting that applicants for grants through the Hardship Program produce proof of a Social Security Number ("SSN") as a condition of application to the program, PWSA confirmed in the Settlement that DEF and the CBOs will continue to follow their practice of processing the application when an applicant is unable or unwilling to produce such proof.¹²⁸ Also, within the context of the Advisory Committee, PWSA agreed to explore issues related to the SSN, as well the structure of the Hardship Program, including the income threshold, payment requirement, and inclusion of child support as income.¹²⁹ Further, PWSA committed to working with the Advisory Committee to develop efforts to fund the Hardship Program on an ongoing basis.¹³⁰

¹²⁷ Joint Petition ¶ III.F.4.

¹²⁸ Joint Petition ¶ III.F.5.

¹²⁹ Joint Petition ¶ III.F.3.f.

¹³⁰ Joint Petition ¶ III.F.3.e.

PWSA is supportive of the Settlement's provisions relating to the Hardship Program. While the program is relatively new and has sufficient funding for at least another year, having funding available on an ongoing basis will ensure that cash grants continue to be offered to low income customers. Additionally, PWSA welcomes the assistance of the Advisory Committee in exploring ways to remove barriers to participation by customers and to make a greater number of customers eligible to receive the cash grants.

5. Program Outreach

The Settlement obligates PWSA to continue its current outreach efforts which include: (i) screening for eligibility during all credit-related calls; (ii) utilizing a referral or warm transfer process to DEF; (iii) coordinating with other utilities that participate in the Western Pennsylvania Utility Group; and (iv) supporting DEF's efforts to actively recruit customer with existing debt to enroll in the BDP or apply for a Hardship Program grant. In the event that PWSA would wish to modify or discontinue these activities, it has committed to seek Commission approval, as required.¹³¹

The continuation of these outreach efforts is important in ensuring that customers who may need assistance are aware of the programs that are available. By coordinating with other utilities and supporting DEF's efforts to actively recruit customers who may be in need, PWSA is able to expand the pool of customers who participate in these programs and receive assistance that they need.

G. Contractual Issues

1. PWSA Services Contract with the City of Pittsburgh

¹³¹ Joint Petition ¶ III.F.6.

PWSA's Executive Director, Robert Weimar, described in his direct testimony the "Cooperation Agreement" pursuant to which PWSA and the City of Pittsburgh provide various services to and undertake various responsibilities for one another.¹³² OCA Witness Rubin discussed in his Direct Testimony the ratemaking challenges associated with PWSA's current relationship with the City.¹³³ I&E Witness Patel recommended that all "relevant terms of the [Cooperation Agreement between PWSA and the City] should be renegotiated to comply with" various items identified by the Pennsylvania Department of Auditor General in its Performance Audit Report.¹³⁴ He further recommended that the renegotiated agreement "be in effect prior to the filing of ... [PWSA's] next base rate case, but no later than September 30, 2019."¹³⁵ In response, PWSA expressed that it planned to review all of the issues raised by Mr. Patel's recommendation and present proposals to address the issues in the Compliance Plan proceeding.¹³⁶

The Joint Petitioners reached a compromise on the Cooperation Agreement and agreed to investigate this matter in the Compliance Plan proceeding.¹³⁷ PWSA committed to continue to renegotiate the Cooperation Agreement in good faith and to provide all parties with quarterly updates on the status of renegotiation of the Cooperation Agreement with the City.¹³⁸ PWSA also agreed to provide certain notices to the City and to the parties to this proceeding, and

¹³² PWSA St. No. 1 at 4.

¹³³ OCA St. No. 2 at 8, 11-13, 19.

¹³⁴ I&E Statement No. 2 at 41.

¹³⁵ I&E Statement No. 2 at 1.

¹³⁶ PWSA St. No. 2-R at 38.

¹³⁷ Joint Petition ¶ III.G.1.a.i.

¹³⁸ Joint Petition ¶ III.G.1.a.i(a),(b).

acknowledged I&E's reservation of rights as to PWSA's next base rate proceeding.¹³⁹ Lastly, PWSA agreed that a discussion in the Compliance Plan, and in its next rate case, will include a breakdown of estimated services received from the City and the associated costs.¹⁴⁰

As PWSA is currently in negotiations with the City, and it is not clear or certain that a renegotiated Cooperation Agreement will, or can, be reached and be in effect prior to either the filing of PWSA's next base rate case or September 30, 2019, PWSA believes the agreed upon provisions identified above constitute a reasonable compromise. PWSA is committed to revising the Cooperation Agreement so that its terms are fair and reasonable to all parties.

2. Billing Arrangement with ALCOSAN

Similar to I&E's recommendation regarding the City Cooperation Agreement, I&E Witness Patel recommended that the City and the Allegheny County Sanitary Authority ("ALCOSAN") amend their applicable agreements before PWSA's "next base rate case filing or no later than September 30, 2019, whichever occurs first to end the pass-through billing arrangement and establish ALCOSAN as a service company for treatment services."¹⁴¹ PWSA noted in the Rebuttal Testimony of Debbie Lestitian and Jennifer Presutti that I&E's recommendation appeared to require agreement and action by both the City and ALCOSAN, which are beyond PWSA's control.¹⁴² PWSA further advised that it planned to present proposals to address its billing arrangement with ALCOSAN in its Compliance Plan proceeding.¹⁴³

¹³⁹ Joint Petition ¶ III.G.1.a.i(c)-(f).

¹⁴⁰ Joint Petition ¶ III.G.1.a.i(g).

¹⁴¹ I&E St. No. 2 at 28.

¹⁴² PWSA St. No. 2-R at 40.

¹⁴³ PWSA St. No. 2-R at 39.

In the Joint Petition, PWSA agreed to amend its Compliance Plan to reflect its commitment to evaluate potential ways to address PWSA's contract with ALCOSAN. PWSA further agreed to: (1) evaluate in the Compliance Plan the allocation of flows to ALCOSAN and whether it is feasible to measure stormwater separately from wastewater; and (2) propose a plan for developing a cost of service study for wastewater and stormwater (as part of the development of stormwater rates). Pursuant to the settlement, PWSA will notify the parties to the proceeding if ALCOSAN and PWSA reach an agreement for a new contract.¹⁴⁴

PWSA submits that the resolution of the issues raised in the proceeding regarding its billing arrangement with ALCOSAN reflects a balanced compromise. An investigation of issues related to ALCOSAN billing and stormwater service in the Compliance Plan proceeding is a fair and reasonable way to proceed.

3. **City of Pittsburgh Discount for Pennsylvania-American Water Company Water Customers**

PWSA pays a rate subsidy to the Pennsylvania American Water Company ("PAWC") to partially cover charges for which certain PAWC customers who are also Pittsburgh residents, are responsible. The subsidy is the difference between the (higher) PAWC rates these PAWC-Pittsburgh customers would otherwise pay and the rate that customer would pay if he/she were a PWSA customer.¹⁴⁵ The Joint Petitioners agreed to investigate this issue as part of the Compliance Plan proceeding and acknowledged I&E's intent to recommend termination of the City of Pittsburgh discount for PAWC water customers in PWSA's next rate case.¹⁴⁶ The

¹⁴⁴ Joint Petition ¶ III.G.1.b.

¹⁴⁵ PWSA St. 2 at 10; Exh. DML-3 at 5.

¹⁴⁶ Joint Petition ¶ III.G.1.c.

continued evaluation of this matter in the Compliance Plan proceeding is a reasonable resolution of the concerns expressed by the parties.

4. Jordan Tax Service

One particularly controversial issue addressed in Section E.5 (and also Sections G.1.d and H.10) of the Settlement relates to PWSA's collection practices which include the use of Jordan Tax Service ("JTS"). Parties raised various (and sometimes conflicting) concerns regarding a number of different aspects of PWSA's collections process. For example, I&E Witness Patel expresses concern about the level of PWSA's uncollectibles and recommended that PWSA "exercise all available avenues and explore other options aggressively in an effort to reduce uncollectibles." OCA Witness Alexander also described PWSA's debt collection processes as "inefficient." Conversely, OCA Witness Alexander as well as two of UNITED's witnesses recommended that PWSA be required to immediately terminate its current contract with its third party collections agency, JTS. UNITED also raised issues related to PWSA's lien process to collect payment on outstanding amounts due.

Reaching an amicable settlement regarding these concerns proved challenging for a number of reasons. First, PWSA has both an interest and obligation to try to maximize its collections. Second, a pending class action lawsuit naming both PWSA and JTS as defendants has stopped the current ability of JTS to collect on any debt referred to it by PWSA. Third, changes to the relationship between JTS and PWSA occurred recently due to the transition of PWSA to Commission jurisdiction. Finally, a cost effective manner of collecting currently pending overdue payments on debt referred to JTS needs to be developed.

Viewed in the context of all these related matters, the parties recognized that any changes to the JTS contractual relationship needed to be carefully managed to ensure that any such

changes did not create any unnecessary legal or financial risks for PWSA's ratepayers. Thus, after careful consideration and discussion with the parties, PWSA agreed in Section E.5 of the Joint Petition to suspend its use of JTS upon the effective date of the Commission's final order approving this settlement. PWSA also agreed that the JTS collection arrangement will be reviewed as part of the Compliance Plan proceeding to ensure that all collection activities conform to the Public Utility Code and the Commission's regulations applicable to residential customers. Finally, as part of the Compliance Plan process, PWSA agreed to address the most cost effective manner of collecting overdue payments. Taken together, these three agreements are a reasonable way to address concerns voiced by the parties related to PWSA's relationship with JTS and the attendant collection issues. PWSA's agreement to suspend the use of JTS effective with the Commission's final order in this matter and to further evaluate its third party collection activities in light of new legal and regulatory requirements imposed on PWSA is a good path forward to addressing the concerns that have been raised in this proceeding related to JTS.

H. Long Term Infrastructure Improvement Plan (LTIIP) and Other Compliance Plan Issues

1. Consolidation of Compliance Plan and LTIIP

The Joint Petitioners agreed in the Settlement that a broad range of issues be addressed more fully in PWSA's Compliance Plan proceeding and/or as part of its LTIIP. To simplify this process, PWSA agreed to file a Petition with the Commission requesting that the Compliance Plan and LTIIP proceedings be consolidated within thirty (30) days of the signature date of the Settlement.¹⁴⁷

¹⁴⁷ Joint Petition ¶ III.H.1.

PWSA further agreed to various procedural matters relating to the Compliance Plan and/or LTIIP proceeding. First, PWSA agreed that it has the burden of proof in the Compliance Plan proceeding to show that its policies and procedures are just and reasonable, consistent with applicable laws, regulations, and policies, and is in the public interest.¹⁴⁸ Second, PWSA committed to not object in the Compliance Plan and/or LTIIP proceeding to the admission of any testimony, documents, or answers to interrogatories exchanged throughout the course of this proceeding.¹⁴⁹ Third, PWSA agreed to submit a revised Compliance Plan and LTIIP within thirty (30) days of the Commission's entry of a final order in this proceeding or the submission of direct testimony in the Compliance Plan/LTIIP proceeding, whichever is sooner.¹⁵⁰ Lastly, in the revised Compliance Plan and LTIIP, PWSA will provide supplemental information about its internal policies, procedures, and procedures on issues including, but not limited to, its line extension fee structure; plans for the Highland No. 1 Reservoir and Highland Membrane-Filtration Plant.¹⁵¹

PWSA submits that the Settlement terms pertaining to consolidation of the Compliance Plan and LTIIP proceedings is reasonable. The Commission has expressed that it will consider consolidation of the proceedings upon request.¹⁵² Consolidation of the proceedings will increase efficiencies for all interested parties and will simplify the evaluation of various complex issues. PWSA's agreement to amend its Compliance Plan and LTIIP or submit direct testimony in the

¹⁴⁸ Joint Petition ¶ III.H.2.

¹⁴⁹ Joint Petition ¶ III.H.3.

¹⁵⁰ Joint Petition ¶ III.H.4.

¹⁵¹ Joint Petition ¶ III.H.4.

¹⁵² *Procedure for Commission Review of the September 28, 2018 Compliance Plan and LTIIP Filings of the Pittsburgh Water and Sewer Authority*, Secretarial Letter at 2 (September 26, 2018) (“...the Commission will consider consolidating the Compliance Plan and LTIIP proceedings upon request by petition.”).

Compliance Plan/LTIIP proceeding, whichever is sooner to conform the Plan to this Settlement, demonstrates its desire to advance the resolution of these issues in a timely and effective fashion.

2. Issues to be investigated in the Compliance Plan (Not Addressed Above)

The constrained timeframe and narrow focus on the examination of proposed base rates in a base rate proceeding precluded the comprehensive evaluation of all the various issues raised by the parties in this proceeding. Some testimony raised various recommendations or proposals focusing on “compliance” issues (as opposed to base rate issues). It was not feasible for PWSA to address all “compliance” issues in this rate case or to evaluate all proposals or recommendations, especially those that may require complex and expensive changes. The transition of PWSA to Commission jurisdiction is a unique and challenging process.

Both the Legislature¹⁵³ and the Commission¹⁵⁴ contemplated a two-step process for making PWSA subject to Commission regulation; First, it mandated this proceeding in which PWSA’s initial PUC Tariff and rates are being reviewed and determined to be just and reasonable.¹⁵⁵ Second, it mandated a second separate proceeding in which PWSA’s overall operations, contracts and arrangements would be carefully reviewed and a plan would be established to bring those contracts and service arrangements into compliance with “rules, regulations and orders of the Commission.”¹⁵⁶

¹⁵³ 66 Pa.C.S. § 3204(a), (b).

¹⁵⁴ The Commission, in its FIO, reinforced this bifurcated approach by stating that it will provide “stakeholders with flexibility to coordinate issues between the tariff filings and compliance plans” and that it expects “the parties to harmonize the two proceedings.” FIO at 32. In reiterating a directive in its Tentative Implementation Order, the PUC provides that “in its compliance plans, PWSA will propose plans to achieve full regulatory compliance for matters not addressed in its July 2018 tariff filings.” FIO at 31.

¹⁵⁵ 66 Pa.C.S. § 3204(a).

¹⁵⁶ 66 Pa.C.S. § 3204(b).

The Joint Petition recognizes the value and benefit of addressing certain issues in the Compliance Plan proceeding. PWSA committed to considering the proposal to assess the City of Pittsburgh a separate rate for public fire hydrant service in its Compliance Plan.¹⁵⁷ PWSA also agreed to consider in its Compliance Plan the proposal for a flat rate for water and wastewater service for all unmetered and unbilled municipal and government properties or buildings served by PWSA.¹⁵⁸

As mentioned in Section II.C. of this Statement in Support, the parties agreed to defer to the Compliance Plan or LTIP various infrastructure/operations/lead issues. Those issues include: measuring and remediating unaccounted for/non-revenue water; establishing records for estimated flows used for blow-offs, street sweeping, flushing, firefighting, and main breaks, etc.; conducting leak surveys; compliance with Chapter 65 of the Commission's regulations; a plan to address "party line" service; metering and billing of all City water/wastewater locations; a plan to track age of customer meters and to test and/or replace meters over twenty (20) years old; the development of operating metrics for infrastructure improvements projects; the cost effectiveness of dollars spent for infrastructure improvement; a Risk Assessment Model for prioritizing projects; a plan to adopt twenty (20) operating metrics; and an evaluation of whether the Pennsylvania Public Utility Code and the Commission's regulations preempt the Municipality Authorities Act as it relates to costs of line extensions and meters.¹⁵⁹ Relatedly, the Settlement

¹⁵⁷ Joint Petition ¶ III.H.5.

¹⁵⁸ Joint Petition ¶ III.H.6.

¹⁵⁹ Joint Petition ¶ III.H.7.

calls for the investigation of PWSA's present line extension fee structure in the Compliance Plan Proceeding.¹⁶⁰

PWSA submits that the parties to this proceeding will have ample opportunity to fully address the above-referenced matters and to provide recommendations to PWSA in its currently pending Compliance Plan. The aforementioned provisions represent a reasonable compromise and offer a reasonable way to balance this rate proceeding and the Compliance Plan/LTIIP Proceedings. Deferring these "compliance" matters to the Compliance Plan and LTIIP proceedings will provide the parties an opportunity to guide PWSA through the transition to Commission regulation.

III. CONCLUSION

The Settlement provides a reasonable means of resolving all of the issues raised by the active parties in this proceeding. It also reduces the administrative burden on the Commission and the litigation costs of all of the active parties. Accordingly, for the reasons set forth above and in the Joint Petition, PWSA submits that the Settlement is in the public interest and should be approved without modification.

PWSA respectfully requests the ALJs and the Commission:

- (a) Expeditiously review and approve the Settlement, without modification, in order that the rates can be implemented as soon as possible;
- (b) Mark the complaints of the Parties to this Settlement closed;

¹⁶⁰ Issues also referred to the Compliance Plan proceeding regarding lead service line replacement (Joint Petition, ¶ III.H.7) customer service (III.H.8) and low income issues III.H.12 are addressed in other sections of this statement.

(c) After providing appropriate notice and an opportunity to be heard, dismiss or mark closed the complaints filed by consumers filed in response to PWSA's proposed rate increase;

(d) Take any other action deemed to be in the public interest.

Respectfully submitted,



Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Carl R. Shultz, Esq.
Sarah C. Stoner, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
717.237.6000
717.237.6019 (fax)

Counsel for
The Pittsburgh Water and Sewer Authority

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