

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, <i>et al.</i>	:	R-2018-3002645
	:	C-2018-3003165
v.	:	C-2018-3003388
	:	C-2018-3003941
Pittsburgh Water and Sewer Authority – Water	:	C-2018-3004291
	:	C-2018-3005022
Pennsylvania Public Utility Commission, <i>et al.</i>	:	R-2018-3002647
	:	C-2018-3003173
v.	:	C-2018-3003384
	:	C-2018-3004864
Pittsburgh Water and Sewer Authority	:	C-2018-3004311
– Wastewater	:	C-2018-3005036

RECOMMENDED DECISION

Before
Mark A. Hoyer
Deputy Chief Administrative Law Judge

Conrad A. Johnson
Administrative Law Judge

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	HISTORY OF THE PROCEEDING	2
III.	PUBLIC INPUT TESTIMONY	7
IV.	DESCRIPTION AND TERMS OF SETTLEMENT	7
V.	DISCUSSION – PUBLIC INTEREST	37
A.	Legal Standard	39
B.	Revenue Requirement	40
1.	PWSA’s Position re: Revenue Requirement.....	40
2.	I&E’s Position re: Revenue Requirement.....	44
3.	OCA’s Position re: Revenue Requirement	49
4.	OSBA’s Position re: Revenue Requirement	51
5.	Pittsburgh UNITED’s Position re: Revenue Requirement	51
C.	Revenue Allocation and Rate Design	53
1.	PWSA’s Position re: Revenue Allocation and Rate Design.....	53
2.	I&E’s Position re: Revenue Allocation and Rate Design	58
3.	OCA’s Position re: Revenue Allocation and Rate Design.....	65
4.	OSBA’s Position re: Revenue Allocation and Rate Design	67
5.	Pittsburgh UNITED’s Position re: Revenue Allocation and Rate Design	69
D.	Infrastructure/Operation/Lead.....	71
1.	PWSA’s Position re: Infrastructure/Operations/Lead.....	71
2.	I&E’s Position re: Infrastructure/Operations/Lead	76

3.	OCA Position’s re: Infrastructure/Operations/Lead	78
4.	OSBA Position’s re: Infrastructure/Operations/Lead	79
5.	Pittsburgh UNITED’s Position re: Infrastructure/Operations/Lead	79
E.	Customer Service Issues	87
1.	PWSA’s Position	87
a.	Immediate Actions on Customer Service Issues.....	88
b.	Going-Forward Customer Service Issues	90
c.	Customer Service Issues Deferred to Compliance Plan	91
2.	I&E’s Position.....	91
3.	OCA’s Position	92
a.	Informal Complaint Tracking	93
b.	Modifications to Customer Bills	93
c.	Written Confirmation of Payment Arrangement Terms	94
d.	Termination Notices.....	94
4.	OSBA’s Position.....	95
5.	Pittsburgh UNITED’s Position	95
a.	Informal Complaint Tracking	95
b.	Residential Customer Bill Redesign	96
c.	Payment Arrangements.....	96
d.	Medical Certificates	97
e.	Complaint Procedures	97
f.	Discontinuance of Service to Leased Premises Act (DSLPA)	98
g.	Settlement Compliance	99

F.	Tariff Issues	99
1.	PWSA’s Position	99
2.	I&E’s Position.....	100
3.	OCA’s Position	101
4.	OSBA’s Position.....	101
5.	Pittsburgh UNITED’s Position	101
a.	Dual Water/Wastewater Fees.....	102
b.	Electronic Notice of Termination	102
c.	Medical Certificates	102
d.	Collections Procedures.....	102
e.	Responsibility for Prior Arrears.....	103
f.	Security Deposits	103
G.	Low Income Customer Issues.....	104
1.	PWSA’s Position	104
a.	Data Collection	104
b.	Low Income Assistance Advisory Committee	105
c.	Revisions to Bill Discount Program	106
d.	Hardship Cash Assistance Program	106
e.	Program Outreach	106
2.	I&E’s Position.....	107
a.	Data Collection	107
b.	Low Income Assistance Advisory Committee	108
c.	Bill Discount Program	109

3.	OCA’s Position	110
a.	Data Collection	110
b.	Bill Discount Program	111
c.	Low Income Assistance Advisory Committee	112
d.	Outreach Efforts.....	112
4.	OSBA’s Position.....	113
5.	Pittsburgh UNITED’s Position	113
a.	Low Income Data Collection.....	113
b.	Low Income Assistance Advisory Committee	114
c.	Bill Discount Program Revision	114
d.	Low Income Assistance Program Plan Requirement.....	115
H.	Contractual Issues	115
1.	PWSA’s Position	115
a.	PWSA Services Contract with the City of Pittsburgh	115
b.	Billing Arrangement with ALCOSAN	116
c.	City of Pittsburgh Discount for PAWC	116
d.	Jordan Tax Service Arrangement.....	117
2.	I&E’s Position.....	118
a.	PWSA Services Contract with the City of Pittsburgh	118
b.	Billing Arrangement with ALCOSAN	120
c.	City of Pittsburgh Discount for PAWC	121
3.	OCA’s Position	122
a.	PWSA Services Contract with the City of Pittsburgh	122

b.	Billing Arrangement with ALCOSAN	123
c.	City of Pittsburgh Discount for PAWC	123
d.	Jordan Tax Service Arrangement.....	123
4.	OSBA’s Position.....	124
5.	Pittsburgh UNITED’s Position	124
I.	Long Term Infrastructure Improvement Plan (LTIIP) and Other Compliance Plan Issues.....	124
1.	PWSA’s Position	124
a.	Consolidation of Compliance Plan and LTIIP	124
b.	Issues To Be Investigated in the Compliance Plan (Not Addressed Above).....	125
2.	I&E’s Position.....	126
a.	Consolidation of Compliance Plan and LTIIP	126
b.	Revision of Compliance Plan.....	127
c.	Highland Membrane Filtration Plant	127
d.	Public Fire Hydrant Service.....	128
e.	Flat Rate for Unmetered/Unbilled Service	128
f.	Infrastructure/Operations/Lead Issues in Compliance Plan/LTIIP.....	129
g.	Other Issues.....	129
3.	OCA’s Position	130
a.	Consolidation of Compliance Plan and LTIIP	130
b.	Issues To Be Investigated in the Compliance Plan (Not Addressed Above).....	131
4.	OSBA’s Position.....	131

5.	Pittsburgh UNITED’s Position	131
a.	Consolidation of Compliance Plan and LTIIP	131
b.	Issues To Be Investigated in the Compliance Plan.....	132
VI.	RECOMMENDATION	133
VII.	CONCLUSIONS OF LAW	140
VIII.	RECOMMENDED ORDER.....	141

I. INTRODUCTION

This Recommended Decision recommends approval of the Joint Petition for Settlement (Joint Petition or Settlement) with the modifications/corrections to the water and wastewater tariffs attached to the Settlement as set forth in the “Recommendation” section of this Recommended Decision and ordered in ordering paragraph no. 5. The Settlement provides for a \$21 million increase in retail user rates, as opposed to Pittsburgh Water and Sewer Authority’s (PWSA or Authority) original, \$27 million request. The Settlement rates are designed to produce a net increase in user charge operating revenues of \$21 million,¹ based upon data for a fully projected future test year (FPFTY) ending December 31, 2019, as adjusted.

The anticipated impact of the agreed-upon Settlement rates upon the average customer in various customer classes is shown in part of Exhibit 3, Proof of Revenue, attached to the Settlement. Under the Settlement rates, a typical residential water and wastewater conveyance customer using 3,000 gallons of water per month will see his or her total monthly bill increase from \$63.62 to \$72.49, an increase of \$8.87 or 13.9%. The breakdown by water and wastewater conveyance bill component for a residential customer is provided in the table below.

<u>Residential Monthly Bill</u>	<u>Present</u>	<u>Settlement</u>	<u>% Increase</u>
Water	\$42.07	\$49.35	17.3%
Wastewater Conveyance	<u>\$21.55</u>	<u>\$23.14</u>	<u>7.4%</u>
Total Monthly Bill	\$63.62	\$72.49	13.9%

The total bill for a commercial customer using 13,000 gallons per month will increase from \$234.00 to \$265.96 per month or by 13.7%.

<u>Commercial Monthly Bill</u>	<u>Present</u>	<u>Settlement</u>	<u>% Increase</u>
Water	\$148.02	\$173.66	17.3%
Wastewater Conveyance	<u>\$85.98</u>	<u>\$92.30</u>	<u>7.4%</u>
Total Monthly Bill	\$234.00	\$265.96	13.7%

¹ The Settlement (a) increases PWSA’s total annual user charge revenues for water service by approximately \$16.639 million, or 17.1%; and, (b) increases PWSA’s total annual user charge revenues for wastewater conveyance service by approximately \$4.374 million, or 7.2%.

Rates for an industrial customer using 680,000 gallons per month will increase from \$9,409.52 to \$10,649.49 per month or by 13.2%.

Industrial Monthly Bill	Present	Settlement	% Increase
Water	\$5,505.62	\$6,458.38	17.3%
Wastewater Conveyance	<u>\$3,903.90</u>	<u>\$4,191.11</u>	<u>7.4%</u>
Total Monthly Bill	\$9,409.52	\$10,649.49	13.2%

Rates for a health or education customer using 50,000 gallons per month will increase from \$1,031.30 to \$1,171.86 per month or by 13.6%.

Health or Education Monthly Bill	Present	Settlement	% Increase
Water	\$649.46	\$761.70	17.3%
Wastewater Conveyance	<u>\$381.84</u>	<u>\$410.16</u>	<u>7.4%</u>
Total Monthly Bill	\$1,031.30	\$1,171.86	13.6%

II. HISTORY OF THE PROCEEDING

On July 2, 2018, PWSA filed Tariff Water – Pa. P.U.C. No. 1 (Water Tariff) and Tariff Wastewater – Pa. P.U.C. No. 1 (Wastewater Tariff) to become effective August 31, 2018 with the Pennsylvania Public Utility Commission (Commission). Through this filing, PWSA requests that the Commission approve its new tariffs pursuant to Act 65 of 2017, 66 Pa.C.S. § 3201 *et seq.* PWSA proposed increases to water and wastewater total annual operating revenues of approximately \$27 million per year or 17.1% on a total revenue basis over the amount of annual revenues at present rates.

PWSA is a municipal water and wastewater authority serving customers in the City of Pittsburgh and surrounding communities. PWSA provides water service to approximately 80,000 residential, commercial and industrial customers in: portions of the City of Pittsburgh; the Borough of Millvale; and portions of Reserve, O'Hara, and Blawnox Townships, Allegheny County. PWSA also provides wastewater conveyance service to customers located in the City of Pittsburgh, Allegheny County, and also conveys sewage for portions of 24 neighboring communities. PWSA's water and wastewater operations became subject to regulation by the Pennsylvania Public Utility Commission on April 1, 2018, pursuant to Act 65 of 2017, 66 Pa.C.S. § 3201 *et seq.*

Under the Authority's original proposal, a typical residential water and wastewater conveyance customer using 3,000 gallons of water per month would see his or her total monthly bill increase from \$63.62 to \$74.23, an increase of \$10.61 or 16.7%. For the water portion of the bill, this includes an increase from \$42.07 to \$49.84, an increase of \$7.77 or 18.5%. For the wastewater conveyance portion of the bill, this includes an increase from \$21.55 to \$24.39, an increase of \$2.84 or 13.2%.

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 fully projected future test year (FPFTY) to permit a FPFTY beginning January 1, 2019. *See*, 66 Pa.C.S. § 315(e).

On July 5, 2018, the Office of Consumer Advocate (OCA) filed a Notice of Appearance and Formal Complaint at Docket No. R-2018-3002645² and at Docket No. R-2018-3002647.³ The Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance on July 6, 2018. On July 13, 2018, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance and Formal Complaint at Docket No. R-2018-3002645⁴ and at Docket No. R-2018-3002647.⁵

On July 12, 2018, the Commission issued Suspension Orders at Docket No. R-2018-3002645 (Water) and Docket No. R-2018-3002647 (Wastewater) 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.

² Docket No. C-2018-3003165 (Water)

³ Docket No. C-2018-3003173 (Wastewater)

⁴ Docket No. C-2018-3003388 (Water)

⁵ Docket No. C-2018-3003384 (Wastewater)

A Prehearing Conference Order was issued on July 12, 2018, scheduling an initial prehearing conference for Thursday, July 19, 2018 at 2:00 p.m.

On July 13, 2018, Pittsburgh UNITED filed a petition to intervene and answer. Pittsburgh UNITED also filed two motions for admission *pro hac vice* on July 13, 2018.

On July 17, 2018, a prehearing conference notice was issued.

A prehearing conference was held on Thursday, July 19, 2018, as scheduled. Counsel for PWSA, I&E, OCA, OSBA, and Pittsburgh UNITED attended the conference. On July 20, 2018, a Prehearing Order was issued establishing a litigation schedule for this proceeding and consolidating the formal complaints filed by OCA and OSBA with this proceeding.

On July 26, 2018, PWSA filed a Motion for a Protective Order. The requested Protective Order was issued on August 8, 2018.

On August 13, 2018, Pennsylvania-American Water Company (PAWC) filed a formal complaint at Docket No. C-2018-3003941 against the proposed Water Tariff. On August 24, 2018, James Ferlo filed a formal complaint at Docket No. C-2018-3004291 against the proposed Water Tariff and at Docket No. C-2018-3004311 against the proposed Wastewater Tariff. PWSA did not file an answer to the complaint of PAWC or the complaints of James Ferlo.

On August 16, 2018, Public Input Hearing Notices were issued scheduling four public input hearings in the City of Pittsburgh. Also, on August 16, 2018, a First Interim Order – Public Input Hearings was issued. Notice of the scheduled public input hearings was advertised in the Pittsburgh Post-Gazette newspaper on August 26, 2018.⁶

⁶ Proof of Publication of Notice in Pittsburgh Post-Gazette was filed with the Commission's Secretary's Bureau on August 31, 2018.

On September 4, 2018, two public input hearings were held at the Allegheny Center Alliance Church, 250 East Ohio Street, Pittsburgh, Pennsylvania 15212 (afternoon and evening). On September 5, 2018, an evening public input hearing was held at the Kingsley Community Center, 6435 Frankstown Avenue, Pittsburgh, Pennsylvania 15206. On September 6, 2018, the last evening public input hearing was held at the Jeron X. Grayson Community Center, 1852 Enoch Street, Pittsburgh, Pennsylvania, 15219.

Peoples Natural Gas Company LLC (Peoples) filed a formal complaint at Docket No. C-2018-3004864 in the above-captioned proceedings on September 21, 2018. PWSA filed preliminary objections and an answer to said complaint on October 5, 2018. On October 5, 2018, Peoples filed an amended complaint. On October 15, 2018, PWSA filed preliminary objections and an answer to the amended complaint. On October 24, 2018, Peoples filed a petition to withdraw its complaint. No objections were filed to said Petition.

On September 28, 2018, Duquesne Light filed two formal complaints at Docket Nos. C-2018-3005022 and C-2018-3005036. PWSA filed an answer to Duquesne Light's complaints on October 11, 2018.

On November 14, 2018, an evidentiary hearing was held. The parties participating in the hearing were located in a hearing room in Harrisburg while the presiding officers participated by telephone from a hearing room in Pittsburgh. The following formal complaints were consolidated in this proceeding at the outset of the hearing: Pennsylvania-American Water Company against PWSA at Docket No. C-2018-3003941; Peoples Natural Gas Company LLC against PWSA at Docket No. C-2018-3004864; two complaints of James Ferlo against PWSA at Docket No. C-2018-3004291 and Docket No. C-2018-3004311; and two formal complaints filed by Duquesne Light Company against PWSA at Docket No. C-2018-3005022 and Docket No. C-2018-3005036. The parties participating in the hearing waived cross-examination and all verified, pre-served written testimony and exhibits, with the exception of the evidence pre-served by Peoples, were admitted into the hearing record by stipulation. No parties participating in the hearing objected to Peoples' petition for leave to withdraw its

complaint. The presiding officers determined that the petition for leave to withdraw the complaint was in the public interest and granted the Petition at the hearing.⁷

On November 29, 2018, PWSA filed a Joint Petition for Settlement with the Commission's Secretary's Bureau. PWSA, I&E, OCA, OSBA and Pittsburgh UNITED (the Settlement parties or Joint Petitioners) were parties to the Settlement.⁸

On November 30, 2018, Duquesne Light filed a letter with the Commission's Secretary's Bureau indicating it did not object to the Settlement.

On November 30, 2018, OCA sent a letter to Complainant James Ferlo regarding the Settlement advising him of his right to comment, object to or join in the Settlement.

On December 5, 2018, OCA filed its Statement in Support of the Settlement.

On December 6, 2018, PAWC filed a letter indicating it did not oppose the Settlement.

PWSA, I&E and Pittsburgh UNITED each filed a Statement in Support of the Settlement on December 7, 2018.

On December 10, 2018, OSBA filed its Statement in Support of the Settlement.

On December 12, 2018, a Second Interim Order was issued requesting that any objections or comments regarding the Settlement be filed by December 21, 2018. On December 26, 2018, a Third Interim Order closing the record was issued. The Settlement is now ripe for consideration.

⁷ An ordering paragraph granting the Petition is included in this Recommended Decision. 52 Pa.Code § 1.2.

⁸ In the Settlement, the parties represent that Duquesne Light and PAWC indicated they do not oppose the Settlement. Settlement, p. 1, footnote 1.

III. PUBLIC INPUT TESTIMONY

Four public input hearings were held in Pittsburgh between September 4-6, 2018. 66 Pa.C.S. § 3204(a). Forty-one witnesses testified at these hearings. The reader is directed to the public input hearing transcripts for the substance of these witnesses' testimony. Many expressed concerns about lead in the lines and in the water. Others expressed concern about management, operations, and the requested rate increase. Witnesses also testified in opposition to any future privatization and raised concerns about the sewer system maintenance charge.

IV. DESCRIPTION AND TERMS OF THE SETTLEMENT

The 35-page Settlement includes 5 exhibits. Exhibit 1 is the Water Tariff-Settlement Rates. Exhibit 1(a) is the Redline Water Tariff-Settlement Rates. Exhibit 2 is the Wastewater Tariff-Settlement Rates. Exhibit 2(a) is the Redline Wastewater Tariff-Settlement Rates. Finally, Exhibit 3 is the Proof of Revenue. Exhibit 3 contains a Summary of the Settlement rate increase as well as the FPFTY 2019 cost of service (COS) and rate design for the existing, filed and Settlement Rates.

Also attached to the Settlement are three appendices. Appendix A contains Proposed Findings of Fact. Appendix B contains Proposed Conclusions of Law. Appendix C contains Proposed Ordering Paragraphs.

The Settlement provides for a \$21 million increase in retail user rates, as opposed to PWSA's original, \$27 million request. As set forth in Exhibits 1 and 2 and the proof of revenues attached as Exhibit 3 to the Joint Petition, the Settlement Rates are designed to produce a net increase in user charge operating revenues of \$21 million,⁹ based upon data for a FPFTY ending December 31, 2019, as adjusted.

⁹ The Settlement (a) increases PWSA's total annual user charge revenues for water service by approximately \$16.639 million, or 17.1%; and, (b) increases PWSA's total annual user charge revenues for wastewater conveyance service by approximately \$4.374 million, or 7.2%.

The anticipated impact of the agreed-upon Settlement Rates upon the average customer in various customer classes is shown in part of Exhibit 3. Under the Settlement Rates, a typical residential water and wastewater conveyance customer using 3,000 gallons of water per month will see his or her total monthly bill increase from \$63.62 to \$72.49, an increase of \$8.87 or 13.9%. The breakdown by water and wastewater conveyance bill component for a residential customer is provided in the Introduction section at the beginning of the Recommended Decision.

The Settlement terms are set forth on pages 7-29 of the Settlement. The following terms are included in these pages: Revenue Requirement; Revenue Allocation and Rate Design; Infrastructure/Operations/Lead; Customer Service Issues; Tariff Issues; Low-Income Customer Issues; Contractual Issues; and Long Term Infrastructure Improvement Plan (LTIIP) and Other Compliance Plan Issues. The terms of the Settlement on pages 9-27 are set forth below in verbatim.

III. TERMS AND CONDITIONS OF SETTLEMENT

PWSA's July 2, 2018 base rate increase filing will be approved as filed except as follows:

A. Revenue Requirement

1. Rates will be designed to produce an increase in annual operating revenues of \$21 million rather than the increase of \$27 million in retail user revenue proposed by PWSA in its initial filing. The increase will adjust water and sewer rates in same proportion as per PWSA's initial filing. This amount includes funding for the Bill Discount Program as set forth below in Paragraph III.F.2 of this Settlement.

a. For the purposes of this case only, the Parties agree that the rates and Tariff agreed to in the Settlement Agreement may become effective as early as January 1, 2019; the Parties hereby request that the Commission review and approve the Settlement Agreement and any Recommended Decision approving the Settlement Agreement on a time frame that would enable rates to become effective on or after January 1, 2019 or as soon thereafter as practicable.

2. PWSA will provide quarterly reports to the Parties until the next base rate case is filed. These reports will include quarterly and cumulative year-to-date data, including the following:

a. PWSA will track and categorize monthly expenses and provide this information in the same format as shown in Filing Requirement III.1;

b. Updated Answers to OCA-XIV-10 and to OCA Informal Data Request 9/5/18, Attachment A, regarding Filled Vacancies;

c. Data on lead service line replacements, including number of replacements completed and location of replacements by providing a copy of the report that PWSA submits to PA DEP per the November 17, 2017 Consent Order and Agreement;

d. Actual debt service and new debt in the format of the Future Debt tab in PWSA's Rate Case Model;

e. Quarterly reports will be provided to the parties within 30 days of the end of each quarter; and

f. To the extent that PWSA's actual 2019 actual revenues net of expenses produce a surplus greater than its FPFTY projections as reflected in subsections a through d above, PWSA agrees to use the excess in its discretion, to: i) add to its year end "days cash on hand"; ii) pay down its operating or construction line of credit; and/or iii) repay an item in PWSA's borrowing portfolio. PWSA agrees that it will 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.

B. Revenue Allocation And Rate Design

1. The settlement 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).

2. PWSA agrees to use at least two years of billing data in the next base rate case and agrees to use at least three years of billing data in future base rate cases as a general standard. If PWSA or any other party to future base rate cases deviates from the use of the three years of data, that party must establish that such deviation is warranted.

3. PWSA agrees to allocate costs to wholesale water customers as part of its CCOSS in the next base rate case; however, PWSA does not necessarily agree to make any changes to the rates for wholesale water customers if unable to do so due to the need to honor the terms of existing contracts.

4. PWSA agrees to show the cost of public fire hydrants service separately in the next base rate case. As discussed below in Paragraph III.H.6 of this Settlement, the timing of a proposed public fire hydrant rate will be considered in the Compliance Filing Proceeding.

5. In its next base rate case PWSA agrees to separately identify uncollectible accounts expense by class and allocate those costs in the water and wastewater cost of service studies to the various customer classes.

6. In its next base rate case PWSA agrees to gather detailed customer class consumption data necessary to implement class specific max-day and max-hour adjustment factors.

7. In its next base rate case PWSA agrees to propose the removal of the minimum usage allowances, provided that such removal does not result in an unreasonable increase for affected customers, in which case PWSA will explain the basis for that belief and its alternative proposal in the filing.

8. PWSA agrees to submit a plan to address infiltration cost remediation, to the extent such costs are known and relevant, in the next wastewater base rate case and to provide data to allocate infiltration costs to customer classes in future cost of service studies.

9. To the extent the overall rate increase is reduced, PWSA agrees that there should be a proportionate increase for wholesale customer class customers, to the extent permitted by the existing contracts.⁸

10. The parties agree that no precedent has been established in this base rate case for the allocation and recovery of low income assistance program costs and lead service line replacement costs. Parties reserve the right to make proposals regarding cost allocation for lead service line replacement programming and low income programming in PWSA's next rate proceeding.

C. Infrastructure/Operations/Lead

1. PWSA will receive approximately \$50 million (in grants and a loan) from PennVEST to replace lead service lines in 2019 and into 2020. With these funds, PWSA expects to replace approximately 3,400 public-side lead service lines and 2,800 private-side lead service lines in several neighborhoods, including Morningside, Homewood, Perry, Mt. Washington, Southside, Northside and Greenfield. With respect to PWSA's lead service line replacement and lead remediation program and activities:

a. PWSA agrees to form a Community Lead Response Advisory Committee (CLRAC) consisting of interested parties from this proceeding, representatives from local community groups, and a public health expert to be agreed upon by the parties to advise PWSA. PWSA will provide administrative support for the Committee, but its staff will not occupy CLRAC seats. The initial term of the CLRAC will be two years, subject to being extended at PWSA's discretion. The Committee will hold quarterly meetings with PWSA staff, with the first meeting to be held within 30 days of the signature date of this settlement. All meeting minutes will be publicly available. At the CLRAC quarterly meetings PWSA will provide status updates, including updates on lead service line replacements and lead remediation efforts planned or conducted pursuant

⁸ This reduced level of revenues is reflected in the Proof of Revenues (Exh. 3) under the "Other Revenues" section.

to the directives of the Pennsylvania Department of Environmental Protection, PWSA's agreement with PennVEST, and PWSA's small diameter water main replacement program. PWSA's updates will include at least a description of current lead remediation program costs, plans for neighborhood selection and prioritization for service line removal, and community outreach efforts. The CLRAC will provide consultation and feedback on PWSA's lead service line replacement program and lead remediation efforts in 2019 and 2020. For 2019, these issues include but are not limited to the following:

- i. Within 90 days of the effective date of rates, PWSA will develop and implement a plan, in consultation with CLRAC, to encourage greater participation in PWSA's replacement program and reduce the number of property owners who refuse to have their private-side service line replaced. PWSA will begin to track customers' reasons for rejecting service line replacements including by recording on a quarterly basis: (a) the number of customers who consented, who failed to respond, and who explicitly refused to consent and (b) the reasons provided by non-consenting customers. PWSA will provide this information to CLRAC on a quarterly basis.

- ii. Within 90 days of the effective date of rates, PWSA will make all historical service line records available for public viewing on its website map. In addition, PWSA will make its best efforts to send a letter notifying the resident and property owner of the results of a curb box inspection conducted at the relevant address within 90 days of the completion of the inspection, but no later than 120 days. The existing notification letter that PWSA uses will be shared with CLRAC for feedback no later than CLRAC's first meeting.

iii. Within 90 days of the effective date of rates, PWSA will present to the CLRAC an analysis of its per-line costs for replacing lead service lines to facilitate a discussion of the drivers of those costs. The analysis and discussion will include any cost differences between work conducted by outside contractors versus PWSA work crews, an exploration of why trenchless methods are used more frequently for private-side replacements than public-side replacements, and any cost information within PWSA's possession or that it is able to obtain from other utilities who have implemented service line replacement programs. PWSA will consider suggestions for methods of reducing those costs provided by CLRAC.

iv. Within 90 days of the effective date of rates, PWSA will develop and implement a plan in consultation with CLRAC and the Low Income Assistance Advisory Committee to:

(a) encourage greater participation in its customer requested lead sampling program. PWSA will continue to provide NSF-certified filters free of charge, prior to service line replacement, to households with water sample results that exceed lead levels of 15 ppb. So long as a customer collects and submits a water sample every six months, PWSA will continue to provide replacement cartridges, free of charge, until tap water samples are below 15 ppb lead concentration at the 90th percentile for two consecutive 6-month periods of tap water monitoring conducted pursuant to the Lead and Copper Rule; and

(b) to 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 the public- and/or private-side service lines are made of lead or unknown material based on PWSA's historical records or curb-box inspection results. An outreach program to notify customers of their eligibility for a filter will be developed in partnership with the CLRAC and Low Income Assistance Advisory Committee but will include, at a minimum, one letter or bill insert will be sent by PWSA to eligible households.

v. Within 90 days of the effective date of rates, PWSA will develop and implement a plan, in consultation with CLRAC, for prioritizing lead service line replacements where curb box inspections are completed among the portions of the neighborhoods of Morningside, Homewood, Perry, Mt. Washington, Southside, Northside and Greenfield, based on a set of health-protective factors including blood lead levels, water lead levels, water main age, parcel age, census data on race and income (to the extent data is available) curb box inspection results, and data on homes with pregnant women (to the extent data is available) and young children, with the goal of targeting neighborhoods containing higher concentrations of at-risk households. Any lead service line replacement conducted by PWSA outside of the neighborhoods listed above will be prioritized, in consultation with CLRAC and within the constraints set by PennVEST, based on the same health-protective factors.

vi. Within 90 days of the effective date of rates, PWSA will prepare a study in consultation with CLRAC on the feasibility of including all lead service lines, including private-side-only lead service lines, in PWSA's 2019 lead service line replacement program and 2020 - 2026 small diameter water main replacement program.

b. To minimize the number of partial lead service line replacements, PWSA will maintain through 2019 its current outreach procedures for obtaining customer consent (which include at least one mailing, follow-up telephone calls from the Lead Help Desk, and an in person visit from a Field Liaison), and its current post-partial lead service line replacement sampling and filter-provision measures. PWSA will consult with the CLRAC regarding adoption of additional or modified outreach and post-replacement procedures for 2019. In 2019, PWSA will conduct partial replacements of lead service lines only under the following circumstances:

i. In emergency circumstances (e.g. when repairing service line or water main leaks, when damage to other infrastructure (such as a sewer pipe) requires a service line to be replaced, when PWSA needs to turn off the water and the curb stop is broken (requiring replacement of the line to install a valve));

ii. Where a property owner who also resides at the property signs a formal agreement stating that they do not consent to a free private-side lead service line replacement and that they understand the risks of a partial replacement;

iii. When a water main relay project is being completed and a customer does not consent to a private lead service line replacement or does not respond to PWSA's requests for a response; or,

iv. When a water main is being abandoned, the customer's water service must be moved to another water main, and the customer does not consent to a private lead service line replacement or does not respond to PWSA's requests for a response.

c. PWSA will consult with the 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 who does not reside at the property declines a free private-side lead service line replacement. If PWSA cannot resolve this issue with the City by the time PWSA begins conducting lead service line replacements in 2019, for the 2019 program, PWSA will 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 replacement.

d. For the 2019 lead service line replacement program:

i. PWSA will consult with the CLRAC regarding whether to ask the City of Pittsburgh to establish a process through which partial lead service line replacements conducted by PWSA are documented in the property record for the relevant address. If such a process is established, property owners will be notified by PWSA that their refusal will become part of the property record when their consent is sought for a no-cost private-side replacement.

ii. PWSA will record and make publicly available on its website mapping the locations of all service line replacements conducted by PWSA to date and planned for the work orders. PWSA's webmap will be updated at least on a monthly basis.

iii. PWSA will continue replacing private-side lead service lines (assuming customer consent is provided) at no cost to customers when replacing public-side lead service lines.

iv. PWSA will continue to make a good-faith effort to secure an agreement with PennVEST enabling it to obtain customer consent for private-side lead service line replacements at any point before PWSA completes lead service line replacements for the work order covering the customer's property. If PWSA secures this agreement from PennVEST, it agrees to apply its current outreach procedures for obtaining customer consent as well as any additional or modified outreach procedures developed in consultation with the CLRAC.

v. PWSA will continue to provide residents who have 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.

2. PWSA agrees to submit a Section 500 form as part of its Annual Report to the Commission.

D. Customer Service Issues

1. Any agreements regarding the policies and procedures referenced in this Settlement are without waiver of PWSA's view that its current policies are already compliant with all applicable regulatory and legal requirements or of the right of parties to challenge PWSA's policies, practices, and procedures in the Compliance Plan proceeding or other future proceedings.

2. PWSA agrees to continue its practice of tracking informal complaint information. PWSA will conduct a regular review of this information to determine complaint trends and whether there is a need to implement additional or new internal training policies, as described in OCA St. 3, pp. 9-10. PWSA will work with the parties

to determine an appropriate informal complaint tracking information review process. PWSA also agrees to track whether customer complaints are related to water, sewer, or stormwater.

3. PWSA is in the process of modifying its bills to provide more detailed information on rates and approved tariff charges. PWSA will provide interested parties and the Commission's Bureau of Consumer Services with a draft of the changes for feedback and recommendations. Parties are free to offer suggestions for improvements to the draft language. If requested by any party after review of the draft bill changes, PWSA will host a collaborative meeting with the parties to discuss its bill modification plans prior to rolling out its modified bills. Sufficient time will be allotted to allow PWSA to consider and assess recommendations and implement agreed-to changes. PWSA's revised bills will contain at least the following elements:

- a. Eliminate the requirement that a customer must dispute charges in writing.
- b. Identify, explain, and itemize the actual rates charged for each component of the bill.
- c. Identify and itemize the monthly installment amount for any existing payment arrangements.
- d. Include the installment amount for any existing payment arrangements in the total due / asked to pay amount.
- e. Direct customers to PWSA's webpage which specifically sets forth fees associated with various bill payment options.

4. PWSA will continue its practice of issuing written confirmation of payment arrangement terms. PWSA will add this practice to its customer service training materials.

5. PWSA will 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. This will be accomplished by moving the language on the availability of the

payment plans from the “Medical Emergency Notice” section into the general section of the notices.

6. PWSA will inform customers of the payment arrangement terms based on the consumer’s ability to pay upon contact with the customer. PWSA will offer payment arrangements as permitted by Chapter 14. PWSA acknowledges that Chapter 14 does not apply to victims of domestic violence with a Protection From Abuse Order (PFA) or other court order containing clear evidence of domestic violence and will offer these customers payment arrangement terms based on their individual circumstances, regardless of any existing or future internal policy about payment agreement length. Payment arrangements for victims of domestic violence with a PFA or other court order containing clear evidence of domestic violence may exceed the standard term lengths based on the consumers’ individual facts and circumstances.

7. PWSA will reform its internal medical certificate policies to provide the following:

a. All PWSA employees will continue to be trained to temporarily stop termination of service if they are informed that a member of the household is seriously ill or requires service to treat a medical condition, and that the household is seeking to obtain a medical certificate.

b. PWSA will not terminate service for non-payment when presented with an approved initial medical certificate as defined by 66 Pa. C.S. § 1403.

c. Additional medical certificates will be accepted to prevent termination of service so long as a customer pays their current bills for service, not including any underlying arrearages. PWSA will not limit the number of times a customer can renew a medical certificate if the customer keeps up with their current bills while protected by a medical certificate, but will actively work with the customer to establish an equitable payment arrangement to otherwise address the underlying arrears and resolve the termination.

d. If a customer with a medical certificate fails to pay their current bills while protected by a medical certificate, only two additional renewals will be accepted to stop termination.

e. Once an outstanding balance is paid, PWSA will accept a new medical certificate to prevent a subsequent termination of service based on a new balance, subject to the same renewal requirements outlined in subparts (b) through (c).

f. PWSA will inform consumers of the payment obligations for medical certificate renewals at the time a medical certificate is submitted.

8. PWSA will reform its internal policies governing complaint procedures to clarify that its dispute process is available to current customers, applicants for service, and tenants and/or occupants not listed on the current bill. When providing information to consumers about the Commission's complaint process, PWSA will train its customer service representatives to not evaluate or express a subjective view about the efficacy of an individual's Inquiry/Dispute/Informal/Formal Complaint or an opinion about whether or not he or she may have an actionable claim against PWSA.

9. When a tenant exercises their right to continued service pursuant to DSLPA, PWSA will accept as proof of identification any document issued by a public agency or public utility which contains the name and address of the tenant.

10. PWSA will create a new form for owners desiring to voluntarily discontinue service to a residential property occupied by a tenant. The new form will comply with the requirements of DSLPA, including the requirement that the property owner submit a notarized document swearing under penalty of perjury that the unit is unoccupied, consistent with the requirements of DSLPA.

11. PWSA commits to making the changes identified in Paragraphs III.D.1 through III.D.10 above consistent with the timeframes established by the final order in this proceeding and to provide a copy of the changes to the

Low Income Advisory Committee to be established pursuant to Paragraph III.F.3 of this Settlement.

E. Tariff Issues

1. PWSA will revise its wastewater tariff to make it clear that dual water/wastewater customer will not be assessed the same fee twice.

2. PWSA will revise Part III, Section C, subpart (3)(j)(v) of its water and wastewater tariff to clarify that provision of 72-hour notice of termination by electronic mail will only occur if the customer's express written consent to accept service in this matter has been received by PWSA. If electronic notice of termination is returned as undeliverable, PWSA will provide alternative 72-hour notice consistent with subpart (3)(J)(v) of its approved water and/or wastewater tariff. PWSA agrees to revise this provision of its water and wastewater tariffs, and will make further revisions if necessary to be consistent with any requirements established by the Commission in its Chapter 56 rulemaking.

3. PWSA will revise its tariff regarding medical certificates to clarify that it will accept medical certificates from physician assistants.

4. PWSA will relocate the collections expenses and fees described in Part I, Section G from its proposed water and wastewater tariffs and list them in PWSA's Supplemental Service Conditions.

5. On the basis of PWSA coming under the jurisdiction of the Pennsylvania Public Utility Code and the Commission's regulations PWSA agrees to suspend the use of Jordan Tax Service upon the effective date of the Commission's final order approving this settlement.

6. PWSA will not require a tenant who applies for service to assume liability for debt previously accrued at the property for which the tenant was not residing and/or for which the tenant was not on the mortgage, deed, or lease as a condition to establishing service.

7. PWSA will revise its training materials and, to the extent necessary, its water and wastewater tariff to be clear that it does not require low income customers who

are eligible for PWSA's Bill Discount Program to submit a security deposit.

F. Low-Income Customer Issues

1. PWSA will immediately begin additional data collection, including:

- a. The amount of billed revenue;
- b. The amount of receipts actually collected;
- c. The number of accounts in arrears;
- d. The dollars of arrears;
- e. The number of accounts disconnected for nonpayment;
- f. The number of accounts receiving a notice of disconnection for nonpayment;
- g. The number of bill discount participants who entered the bill discount program with unpaid account balances;
- h. The dollars of unpaid account balances for bill discount program participants at the time those participants entered the bill discount program;
- i. The number of bill discount participants by agreed-upon poverty ranges;
- j. Average usage (along with average bills, including ALCOSAN charges in wastewater bills);
- k. The number of PWSA customers receiving a PWSA hardship grant and the average amount of the grant; and
- l. The average arrearage of PWSA customers receiving a PWSA hardship grant.

Further, PWSA agrees to consult with the Dollar Energy Fund regarding the availability of data on the income of BDP participants.

2. PWSA agrees to fund the BDP to reflect the approved rates in this proceeding. The increase in operating revenues reflects an additional amount of funding allocated to fund customer assistance programs.

3. PWSA agrees to form a Low Income Assistance Advisory Committee (“Advisory Committee”), consisting of interested parties from this proceeding, the PUC Bureau of Consumer Services, Dollar Energy Fund, and local community and social service groups, subject to the understanding that each interested party may have no more than two representatives participating on the Advisory Committee. The initial term of the Advisory Committee will be two years, subject to being extended at PWSA’s discretion. The Advisory Committee will hold quarterly meetings, with the first meeting to be held within 90 days of the effective date of rates in this proceeding, to review program metrics and provide input and feedback on program terms and conditions and outreach documents. PWSA will have full discretion as to whether to accept feedback from the Advisory Committee, and, as required, submit proposals to the Commission for approval. Issues that will be addressed by the Advisory Committee include, but are not limited to:

- a. improving outreach and messaging for programs;
- b. launching a social media campaign;
- c. assessing the feasibility and associated costs and benefits to transition the bill assistance program to a percentage of income program or a tiered discount program based on income levels; with a comprehensive arrearage forgiveness component to address arrears at the time of enrollment;
- d. assessing applicable data;
- e. developing efforts to fund the Hardship Cash Assistance Program on an ongoing basis;

f. exploring issues related to the structure of the Hardship Cash Assistance Program, including the income threshold, payment requirement, exceptions to the payment requirement, social security number requirement and inclusion of child support as income; and

g. reviewing changes to PWSA customer service policies and procedures identified in Paragraphs III.D.1 through III.D.10 of this Settlement.

h. funding bill assistance program with separate bill assistance budgets estimated for water and wastewater populations.

4. PWSA will revise its Bill Discount Program rate to provide for a 75% discount on the minimum water and/or wastewater charge for customers with income at or below 150% of the federal poverty level.

a. As part of PWSA's next base rate proceeding, PWSA will submit a detailed Plan which outlines the program parameters for each of its Low Income assistance programs. The Plan will include the following:

i. The eligibility parameters, benefits, budget, and needs assessment for each existing and/or proposed program, including but not limited to the Bill Discount Program (consistent with subsections v-vii below), the Winter Moratorium, the Hardship Fund Program, and the line repair and conservation program (consistent with subsection (iv) below);

ii. Planned outreach activities;

iii. A proposal for how to address all consensus issues adopted by the Low Income Assistance Advisory Committee;

iv. A newly proposed line repair and conservation program, which targets PWSA's highest users and is coordinated with PWSA's other assistance programs

and similar usage reduction programs operated by other public utilities operating within PWSA's service territory;

v. Details of the average bill for customers with household income at or below 50% FPL; between 51-100% FPL; and between 101-150% FPL, separated into water and wastewater average bills, to the extent that such data is made available to PWSA by the Dollar Energy Fund.

vi. A proposal as to whether to make revisions to the Bill Discount Program which are aligned with the newly designed rate structures, separated into water and wastewater programs, and further providing for enhanced Bill Discount Program benefits for customers at or below 50% of the federal poverty level.

5. Through Dollar Energy Fund ("DEF") and the Community-Based Organizations ("CBOs"), PWSA will continue to request that applicants for its Hardship Cash Assistance programs produce proof of the ratepayer's Social Security Number ("SSN") as a condition of application to the program. However, if the applicant is unable or unwilling to produce such proof, DEF and the CBOs will follow their current practice of checking the "no SSN" box and processing the application without requiring an SSN. Further revisions to PWSA's SSN policy will be addressed consistent with Paragraph III.F.3.f of this Settlement.

6. Relating to program outreach efforts, PWSA agrees to continue its current outreach efforts, including but not limited to: (i) screening for eligibility during all credit-related calls; (ii) utilizing a referral or warm transfer process to Dollar Energy Fund; (iii) coordinating with other utilities that participate in the Western Pennsylvania Utility Group; and (iv) supporting Dollar Energy Fund's efforts to actively recruit customers with existing debt to enroll in the bill assistance program or apply for a grant. PWSA will continue these outreach activities unless it determines to modify or terminate them, subject to Commission approval, as required.

G. Contractual Issues

1. PWSA agrees that the following issues will be investigated in the Compliance Filing Proceeding; and further agrees as follows:

a. PWSA Services Contract with the City of Pittsburgh

i. As part of the agreement to investigate this issue in the Compliance Filing Proceeding, PWSA agrees to the following conditions:

(a) PWSA agrees to provide all parties with quarterly updates on the status of any negotiation with the City of Pittsburgh to renegotiate the Cooperation Agreement between them.

(b) PWSA agrees to continue to renegotiate the Cooperation Agreement with the City of Pittsburgh in good faith.

(c) PWSA agrees to formally notify the City of Pittsburgh of the record and outcome of this case, that the Cooperation Agreement is being reviewed by the PUC in the Compliance Filing proceeding, and that PWSA's LTIIP Filing is pending with the Commission. In order to comply with this term, PWSA agrees that it will do the following:

(1) serve the City with a copy of the full record of this proceeding (barring any confidential materials) as of the date of the close of the record and file a certificate of service with the Commission verifying that such service was made

by no later than
December 1, 2018;

(2) serve the City with a copy of the Recommended Decisions and Final Commission Orders issued in this matter within 10 days of their issuance and file a certificate of service with the Commission verifying that such service was made;

(3) serve the City with a copy of its Compliance Filing and its LTIP filing by no later than January 4, 2019 and file a certificate of service with the Commission verifying that such service was made;

(4) to the extent that PWSA revises, supplements, or re-files its Compliance Filing and/or LTIP Filing, it agrees to serve the City with a copy of such filings at the same time that other parties are served and to include the City on the certificate of service that PWSA must file with the Commission.

(d) If the City of Pittsburgh and PWSA reach an agreement for an Amended Cooperation Agreement, all parties to this proceeding will be notified of the Agreement within 15 calendar days of its execution and provided with a copy of the renegotiated Cooperation Agreement;

(e) PWSA understands that in its next base rate case, I&E may recommend the disallowance of any payments to the City of Pittsburgh claimed pursuant to the Cooperation Agreement or any renegotiated Cooperation Agreement for services unless those services are supported by invoices that have complete documentation to show valid details of the charges incurred including date of service, identification of the service provided, and itemization of the costs.; and

(f) PWSA understands that in PWSA's next base rate case, I&E reserves the right to impute revenues to PWSA for the provision of any free service to the City, including but not limited to free water, free wastewater, and unbilled public fire hydrant charges. This acknowledgement does not waive any Party's right to oppose any such adjustment from a legal, regulatory or public interest standpoint.

(g) PWSA agrees that discussion in the Compliance Filing will include a breakdown of estimated services received from the City of Pittsburgh and the associated costs, including the reasonableness of each cost. PWSA will also provide this information any claims in the next rate case.

b. Billing Arrangement with ALCOSAN

i. As part of the agreement to investigate this issue in the Compliance

Filing Proceeding, PWSA agrees to the following conditions:

(a) PWSA will amend its Compliance Plan to reflect its commitment to evaluate the potential ways to address PWSA's contract with ALCOSAN, including renegotiation of the contract. PWSA also agrees to evaluate in the Compliance Plan the allocation of flows to ALCOSAN (and other municipalities) and whether it is feasible to measure stormwater separately from wastewater. In the Compliance Plan, PWSA will also propose a plan/method for developing separate cost of service studies for wastewater and stormwater for the development of stormwater rates.

ii. If the ALCOSAN and PWSA reach an agreement for a new contract, all parties to this proceeding will be notified of the agreement and provided with a copy of the renegotiated agreement within 15 calendar days of its execution.

c. City of Pittsburgh Discount for Pennsylvania-American Water Company ("PAWC") water customers as originated under the terms of the 1973 Agreement between the City of Pittsburgh ("City") and Western Pennsylvania Water Company (predecessor to PAWC)

i. As part of the agreement to investigate this issue in the Compliance Filing Proceeding, the parties agree to the following conditions:

(a) In PWSA's next base case, I&E will recommend the termination of the City of Pittsburgh discount for PAWC water customers. In the event that

PAWC files a base rate case before PWSA, I&E may elect to address and oppose the City of Pittsburgh Discount for PAWC water customers in PAWC's rate case. This acknowledgement does not waive any Party's right to oppose any such adjustment or to challenge it from a legal, regulatory or public interest standpoint.

ii. I&E reserves the right to address the City of Pittsburgh Discount in any complaint proceeding that it may elect to initiate against PWSA, PAWC, or any other entity it deems necessary in order to ensure compliance with the Public Utility Code.

d. PWSA's collection arrangement with Jordan Tax Service to ensure that all collection activities conform with the Public Utility Code and the Commission's regulations applicable to residential customers.

H. Long Term Infrastructure Improvement Plan (LTIIP) and Other Compliance Plan Issues⁹

Consolidation of Compliance Plan and LTIIP

1. Within 30 days of the signature date of this Settlement, PWSA agrees to file a Petition with the Commission to consolidate its Compliance Plan and LTIIP.

2. PWSA agrees that it has the burden of proof in the Compliance Plan proceeding to show that every element of its Compliance Plan, and the policies and procedures described, referenced, or referred to therein, is just and

⁹ By agreeing that these issues will be investigated in the Compliance Plan no party is waiving the right to raise additional issues therein. The lists in this Settlement supplement the list of issues that PWSA has already included in its Compliance Plan filed September 28, 2018. The lists in this Settlement do not withdraw any of the issues presently identified in the Compliance Plan, nor do they supersede the right of any party to raise any relevant issue in the Compliance Plan proceeding.

reasonable, is consistent with all applicable laws, regulations, and policies, and is in the public interest.

3. PWSA will not object in the Compliance Plan and/or LTIIIP proceeding to the admission of any testimony, documents, or answers to interrogatories exchanged throughout the course of this proceeding.

4. PWSA will revise its Compliance Plan and LTIIIP within 30 days of the Commission's entry of a final order in this proceeding or submission of direct testimony in the Compliance Plan / LTIIIP proceeding, whichever is sooner, in compliance with the terms of this settlement. PWSA agrees to provide supplemental information about its internal policies, procedures, and processes, including at a minimum:

a. A description of PWSA's requirements for residential service;

b. PWSA's collections policies;

c. Service termination procedures for each type of customer class;

d. Policies and practices with respect to Protection From Abuse Orders or other court orders;

e. Call center metrics;

f. Data points regarding Low Income Assistance Programs, and a description of the policies and practices governing application, enrollment, eligibility, and benefits for each program;

g. Line extension fee structure;

h. Future plans regarding the Highland No. 1 Reservoir and the Highland Membrane Filtration Plant ("HMFP");

i. PWSA further agrees that, apart from investigation in the Compliance Plan/LTIIIP proceeding, and until the filing of its next base rate case, PWSA will provide a detailed cost breakdown, including:

(a) Actual and projected operating and capital costs to date incurred and estimated to be incurred as a result of the October 25, 2017 Department of Environmental Protection Administrative Order with regard to the HMFP; and

(b) Actual and projected operating and capital costs on a calendar year basis incurred and estimated to be incurred to operate the HMFP.

(c) The cost breakdowns detailed at Paragraphs III(a) & III(b) above will be provided to all Parties 1) starting within 30 days of the signature date of this Settlement, and on a quarter annual basis thereafter; and 2) upon completion of repairs of the HMFP.

(d) PWSA further agrees it will provide with its next base rate filing a cost/benefit analysis comparing continuing to operate the HMFP instead of covering and placing a physical barrier around Highland No. 1 Reservoir. Such an analysis shall include a detailed cost comparison of operating and capital costs, an evaluation of operating, costs and other consequences if the HMFP is no longer operated, as well as any other relevant legal, technical and policy analyses. PWSA's agreement to provide this information shall not be construed as PWSA's endorsement of a cost comparison analysis. All Parties agree a cost/benefit analysis will evaluate all relevant legal,

technical and policy considerations, as well as a cost comparison.

j. Public fire hydrant service.

k. Reduction of uncollectibles.

Issues to be investigated in Compliance Plan (not addressed above)

5. PWSA agrees that, in the Compliance Filing Proceeding, it will consider the proposal to assess the City of Pittsburgh a separate rate for public fire hydrant service and the timeframe for doing so including, but not limited to, in its next base rate case.

6. In the Compliance Plan Proceeding, PWSA agrees to consider the proposal for a flat rate for both water and wastewater for all unmetered and unbilled municipal and government properties or buildings served by PWSA, for inclusion in the next base rate case.

7. PWSA agrees that the following infrastructure/operations/lead issues will be investigated in the Compliance Plan or LTIP proceedings.

a. Measuring and remediating PWSA unaccounted for/non-revenue water.

b. Records for estimated flows used for blow-offs, street sweeping, flushing, firefighting, and main breaks, etc.

c. Conducting leak surveys.

d. Compliance with 52 Pa. Code Chapter 65 including:

i. Addressing high pressure.

ii. Exercising all isolation valves.

iii. Schedule for flushing the system.

- e. Metering
 - i. Plan to deal with “Party Line” service.
 - ii. Metering and billing of all City water/wastewater locations including, but not limited to: (i) public fire hydrants; (ii) wastewater; and (iii) water.
 - iii. Plan to track age of customer meters and to test and/or replace meters over 20 years old.
- f. Development of operating metrics for infrastructure improvement projects
- g. Cost Effectiveness of dollars spent for infrastructure improvement.
 - i. The plan developed to track cost effectiveness will also include a plan for cost reporting relative to projections so that parties and the Commission can evaluate the accuracy of those projections in future filings.
- h. Risk Assessment Model for identifying priority of water and sewer projects.
 - i. A plan to adopt and track the 20 operating metrics identified in I&E St. No. 4, p. 5:
 - i. pipeline materials;
 - ii. pipeline age;
 - iii. leak history per mile;
 - iv. pipeline pressures;
 - v. installation year;
 - vi. pipeline diameter;
 - vii. pipeline mileage (distribution and services);
 - viii. addition/retirements of plant;

- ix. materials and supplies;
- x. leak repair;
- xi. pipeline damages from excavation;
- xii. plant in service;
- xiii. corrosion protection programs;
- xiv. lead levels;
- xv. miles of lead pipelines;
- xvi. cost of lead pipeline replacement (PWSA work crews and contractors);
- xvii. sanitary flow reduction;
- xviii. miles of combined sewer separation;
- xix. lost and unaccounted for water;
and
- xx. any other pipeline metrics that would benefit the operator and the regulator in evaluating the operational viability and safety of the water and sewer systems.

j. 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 as discussed in PWSA St. 4, pp. 14-15, and as it relates to any other identified areas of conflict.

k. For lead service line replacement that take place after 2019, an evaluation of the issues described in Paragraphs III.C.a through III.C.1.d of this Settlement.

8. PWSA agrees that the following customer service issues will be further investigated in the Compliance Filing Proceeding, and agrees to provide an explanation of PWSA's current policies and practices related thereto

in its Direct Testimony filed in the Compliance Plan Proceeding:

- a. Development of Call Center metrics.
 - b. Plan for improving Call Center performance.
 - c. PWSA compliance with the Discontinuance of Service to Leased Premises Act (DSLPA), 66 Pa. C.S. § 1521, et seq. and, to the extent to which the Utility Service Tenants Rights Act (USTRA), 68 P.S. § 399.1 et seq. remains applicable to PWSA.
 - d. PWSA's policies and procedures regarding consumers with a Protection from Abuse Order or other court order with clear evidence of domestic violence, pursuant to 66 Pa. C.S. § 1417.
 - e. PWSA's policies and procedures regarding initiation of new service or transferring service to new customers, and any associated payment obligations.
 - f. PWSA will provide data regarding payment processing fees assessed by its existing third party payment processor and will add the requirement to provide this data to PWSA in future RFPs for this service.
 - g. PWSA's policies and procedures regarding personal contact with an adult occupant at a residential property immediately prior to termination, pursuant to 52 Pa. Code § 56.94 -95 and 56.112.
9. PWSA agrees that PWSA's present line extension fee structure will be investigated in the Compliance Filing Proceeding.
10. Consistent with Paragraph III.G.1.d of this Settlement, the Compliance Plan proceeding will investigate whether PWSA's third party collection activities conform with the Public Utility Code and the Commission's regulations applicable to residential customers. PWSA also agrees to address the cost

effective manner of collecting overdue payments as part of the Compliance Plan.

11. PWSA agrees that the contractual issues in Paragraph III.G.1 will be investigated in the Compliance Filing Proceeding.

12. PWSA agrees that the following low-income customer issues shall be investigated in the Compliance Filing Proceeding:

a. Revisions to PWSA's existing universal service programs, including its Bill Discount Program ("BDP") and Hardship Cash Assistance Program.

13. PWSA also agrees to consider future data collection and reporting requirements per OCA St. 4 at p. 23-24, during the Compliance Plan Proceeding.

14. By agreeing that any issue in Paragraphs III.H.4 through III.H.13 above will be investigated in the Compliance Plan, no party is waiving the right to raise additional issues therein or withdrawing any of the issues presently identified in the Compliance Plan; nor does it supersede the right of any party to raise any relevant issue in the Compliance Plan proceeding. The parties to this Settlement reserve the right to contest PWSA's proposals, information or plans in the context of the Compliance Plan proceeding.

The Joint Petitioners agreed to additional terms and conditions typical of such a settlement in a base rate proceeding. These additional terms and conditions are found on pages 30-33 of the Settlement.

V. DISCUSSION - PUBLIC INTEREST

The Joint Petitioners agree that the Settlement is in the public interest and a discussion of the public interest is included in the Settlement. According to the Joint Petitioners, the Settlement was achieved by the Joint Petitioners after an extensive investigation of PWSA's filing, including extensive informal and formal discovery and the filing of direct, rebuttal, and

surrebuttal testimony by a number of the Joint Petitioners. The Joint Petitioners opine that the Settlement Rates, as shown on Exhibits 1, 2 and 3 attached to the Settlement, will allocate the agreed upon revenue increase to each customer class in a manner that is reasonable given the rate structure and cost of service positions advanced in the testimony and exhibits of the various parties. Settlement, pp. 29-30.

The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

- (a) **The Settlement Provides A Reasonable Resolution.** The Settlement represents a balanced compromise of all of the active parties in this proceeding and is a reasonable resolution of PWSA's claims for increased rates while balancing the interests of ratepayers and the public. The Settlement provides for a general rate increase of \$21 million in user charge revenues, in lieu of the \$27 million in additional user charge revenues originally requested by PWSA. The Settlement Rates will establish customer rates and allocate the agreed upon revenue requirement to each customer class in a manner that is reasonable in light of the rate structure and/or cost of service positions of all Joint Petitioners.
- (b) **Substantial Litigation And Associated Costs Will Be Avoided.** The Settlement amicably and expeditiously resolves a number of issues, while expressly reserving a number of issues for further investigation as part of PWSA's currently pending Compliance Plan and LTIP proceedings. The administrative burden and costs to litigate these matters to conclusion would be significant. Given the unique procedural posture of this proceeding, relative to the pending Compliance Plan and LTIP proceedings, and the significant number of complex issues in light of PWSA's transition to Commission jurisdiction, the parties submit that this approach is Commission-made, just and reasonable, and in the public interest.
- (c) **The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements.** The Joint Petitioners arrived at the Settlement, including the Settlement Rates, after conducting extensive discovery and having in-depth discussions. The Settlement constitutes reasonably negotiated compromises on the issues addressed. Thus, the Settlement is consistent with the Commission's rules and practices encouraging settlements, 52 Pa.Code §§ 5.231, 69.391, 69.401-69.406, and is supported by a substantial record.

Settlement, p. 30.

A. Legal Standard

Section 1301 of the Public Utility Code, 66 Pa.C.S. § 1301, provides: “every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission.” In deciding any general rate increase case brought under Section 1308(d) of the Code, 66 Pa.C.S. § 101 *et seq.*, certain general legal standards always apply.

The burden of proof to establish the justness and reasonableness of every element of the utility’s rate increase rests solely upon the public utility. 66 Pa.C.S. § 315(a). “It is well-established that the evidence adduced by a utility to meet this burden must be substantial.” *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, 409 A.2d 505, 507 (Pa.Cmwlth. 1980).

A public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned absent prior notice that such action is to be challenged. *Allegheny Center Assocs. v. Pa. Pub. Util. Comm’n*, 131 Pa.Cmwlth. 352, 359, 570 A.2d 149, 153 (1990) (citation omitted). *See also, Pa. Pub. Util. Comm’n v. Equitable Gas Co.*, 73 Pa. PUC 310, 359-360 (1990).

The Commission is not required to consider expressly and at length each contention and authority brought forth by each party to the proceeding. *University of Pennsylvania v. Pa. Pub. Util. Comm’n*, 86 Pa.Cmwlth. 410, 485 A.2d 1217 (1984). “A voluminous record does not create, by its bulk alone, a multitude of real issues demanding individual attention” *Application of Midwestern Fidelity Corp.*, 26 Pa.Cmwlth. 211, 230 fn.6, 363 A.2d 892, 902, fn.6 (1976). Further, a Commission decision is adequate where, on each of the issues raised, the Commission was merely presented with a choice of actions, each fully developed in the record, and its choice on each issue amounted to an implicit acceptance of one party's thesis and rejection of the other party's contention. *Popowsky v. Pa. Pub. Util. Comm’n*, 550 Pa. 449, 706 A.2d 1197 (1997), 1997 Pa. LEXIS 2756.

The Commission encourages parties in contested on-the-record proceedings to settle cases. *See*, 52 Pa.Code § 5.231. Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission’s decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a “settlement” reflects a compromise of the parties’ positions, which arguably fosters and promotes the public interest. When parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest. *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

B. Revenue Requirement

In their supporting statements, PWSA, I&E, OCA, OSBA and Pittsburgh UNITED conclude, after extensive discovery, the filing of testimony, and discussion, that this Settlement resolves all contested issues in this case and agree that the Settlement is in the public interest. This Recommended Decision will now follow the outline agreed upon by the Joint Petitioners for drafting their respective statements in support, beginning with the topic, Revenue Requirement, and why this Settlement term, Revenue Requirement, is in the public interest.

1. PWSA’s Position re: Revenue Requirement

In its rate filing, PWSA requested that it be permitted to increase its retail revenues by \$27 million, based upon the FPFTY of January 1, 2019 – December 31, 2019.¹⁰ 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

¹⁰ PWSA St. 1 at 23-24; PWSA St. 2 at 5, 12-17.

Code.¹¹ 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.¹² The Commission has directed that PWSA's revenue requirement will be determined using the "Cash Flow" method, the traditional method of determining just and reasonable rates for municipal utilities such as PWSA.¹³ This is appropriate because PWSA has no shareholders and does not pay a dividend or a rate of return to its owner.¹⁴ 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. According to PWSA, PWSA's calculation of its revenue requirement using the "Cash Flow" method is consistent with the Commission'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.¹⁵ PWSA St. in Support, pp. 6-7.

In response to PWSA's testimony in support of its proposal for the requested \$27 million in Retail User Charges¹⁶ (\$27.4 million in total revenues), 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:

¹¹ See, 66 Pa.C.S. §§ 102, 3201, 3202(a).

¹² *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.

¹³ FIO at 27-28.

¹⁴ PWSA St. 2 at 4. See also PWSA St. 2R at 12.

¹⁵ See, 52 Pa.Code § 69.2702, 2703.

¹⁶ PWSA's total increase included wholesale "bulk water" charges and miscellaneous revenues. PWSA St. 3 at 5.

	Recommended Rate Increase	Resulting Senior Debt Service	Resulting Total Debt Service Costs
I&E	\$19.6M ¹⁷	1.31x ¹⁸	1.09x ¹⁹
OCA	\$10.3M ²⁰	1.13x ²¹	0.95x ²²

PWSA St. in Support, p. 11.

The Settlement reduces the authorized rate increase to \$21 million rather than PWSA's proposed \$27 million increase in Retail User Revenues. The Settlement provides that the rate increase will 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). The Settlement further 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.²³ It also 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, agree 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

¹⁷ 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

¹⁸ PWSA St. 3R at 7.

¹⁹ PWSA St. 3R at 7.

²⁰ 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.

²¹ PWSA St. 3R at 10.

²² PWSA St. 3R at 10.

²³ Settlement, Section III.A.2.

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. And lastly, the Settlement provides that the settlement rate increase may go into effect on or after January 1, 2019 once the Commission has approved the Joint Petition. PWSA St. in Support, pp. 12-13.

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); it will permit the parties to monitor PWSA's actual 2019 results in order to evaluate 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; it assures that if PWSA's actual 2019 expenses turn out to be lower than FPFTY projections, then 100% of any excess will be used for the future benefit of ratepayers; and it permits PWSA to maintain financial metrics that meet its bond covenant obligations and will be viewed as reasonable by bond rating agencies. PWSA St. in Support, p. 13.

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. According to PWSA, these metrics will permit PWSA to fund its operations, provide for contingencies 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).

According to PWSA, 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.²⁴

PWSA's financial analyst witness Katherine L. Clupper testified that it was important for PWSA to maintain debt service coverages of approximately 1.35x²⁵ and to maintain or improve days' cash on hand.²⁶ Accordingly, PWSA concludes 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.

2. I&E's Position re: Revenue Requirement

Pursuant to the Joint Petition, the Settlement Rates are designed to produce additional annual operating revenue of only \$21 million.²⁷ The Settlement increase is comprised of an increase in annual revenue for water service by approximately \$16.639 million, or 17.1%; and an increase to PWSA's total annual revenues for wastewater conveyance service by approximately \$4.374 million, or 7.2%.²⁸ In its Statement in Support, I&E provides a summary that compares both the water and wastewater customer billing impacts at the revenue increase requested by PWSA, and the agreed upon increase contained in the Settlement.²⁹ I&E St. in Support, p. 13.

²⁴ All of PWSA's financial calculations assumed a full year of rate increase in 2019. Therefore, PWSA asserts that 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.

²⁵ PWSA St. 3 at 12.

²⁶ PWSA St. 3 at 11.

²⁷ Joint Petition, Exhibit C (Summary of Proof of Revenues).

²⁸ Joint Petition, p. 1, fn. 2.

²⁹ Joint Petition, Exhibit C, (Summary of Proof of Revenues), Impacts.

			User Charges			% Increase		\$ Increase	
			Existing	Filed	Settlement	Filed	Settlement	Filed	Settlement
Customer Impacts	Meter Size	Use (kgal)							
<i>Residential</i>									
Water	5/8"	3 kgal	\$ 42.07	\$ 49.83	\$ 49.35	18.4%	17.3%	\$ 7.76	\$ 7.28
Wastewater Conveyance	5/8"	3 kgal	21.55	24.40	23.14	13.2%	7.4%	2.85	1.59
<i>Total Monthly Bill</i>			\$ 63.62	\$ 74.23	\$ 72.49	16.7%	13.9%	\$ 10.61	\$ 8.87
<i>Commercial</i>									
Water	1"	13 kgal	\$ 148.02	\$ 187.09	\$ 173.66	26.4%	17.3%	\$ 39.07	\$ 25.64
Wastewater Conveyance	1"	13 kgal	85.98	96.03	92.30	11.7%	7.4%	10.05	6.32
<i>Total Monthly Bill</i>			\$ 234.00	\$ 283.12	\$ 265.96	21.0%	13.7%	\$ 49.12	\$ 31.96
<i>Industrial</i>									
Water	4"	680 kgal	\$5,505.62	\$ 7,266.88	\$ 6,458.38	32.0%	17.3%	\$1,761.26	\$ 952.76
Wastewater Conveyance	4"	680 kgal	3,903.90	4,797.91	4,191.11	22.9%	7.4%	894.01	287.21
<i>Total Monthly Bill</i>			\$9,409.52	\$12,064.79	\$10,649.49	28.2%	13.2%	\$2,655.27	\$1,239.97
<i>Health or Education</i>									
Water	2"	50 kgal	\$ 649.46	\$ 762.62	\$ 761.70	17.4%	17.3%	\$ 113.16	\$ 112.24
Wastewater Conveyance	2"	50 kgal	381.84	369.11	410.16	-3.3%	7.4%	(12.73)	28.32
<i>Total Monthly Bill</i>			\$1,031.30	\$ 1,131.73	\$ 1,171.86	9.7%	13.6%	\$ 100.43	\$ 140.56

I&E St. in Support, p. 14.

In arriving at the Settlement Rates, I&E, along with the other Joint Petitioners, analyzed the ratemaking claims contained in PWSA's base rate filings including its operating and maintenance expenses, debt service coverage ratio, and rate structure. The Settlement represents a \$6 million savings for PWSA's customers compared to proposed rates and it provides for additional and necessary programming and infrastructure replacement and improvement beyond that which was contemplated in PWSA's rate filing. I&E fully supports the revenue levels compromised upon in the Settlement. Additionally, because this is PWSA's first base rate case and because of the concerns cited by the General Assembly that culminated in PWSA being placed under the Commission's jurisdiction, I&E believes several critical factors that were considered in its evaluation of PWSA's revenue requirement also bear mentioning.

I&E St. in Support, p. 15.

The General Assembly imposed a specific statutory obligation upon the Commission to ensure that PWSA is permitted to impose, charge or collect rates or charges as necessary to permit it to comply with its covenants to the holders of any bonds or other financial obligations.³⁰ Additionally, during the course of this rate proceeding, Moody's, a credit rating agency, downgraded PWSA's credit rating from A2 with a negative outlook to A3 with a negative outlook, with debt burden, coverage and liquidity levels being listed as factors in its decision for the downgrade.³¹ Finally, in its filing, PWSA claimed that additional revenue was necessary because of increased costs, revised sales projections that showed a reduction in sales compared to the 2018 forecast, a need for PWSA to maintain its credit rating so that it could raise future capital on reasonable terms, and its commitment to undertake a comprehensive Capital Improvement Plan that will require increased operating and construction expenditures.³² I&E submits these facts warrant consideration in the determination of PWSA's revenue requirement and it is I&E's position that they have been adequately considered and addressed through the Settlement. I&E St. in Support, pp. 15.16.

Importantly, according to I&E, the Settlement includes a safeguard to ensure that any excess revenue that may result if PWSA's actual 2019 revenue net of expenses produces a surplus greater than its FPFTY projections is prudently spent and that PWSA accounts for that spending. More specifically, the Settlement provides that any surplus revenue may be devoted only to the following enumerated uses: 1) 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.³³ Additionally, PWSA has committed to providing quarterly reports to the parties in this case that will identify the amount of the surplus revenue, the use for which the surplus revenue was devoted, and the rationale for the use of the funds. I&E submits that this term was an essential term in order to secure its agreement to the Settlement and necessary to protect the public interest for several reasons. I&E St. in Support, p. 16.

³⁰ 66 Pa.C.S. § 3208 (c)(1); I&E St. No. 1, p. 10.

³¹ PWSA St. No. 3R, p. 3; Ex. KLC-3.

³² PWSA St. No. 1, pp. 15-17.

³³ Joint Petition, p. 7, ¶ (A)(2)(f).

This term ensures that while PWSA will retain managerial discretion in the form of selecting which of the three enumerated uses would most benefit PWSA's operations, it also ensures that any surplus revenue is put to a use designed to stabilize PWSA's operations. As indicated by I&E above, Moody's recently downgraded PWSA's credit rating, and in its report, it referenced that factors that could lead to an upgrade would be "meaningful reduction in leverage" and "substantial improvement in liquidity."³⁴ With this in mind, each of the prospective uses identified above are targeted either to reducing PWSA's debt or improving its liquidity. I&E avers that the public interest is served when PWSA takes steps to improve its credit rating in order to increase its access to financing necessary for capital improvements. I&E St. in Support, p. 17.

Additionally, compelling PWSA to report the use for which it devoted any surplus revenues and the rationale for its selection of that use will ensure that PWSA is accountable to its ratepayers and to the Commission for the use of any surplus. I&E submits that ensuring that PWSA is completely accountable to ratepayers for the use of all revenue is not only in the public interest, but it is consistent with addressing the concerns regarding accountability that the General Assembly raised in Co-Sponsorship Memoranda for HB 1490 that culminated in providing the Commission jurisdiction over PWSA. I&E St. in Support, p. 17.

I&E then notes that, due to the "black box" nature of the Settlement, there is no agreement upon individual issues. Instead, the Joint Petitioners agreed to an overall increase to base rates that is less than what was requested by PWSA. I&E asserts that line-by-line identification and ultimate resolution of every issue raised in the proceeding is not necessary to find that the Settlement satisfies the public interest nor could such a result be achieved as part of a settlement. According to I&E, black box settlements benefit ratepayers because they allow for the resolution of a contested proceeding at a level of increase that is below the amount requested by the regulated entity and in a manner that avoids the significant expenditure of time and resources related to further litigation. I&E St. in Support, p. 18.

³⁴ PWSA Ex. KLC-3, p. 2.

I&E points out that black box settlements are not uncommon in Commission practice. Indeed, the Commission has endorsed the use of black box settlements, as discussed in the following Order approving such a settlement:

We have historically permitted the use of “black box” settlements as a means of promoting settlement among the parties in contentious base rate proceedings. *See, Pa. PUC v. Wellsboro Electric Co.*, Docket No. R-2010-2172662 (Final Order entered January 13, 2011); *Pa. PUC v. Citizens’ Electric Co. of Lewisburg, PA*, Docket No. R-2010-2172665 (Final Order entered January 13, 2011). Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company’s revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company’s cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases. For these reasons, we support the use of a “black box” settlement in this proceeding and, accordingly, deny this Exception.³⁵

I&E St. in Support, pp. 18-19.

I&E individually, and the Joint Petitioners collectively, considered, discussed, and negotiated all issues of import in this Settlement. From a holistic perspective, each party has agreed that the Settlement benefits its particular interest. The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”³⁶ The Settlement in this proceeding promotes the public interest because a review of the testimony submitted by all parties demonstrates that the Joint Petition reflects a compromise of the litigated positions held by those parties. Therefore, I&E submits that the Settlement balances the interests of PWSA and its customers in a fair and equitable manner. I&E St. in Support, p. 19.

³⁵ *Pa. P.U.C. v. Peoples TWP LLC*, Docket No. R-2013-2355886, p. 28 (Order entered December 19, 2013).

³⁶ *Pa. P.U.C. v. C. S. Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

Public utility regulation allows PWSA to recover prudently incurred expenses, thereby ensuring that PWSA is permitted to impose, charge or collect rates or charges as necessary to permit it to comply with its covenants to the holders of any bonds or other financial obligations. According to I&E, the increases proposed in the Settlement respect this principle. I&E contends that ratepayers will receive safer and more reliable service at just and reasonable rates while allowing PWSA sufficient additional revenues to meet its operating and capital expenses and to satisfy its bond covenants and financial obligations. Accordingly, I&E submits that the proposed Settlement is in the public interest and requests that it be approved without modification. I&E St. in Support, pp. 19-20.

3. OCA's Position re: Revenue Requirement

After reviewing the Authority's original filing, OCA recommended a total increase of approximately \$18.3 million, including approximately \$14.5 million for water operations and \$3.8 million for wastewater operations. OCA St. 1SR at 19; Ex. AEE-1S. Under the Settlement, PWSA will be permitted a total annual revenue increase of \$21 million, and water and wastewater rates will be adjusted in the same proportions per PWSA's filing. Settlement ¶ III.A.1. This represents an increase of 12.71% over present rates. The overall increase allowed by the Settlement is \$6 million less than the amount originally requested by PWSA. On a total bill basis, a typical residential water and wastewater conveyance customer using 3,000 gallons of water per month will see their total water and wastewater conveyance bill increase from \$63.62 to \$72.49, or by \$8.87 or 13.9%. This is less than the Authority's proposal, which would have increased the customer's monthly bill by \$10.61 or 16.7%. The Settlement also provides that rates will become effective on or after January 1, 2019, pending Commission approval. Settlement ¶ III.A.1.a.; OCA St. in Support, p. 6.

In general, the Settlement represents a "black box" approach to all individual revenue requirement issues. According to OCA, black box settlements avoid the need for protracted disputes over the merits of individual revenue adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on a variety of financial numbers. OCA submits that it is unlikely that the parties would have been able to reach a consensus on

each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ widely. As such, the parties have not specified a dollar amount for each issue or adjustment raised in this case. OCA asserts that attempting to reach an agreement regarding each adjustment in this proceeding would likely have prevented any settlement from being reached. OCA St. in Support, pp. 6-7.

OCA concludes, based on an analysis of the Authority's filing, discovery responses received, and testimony by all parties, the revenue increase under the Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of this case. OCA further concludes that the increase is reasonable and yields a result that is in the public interest, particularly when accompanied by other important conditions contained in the Settlement such as detailed data collection and reporting requirements. The increase agreed to in the Settlement provides adequate funding to allow the Authority to provide safe and adequate service and to make important service quality improvements in targeted areas. As such, OCA submits that the increase agreed to in the Settlement is in the public interest and in the interest of the Authority's ratepayers, and should be approved by the Commission. OCA St. in Support, p. 7.

OCA's testimony raised a variety of concerns related to PWSA's projected expenses for 2019 and whether its budgeted claims for the FPFTY were overstated. *See* OCA St. 1 at 4. To address these concerns, the Settlement provides that PWSA will submit quarterly reports to the parties on a number of financial data points. As part of these reports, the Authority will track and categorize monthly expenses; provide data on vacant positions filled and salaries; provide copies of reports to the Pennsylvania Department of Environmental Protection (DEP) on the number of lead service lines replaced and location of replacements; and amounts of actual debt service and new debt. Settlement ¶ III.A.2.a through f. Further, the Settlement provides that:

To the extent that PWSA's actual 2019 actual revenues net of expenses produce a surplus greater than its FPFTY projections as reflected in subsections a through d above, PWSA agrees to use the excess in its discretion, to: i) add to its year end "days cash on

hand”; ii) pay down its operating or construction line of credit; and/or iii) repay an item in PWSA’s borrowing portfolio. PWSA agrees that it will 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. Settlement ¶ III.A.2.f.; OCA St. in Support, p. 8.

According to OCA, these reporting requirements are important because they will allow OCA and other parties to track how PWSA is spending any additional funds resulting from this rate increase and ensure that the funds are being used in a manner that benefits ratepayers, allows PWSA to improve its quality of service, and stabilizes PWSA’s financial situation. OCA believes this will make PWSA accountable for its use of the additional funds and will provide OCA and other parties with important financial data in a future base rate case. OCA St. in Support, p. 8.

4. OSBA’s Position re: Revenue Requirement

In the Authority’s original filing, PWSA proposed an increase in retail tariff rate revenue of \$27 million.³⁷ In contrast, the Settlement provides PWSA with an increase in retail tariff rate revenue of \$21 million.³⁸ OSBA St. in Support, p. 4.

At a time when all types of utility service are becoming more expensive, the reduction in the overall revenue increase provided by the Settlement will benefit all of PWSA’s consumers, including the Authority’s small business customers. OSBA St. in Support, p. 4.

5. Pittsburgh UNITED’s Position re: Revenue Requirement

Paragraph A.1 of the Settlement decreases the amount of the approved revenue increase by \$6 million – from \$27 to \$21 million.³⁹ As described in the “summary of customer

³⁷ PWSA Statement of Reasons at 3.

³⁸ Settlement at 7, para. A.1.

³⁹ Joint Petition at 7, § III.A.1.

impacts” chart attached to the Joint Petition, the impact of the proposed increase on an average residential customer will be decreased from 16.7% (as originally proposed) to 13.9% (as proposed in the settlement). In other words, the increase will be nearly \$2.00 less per month for the average residential customer, from \$10.61 (as originally proposed) to \$8.87 (as proposed in the settlement). This reduction is significant, particularly for low and moderate income consumers who already struggle to keep up with the cost of basic utility service, and is therefore squarely in the public interest.⁴⁰ As Pittsburgh UNITED witness Mitchell Miller explained in his testimony, more than a quarter of PWSA’s residential consumers (approximately 28%) are estimated to be low income (income which is at or below 150% of the federal poverty guidelines).⁴¹ Thus, a reduction in the approved rate increase is critically important to ensure that service remains accessible to PWSA’s residential population.

The proposed decrease to PWSA’s Bill Discount Rate for low income consumers – from a 50% discount on the minimum service charge to 75% on the minimum service charge – is also a critical component of this Settlement to help offset the increased costs of basic water and wastewater services.⁴² Pittsburgh UNITED St. in Support, p. 5.

Paragraph A.1.a of the proposed Settlement proposes to expedite the effective date of the Settlement.⁴³ This is also an important provision, and is in the public interest, as it will trigger a number of corresponding obligations detailed throughout the Settlement. It will also provide PWSA with earlier rate relief, which it asserts is necessary to expand its current capacity. As such, providing expedited rate relief should allow PWSA to better implement many of the reforms outlined in the Settlement, and is thus in the public interest. Pittsburgh UNITED St. in Support, pp. 5-6.

⁴⁰ Pittsburgh UNITED St. 2 at 11-12, 16-24 (“An increase in rates for water and wastewater service – two of the most essential human needs – will present significant challenges for low income households who are already struggling to pay these bills.”).

⁴¹ Pittsburgh UNITED St. 2 at 11:6-11. For context, the 2018 income threshold for a family of four at 150% FPL is \$37,650 before taxes. *Id.*

⁴² *See below*, section F.

⁴³ Joint Petition at 7, § III.A.1.a.

Finally, paragraph A.2 of the proposed Settlement sets forth a number of requirements for PWSA to adhere to in its next base rate proceeding, including increased data tracking and reporting.⁴⁴ These requirements will improve the ability of the Commission and all interested stakeholders to conduct a detailed review of PWSA's future rate requests. As such, these requirements are in the public interest. Pittsburgh UNITED St. in Support, p. 6.

C. Revenue Allocation and Rate Design

1. PWSA's Position re: Revenue Allocation and Rate Design

PWSA presented a Class Cost of Service Study (CCOSS),⁴⁵ sponsored by the direct testimony of Harold J. Smith.⁴⁶ 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.⁴⁷ PWSA St. in Support, p. 14.

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."⁴⁸ 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.⁴⁹ Mr. Smith also discussed the next step of allocating the functionalized costs to Base/Extra Capacity cost categories.⁵⁰ He then explained how costs were allocated to

⁴⁴ Joint Petition at 7, § III.A.2.

⁴⁵ PWSA Exhibits HJS-1W – HJS15W; HJS-1WW-HJS-15WW.

⁴⁶ PWSA St. No. 5.

⁴⁷ PWSA St. No. 5 at 2.

⁴⁸ PWSA St. No. 5 at 6-7.

⁴⁹ PWSA St. No. 5 at 6-8.

⁵⁰ PWSA St. No. 5 at 9-12.

each customer class in a manner that reflects the way each class demands service.⁵¹ In that discussion, he noted that because wholesale rates are determined based on existing contractual relationships, costs were not allocated to wholesale customers.⁵² PWSA St. in Support, p. 15.

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.⁵³ PWSA St. in Support, p. 15.

Based on the water CCOSS, PWSA proposed varying levels of increases by customer class, ranging from 10.7% to 31.0%.⁵⁴ Mr. Smith also discussed the inconsistencies of the proposed rates for the Residential and Health or Education classes, relative to the CCOSS, as 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.⁵⁵ PWSA St. in Support, pp. 15-16.

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

⁵¹ PWSA St. No. 5 at 12-15.

⁵² PWSA St. No. 5 at 15.

⁵³ PWSA St. No. 5 at 16-19.

⁵⁴ PWSA Exhibits HJS-11W and HJS-12W.

⁵⁵ PWSA St. No. 5 at 21.

categories; 2) assigning the costs from each functional category to cost categories; and 3) allocating the costs from each cost category to customer classes.⁵⁶ PWSA St. in Support, p. 16.

As with the 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.⁵⁷ Based on the wastewater CCROSS, PWSA proposed varying levels of increases by customer class, ranging from -3.5% to 21.4%.⁵⁸ PWSA St. in Support, p. 16.

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 hydrant rate.⁵⁹ 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.⁶⁰ PWSA St. in Support, pp. 16-17.

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. PWSA St. in Support, p. 17.

⁵⁶ PWSA St. No. 5 at 22-27.

⁵⁷ PWSA St. No. 5 at 27.

⁵⁸ PWSA Exhibits HJS-11WW and HJS-12WW.

⁵⁹ I&E Statement No. 3; OCA Statement No. 2; OSBA Statement No. 1; UNITED Statement No. 2; PAWC Statement No. 1.

⁶⁰ PWSA St. No. 5-R.

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.⁶¹ This approach also includes proportionate increases for wholesale customers, to the extent permitted by existing contracts.⁶² PWSA St. in Support, p. 17.

Given the issues raised by the other parties regarding certain shortcomings of each CCROSS, due to circumstances beyond PWSA's control, PWSA believes it is reasonable to 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 believes it 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. PWSA St. in Support, pp. 17-18.

As part of this base rate proceeding, PWSA made a series of commitments that will improve its CCROSSs 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 CCROSS 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;⁶³ (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;⁶⁴ (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

⁶¹ Joint Petition at ¶ III.B.1.

⁶² Joint Petition at ¶ III.B.9.

⁶³ Joint Petition at ¶ III.B.2.

⁶⁴ Joint Petition at ¶ III.B.3.

until the Compliance Plan proceeding;⁶⁵ (iv) separately identifying and allocating uncollectible accounts expense in the water and wastewater CCOSs by customer class in the next base rate case;⁶⁶ (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;⁶⁷ (vi) proposing removal of the minimum usage allowances in the next base rate case, subject to an ability to offer alternative proposals if the removal results in an unreasonable increase for affected customers;⁶⁸ and (vii) submitting a plan to address infiltration cost remediation in the next wastewater base rate case.⁶⁹ According to PWSA, 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. PWSA St. in Support, pp. 18-19.

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.⁷⁰ According to PWSA, 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

⁶⁵ Joint Petition at ¶ III.B.4.

⁶⁶ Joint Petition at ¶ III.B.5.

⁶⁷ Joint Petition at ¶ III.B.6.

⁶⁸ Joint Petition at ¶ III.B.7.

⁶⁹ Joint Petition at ¶ III.B.8.

⁷⁰ Joint Petition at ¶ III.B.10.

Allocation and Rate Design portions of the Settlement are just, reasonable and in the public interest. PWSA St. in Support, p. 19.

2. I&E's Position re: Revenue Allocation and Rate Design

The Joint Petitioners agree the Settlement rate increase shall be allocated as proposed by OCA witness Scott Rubin, with a proportionate increase to all existing rates. Additionally, the Joint Petitioners agree that no precedent has been established in this base rate case for the allocation and recovery of low-income assistance program (BDP-CAP) costs and lead service line (LSL) replacement costs. Parties reserve the right to make proposals regarding cost allocation for lead service line replacement programming and low-income programming in PWSA's next rate proceeding. I&E St. in Support, p. 20.

I&E recommended that 79% of any scale back be applied to the water increase and the remaining 21% of a scale back be applied to wastewater operations.⁷¹ This recommendation excluded contract revenue, which should not be scaled back since the contract rates are established by contract agreements. These percentages approximate the proposed allocation of the total increase between water and wastewater proposed by PWSA. I&E St. in Support, p. 20.

PWSA disagreed with I&E's recommendation, noting that some of the proposed adjustments have a greater impact on the revenue requirements for one utility than for the other.⁷² PWSA stated it would be more consistent with cost of service principles to base each utility's rates on the actual revenue requirements of that utility. I&E agreed with this approach.⁷³ I&E St. in Support, pp. 20-21.

⁷¹ I&E St. No. 3, p. 37.

⁷² PWSA St. No. 5-R, p. 24.

⁷³ I&E St. No. 5-SR, p. 25.

OSBA also disagreed with I&E's recommendation because it did not reflect its recommendation to reallocate the BDP-CAP and LSL Program costs fully to the residential classes.⁷⁴ I&E disagreed that the BDP-CAP and LSL Program costs should be fully allocated to the residential classes.⁷⁵ Several other parties disagreed that these costs should be allocated solely to residential classes.⁷⁶ I&E St. in Support, p. 21.

In summary, OCA witness Rubin concluded PWSA's failure to include data for the City water and wastewater usage, as well as inaccuracies in estimating fire protection costs, rendered PWSA's cost-of-service studies grossly inaccurate and unsuitable for use. In the absence of meaningful cost studies, OCA witness Rubin recommended that each retail rate element (i.e., each customer charge and volumetric charge) should be increased by the same percentage to achieve the water and wastewater revenue requirements determined by the Commission.⁷⁷ I&E St. in Support, p. 21.

After careful consideration of all parties' positions, I&E supports these Settlement terms as reasonable given the unique circumstances of this case. As OCA witness Rubin states, PWSA needs to address the status of the City as a customer as soon as possible. Additionally, I&E believes it is reasonable to allow parties to make proposals regarding BDP-CAP and LSL Program costs in PWSA's next base rate proceeding. I&E concludes that the Settlement terms regarding revenue allocation were necessary to achieve a collective resolution of this case and I&E asserts they are just and reasonable. I&E St. in Support, pp. 21-22.

With respect to the use of billing data issue raised in the proceeding, PWSA agrees to use at least two years of billing data in the next base rate case and agrees to use at least three years of billing data in future base rate cases as a general standard. If PWSA or any other

⁷⁴ OSBA St. No. 1-R, pp. 5-6.

⁷⁵ I&E St. No. 5-SR, p. 23.

⁷⁶ PWSA St. No. 5-R; OCA St. No. 2R; OCA St. No 4R; Pittsburgh UNITED St. No. 1-R.

⁷⁷ OCA St. No. 2, p. 22.

party to future base rate cases deviates from the use of the three years of data, that party must establish that such deviation is warranted. I&E St. in Support, p. 22.

As the basis for its demand projections used in the CCOSS, PWSA used only one year of billing data, 2017.⁷⁸ PWSA elected to exclude billing data from 2015 and 2016 because of billing issues. I&E St. in Support, p. 22.

I&E did not agree with PWSA's use of a single year of data to determine demand projections because there is a risk that the year selected is an anomaly that skews the demand projections unnaturally high or low. I&E recommended PWSA should include additional data in its demand projections as it becomes available.⁷⁹ PWSA did acknowledge that demand projections would typically be based on at least three years of historical billing data.⁸⁰ Additionally, PWSA agreed there should be at least two years of reliable customer billing data for the development of demand projections and class peaking factors.⁸¹ I&E St. in Support, pp. 22-23.

I&E supports the Settlement term addressing billing data because it satisfies I&E's recommendation to use more than one year of billing data. Additionally, the use of at least two years of billing data is reasonable as the amount of data is contingent on the timing of PWSA's next base rate filing. If more than two years of billing data is available, I&E expects PWSA will use it. I&E St. in Support, p. 23.

With respect to the issue regarding allocation of costs to wholesale water customers, PWSA agrees to allocate costs to wholesale water customers as part of its CCOSS in the next base rate case; however, PWSA does not necessarily agree to make any changes to the rates for wholesale water customers if unable to do so due to the need to honor the terms of

⁷⁸ PWSA St. No. 5, p. 13.

⁷⁹ I&E St. No. 3, p. 25.

⁸⁰ PWSA St. No. 3, p. 25.

⁸¹ I&E St. No. 3, p. 15.

existing contracts. Additionally, to the extent the overall rate increase is reduced, PWSA agrees that there should be a proportionate increase for wholesale customer class customers, to the extent permitted by the existing contracts. I&E St. in Support, p. 23.

PWSA stated it did not allocate costs to wholesale customers in its CCOSS because wholesale rates are determined based on existing contractual relationships between PWSA and each wholesale customer.⁸² I&E asserted it is not reasonable to exclude wholesale customers in the CCOSS because, absent an allocation of costs to the wholesale customers, it is not possible to determine whether the rates paid by those customers will be enough to cover the cost to serve them.⁸³ I&E St. in Support, pp. 23-24.

I&E supports the Settlement term addressing allocation of costs to wholesale water customers because it adopts I&E's recommendation to include wholesale customers in the CCOSS. I&E acknowledges PWSA's statement that it does not necessarily agree to make any changes to wholesale water customer rates if it is bound by existing contracts. However, I&E believes it is important to identify the cost to serve wholesale customers separately so that appropriate rates can be negotiated to recover as much of the cost as possible. Additionally, if those rates do not generate sufficient revenue to cover the costs, any revenue shortfall can be allocated across the other revenue classes. Accordingly, I&E supports this Settlement term. I&E St. in Support, p. 24.

In the Settlement, PWSA agrees to show the cost of public fire hydrant service separately in the next base rate case. Additionally, the timing of a proposed public fire hydrant rate will be considered in the Compliance Plan proceeding. I&E St. in Support, p. 24.

With respect to public fire hydrant service, PWSA currently does not charge the City for the 7,400 hydrants in its service area.⁸⁴ Instead, costs are recovered from all PWSA

⁸² PWSA St. No. 5, p. 15.

⁸³ I&E St. No. 3, p. 26.

⁸⁴ I&E St. No. 3, p. 17.

customers. Further, despite PWSA allocating the cost of public fire hydrants across all water customers, the City does not pay any of those costs because it does not pay water charges.⁸⁵ If PWSA did charge the City for fire hydrant service, it could receive approximately \$1.8 million annually. Because public fire hydrants are a service that is provided to the City, I&E asserted the City should be assessed a rate for the public fire hydrant service by no later than PWSA's next base rate case.⁸⁶ I&E St. in Support, pp. 24-25.

PWSA provided two reasons why it did not propose a charge for public fire hydrants in this rate case.⁸⁷ First, it claims that the Cooperation Agreement between PWSA and the City does not allow such a charge. Pursuant to such agreement, PWSA is obligated to provide the City up to 600 million gallons of free water annually.⁸⁸ Second, it is unclear whether the public fire protection services provided by PWSA meet the requirements for such service. Nonetheless, PWSA agreed that the City should be charged for PWSA's costs associated with providing public fire protection.⁸⁹ Additionally, PWSA stated that the issue is being addressed as the City and PWSA work to renegotiate the Cooperation Agreement and hopefully the matter could be addressed in the CCOS in PWSA's next rate filing. I&E St. in Support, p. 25.

I&E recognizes PWSA's position that it has certain contractual obligations to the City under the Cooperation Agreement, including the provision of limited free water service. However, I&E also asserts PWSA must charge the City rates for water and wastewater service at its cost of service to be compliant with the Code. I&E St. in Support, p. 25.

Despite this clear principle, it is important to recognize the unique nature of this proceeding where 1) negotiations between the City and PWSA regarding the Cooperation Agreement are ongoing and 2) a Compliance Plan proceeding is currently pending where this

⁸⁵ As discussed in Sections II.G.i, II.H.iv below.

⁸⁶ I&E St. No. 3, p. 19.

⁸⁷ I&E Ex. No. 3, Sch. 8.

⁸⁸ I&E Ex. No. 2, Sch. 13, p. 7.

⁸⁹ PWSA St. No. 5-R, p. 4.

issue will be addressed. Renegotiation of the Cooperation Agreement before this case was filed was likely impracticable because of the short timeframe for filing this case. Also, if I&E was to impute revenue to PWSA for free water service and decrease the recommended revenue requirement, in practical terms, PWSA could possibly risk default of its bond covenants because it would likely be unable to collect such revenue from the City because of the Cooperation Agreement. As mandated by section 3208(c)(1) of the Code, the Commission must permit PWSA to collect rates as necessary to comply with its bond covenants. I&E St. in Support, p. 26.

Accordingly, I&E supports the Settlement term addressing public fire hydrant service, which will allow PWSA time to further negotiate the Cooperation Agreement term with the City. However, I&E expects PWSA will expeditiously renegotiate the Cooperation Agreement so its rates comply with the Code. It will not be acceptable for PWSA to continue to provide the City with water and wastewater service as currently designed absent the unique circumstances of this current base rate proceeding. I&E will continue to advocate its position and adjust its recommendations as appropriate as it continues to monitor PWSA's progress in renegotiating the Cooperation Agreement through the Compliance Plan proceeding. I&E St. in Support, p. 26.

In its next base rate case, PWSA agrees to separately identify uncollectible accounts expense by class and allocate those costs in the water and wastewater cost of service studies to the various customer classes. I&E did submit testimony recommending improvements to PWSA's uncollectibles,⁹⁰ but did not submit testimony regarding separately identifying uncollectible accounts. This was an issue first raised by OCA.⁹¹ However, I&E was involved in the discussion of this issue, which was vetted during settlement negotiations. I&E supports this term as it was necessary for a collective resolution of this case. I&E St. in Support, p. 27.

⁹⁰ See Section II.H.viii below.

⁹¹ OCA St. No. 2, p. 16.

In its next base rate case, PWSA agrees to gather detailed customer class consumption data necessary to implement class specific max-day and max-hour adjustment factors. I&E did not submit any testimony regarding max-day and max-hour adjustment factors. This was an issue first raised by OSBA.⁹² However, I&E was involved in the discussion of this issue, which was vetted during settlement negotiations. Therefore, I&E supports this term as it was necessary for a collective resolution of this case. I&E St. in Support, p. 27.

The Settlement addresses the inclusion of minimum usage allowances in the monthly minimum charge. PWSA currently includes a water usage allowance with its monthly minimum charge, which varies by meter size.⁹³ PWSA suggested it might have eliminated the usage allowance in the minimum charge if, among other things, there had been more time to prepare its rate filing.⁹⁴ I&E St. in Support, p. 28.

I&E does not believe PWSA should include a usage allowance with its minimum charge. However, I&E does not recommend that PWSA be required to remove the usage allowance from its minimum charge in this rate case because I&E agrees that it does not appear that PWSA can immediately resolve this issue. Therefore, I&E believes it is reasonable for PWSA to make this adjustment as part of its next base rate case, as the Settlement provides.⁹⁵ I&E also believes it is reasonable that, should the removal produce an unreasonable increase for affected customers, PWSA will be allowed to explain that the removal will produce an unreasonable increase for affected customers and provide an alternative proposal. For these reasons, I&E fully supports this Settlement provision. I&E St. in Support, p. 28.

With respect to the issue of infiltration cost remediation raised by OSBA, PWSA agrees to submit a plan to address infiltration cost remediation, to the extent such costs are known and relevant, in the next wastewater base rate case and to provide data to allocate

⁹² OSBA St. No. 1, p. 15.

⁹³ PWSA St. No. 5, p. 15.

⁹⁴ PWSA St. No. 5, p. 18.

⁹⁵ I&E St. No. 3, p. 31.

infiltration costs to customer classes in future cost of service studies. I&E St. in Support, pp. 28-29.

I&E did not submit any testimony regarding infiltration cost remediation. This issue was first raised by OSBA.⁹⁶ However, I&E was involved in the discussion of this issue, which was vetted during settlement negotiations. Therefore, I&E supports this term as it was necessary for a collective resolution of this case.

3. OCA's Position re: Revenue Allocation and Rate Design

In his Direct Testimony, OCA witness Rubin identified significant deficiencies in both the water and wastewater COSSs. *See* OCA St. 2 at 5-16, 19-20. The COSSs were lacking vitally important information that is not currently available and was not possible to correct as part of this base rate proceeding, most notably the allocation of costs to serve the City. As a result, Mr. Rubin recommended that the Commission reject PWSA's COSSs and recommended instead that each element of the Authority's rates should be increased by approximately the same percentage to achieve the revenue requirement determined by the Commission. OCA St. 2 at 3-4, 16-17, 20. As part of the Settlement, the parties accepted OCA witness Rubin's recommendation and all existing rates will be increased proportionately, resulting in an increase of approximately 17.3% in all water rates and approximately 7.4% in wastewater rates. Settlement ¶ III.B.1. OCA St. in Support, pp. 8-9.

OCA witness Rubin noted that PWSA's water COSS did not allocate any costs to wholesale water customers. Instead, PWSA allocated the costs to serve these wholesale customers to other customer classes, with a credit provided for wholesale revenues. OCA St. 2 at 16. Mr. Rubin recommended that PWSA should "identify a separate wholesale class of customers in the COSS, so that the reasonableness of the wholesale arrangements can be determined, and an appropriate ratemaking treatment can be developed." *Id.*; OCA St. in Support, p. 9.

⁹⁶ OSBA St. No. 1, p. 20.

In the Settlement, PWSA accepted OCA witness Rubin’s recommendation and agreed to allocate costs to wholesale water customers as part of its COSS in its next base rate case, with the caveat that PWSA would not necessarily make changes to wholesale rates if unable to do so due the terms of existing contracts. Settlement ¶ III.B.3. Additionally, wholesale customers will receive a proportionate rate increase as a result of this rate case, to the extent permitted by existing contracts. Settlement ¶ III.B.9. OCA asserts that these provisions will move PWSA toward developing a COSS that more accurately allocates costs to customer classes in its next base rate case. OCA St. in Support, p. 9.

OCA witness Rubin expressed concern that PWSA’s water COSS did not allocate costs for public fire service to the fire protection function or to the fire class. OCA St. 2 at 8. Further, Mr. Rubin explained:

The COSS arbitrarily and improperly assigns those costs to the “meter” function, which places most of the cost on the Residential class of customers. There is no basis for such an approach . . . Once again, however, this problem cannot be corrected in this case because the City does not pay for public fire service and it does not appear that the Authority has the records that would be needed to develop a reasonable allocation of public fire costs.

OCA St. 2 at 15. As part of the Settlement, PWSA agreed “to show the cost of public fire hydrants service separately in the next base rate case.” Settlement ¶ III.B.4. Additionally, the creation of a proposed public fire hydrant rate will be addressed as part of the Compliance Plan proceeding. Settlement ¶¶ III.B.4, III.H.5. According to OCA, this provision is an important part of moving PWSA toward developing a more accurate COSS in future cases. OCA St. in Support, pp. 9-10.

An additional deficiency with PWSA’s COSSs is that the COSSs did not separately identify uncollectible accounts expenses and did not allocate those costs to customer classes. OCA St. 2 at 16, 20. OCA witness Rubin testified that that approach is problematic because “(1) it fails to identify uncollectible costs specific to each customer class, and (2) the overall level of uncollectibles appears to be very high.” OCA St. 2 at 16. As part of the

Settlement, PWSA has agreed “to separately identify uncollectible accounts expense by class and allocate those costs in the water and wastewater cost of service studies to the various customer classes” in its next base rate case. Settlement ¶ III.B.5. OCA asserts that this settlement term will move PWSA toward developing a COSS that more accurately allocates costs to customer classes in its next base rate case. OCA St. in Support, p. 10.

In his Direct Testimony, OCA witness Rubin explained that PWSA’s rates currently include a minimum usage allowance for all meter sizes. Mr. Rubin recommended that PWSA eliminate the minimum usage allowance, given that most utilities in Pennsylvania have instead implemented a customer charge that “reflects the costs of the meter and service line, meter reading, and other customer service functions.” OCA St. 2 at 18. Eliminating the minimum usage allowance also has the benefit of “help[ing] customers better manage their water bills and send[ing] an important message to customers that there is no such thing as ‘free’ water.” *Id.*; OCA St. in Support, p. 10.

As part of the Settlement, PWSA has agreed to “propose the removal of the minimum usage allowances” in its next base rate case, provided that removing the minimum usage allowance would not cause an “unreasonable increase” for customers. Settlement ¶ III.B.7. OCA believes this term will help bring PWSA’s rate design in line with other Pennsylvania utilities and will provide important pricing and conservation signals to customers.

4. OSBA’s Position re: Revenue Allocation and Rate Design

The Authority’s proposed revenue increase for Commercial water service customers was 28.3%.⁹⁷ OSBA recommended modifications to the Authority’s proposed revenue allocation for water service customers because of its failure to properly allocate all the BDP-CAP and LSL Program costs to the residential class. The Authority’s proposed increase for Commercial wastewater service customers was 11.4%.⁹⁸ OSBA also recommended

⁹⁷ OSBA Statement No. 1, Schedule BK-2, *citing* Sch HJB-11W.

⁹⁸ OSBA Statement No. 1, Schedule BK-4, *citing* Sch HJB-11W

modifications to the Authority's proposed revenue allocation for wastewater customers because the Authority's initial proposal resulted in increases to some classes which ran afoul with the principals of gradualism.⁹⁹ OSBA St. in Support, pp. 4-5.

The Settlement results in an across-the-board increase of 17.3% in all water rates and a 7.4% increase in wastewater rates.¹⁰⁰ Under the Authority's revenue allocation proposals, commercial water and wastewater customers would have received increases of 22.3% and 9.0%, respectively, at Settlement revenue requirement levels. As such, the Settlement provides commercial water and wastewater customers with annual savings of approximately \$1.9 million and \$0.4 million, respectively, compared to PWSA's filed positions. Additionally, the parties agree that no precedent has been established in the case regarding the allocation and recovery of low-income assistance program costs and LSL replacement costs. As part of the Settlement, parties have reserved the right to make proposals regarding the cost allocation for low-income assistance program costs and LSL replacements in the Authority's next base rates case.¹⁰¹ OSBA St. in Support, p. 5.

Finally, OSBA identified a number of additional deficiencies in the Authority's water and wastewater cost-of-service methodologies, including: a) insufficient support for the class capacity factors used in the Water COSS; b) failure to establish a public fire protection class, and implement public fire protection charges, in this proceeding; c) failure to bill the City for water and wastewater services; and d) failure to appropriately allocate infiltration costs to customer classes in the Wastewater COSS.¹⁰² OSBA St. in Support, p. 5.

With regard to class capacity factor determination, the Settlement at B.6 provides that PWSA agrees to gather detailed customer class consumption data necessary to implement class specific max-day and max-hour adjustment factors in its next base rate case. With regard

⁹⁹ OSBA Statement No. 1 at 24.

¹⁰⁰ Settlement at 8, para. B.1.

¹⁰¹ Settlement at 9, para. 10

¹⁰² OSBA Statement No. 1 at 5-6, 11-17, and 17-19

to the establishment of a public fire class, the Settlement at B.4 provides that PWSA agrees to show the cost of public fire hydrants service separately in the next base rate case, while the timing of a proposed public fire hydrant rate will be considered in the Compliance Filing Proceeding. With regard to PWSA's failure to bill the City for water and wastewater services, the Settlement at G.1 provides that the Authority's services contract with the City will be investigated in the Compliance Plan Proceeding. Finally, with regard to the allocation of infiltration costs to customer classes, the Settlement at B.8 provides that PWSA agrees to submit a plan to address infiltration cost remediation, to the extent such costs are known and relevant, in the next wastewater base rate case, and to provide data to allocate infiltration costs to customer classes in future cost of service studies. OSBA St. in Support, p. 6.

5. Pittsburgh UNITED's Position re: Revenue Allocation and Rate Design

As with paragraph A.2, paragraphs B.1 through B.6 of the proposed Settlement set forth a number of requirements for PWSA to adhere to in its next base rate proceeding with respect to revenue allocation and rate design.¹⁰³ This includes, in relevant part, increased billing data, separate identification of uncollectible account expenses, and increased class consumption data. These data points will allow interested stakeholders and the Commission to conduct a more thorough assessment of PWSA's rate design to ensure that the resulting rates are just and reasonable. Pittsburgh UNITED St. in Support, p. 6.

Paragraph B.7 further requires PWSA to separate the minimum usage allowance from the minimum service charges in the next base rate proceeding, provided the change would not result in an unreasonable increase for affected customers.¹⁰⁴ Charging for service and usage charges separately could potentially provide benefits to consumers, such as increased rate transparency and enhanced ability for consumers to control their usage through conservation, but could also prove to be harmful to consumers with lower usage rates and/or low income

¹⁰³ Joint Petition at 8, § III.B.1-6.

¹⁰⁴ Joint Petition at 8, § III.B.7.

consumers.¹⁰⁵ There was simply insufficient data to support a thorough analysis of this type of rate redesign in this proceeding.¹⁰⁶ As drafted, the proposed Settlement provision will allow for an appropriate investigation of the possible benefits and risks associated with eliminating the minimum usage allowance from the minimum service charge before any change is made, and is therefore in the public interest. Pittsburgh UNITED St. in Support, pp. 6-7.

Finally, paragraph B.10 of the proposed Settlement provides that this Settlement does not establish a precedent for the appropriate cost allocation of PWSA's public purpose program costs, including its low-income assistance and lead service line replacement program costs.¹⁰⁷ The parties to this proceeding explicitly reserved the right to make a new cost allocation proposal in future proceedings.¹⁰⁸ Pittsburgh UNITED witness Mitchell Miller explained in rebuttal testimony that PWSA's current cost allocation for low income and lead service line replacement costs, which spreads the costs evenly across all customer classes, is just and reasonable.¹⁰⁹ Indeed, as Mr. Miller explains, all customer classes share in the far-ranging benefits of these programs and, as such, appropriately share in their costs.¹¹⁰ Importantly, allocation of public purpose programming across all customer classes is consistent with Commission policy and precedent, and was recently approved as a cost allocation method for low-income program costs in PGW's service territory in November 2017.¹¹¹ Thus, it is in the public interest to preserve PWSA's current cost allocation method for its public purpose programming, as it ensures that all those who benefit from the programming share in the cost. However, given the myriad number of issues in this proceeding, it is likewise prudent to

¹⁰⁵ See PWSA St. 5 at 16:21-17:16.

¹⁰⁶ See *id.*

¹⁰⁷ Joint Petition at 9, § III.B.10.

¹⁰⁸ *Id.*

¹⁰⁹ Pittsburgh UNITED St. 2-R at 2:14-7:14.

¹¹⁰ *Id.*

¹¹¹ *Pa. Pub. Util. Comm'n. v. Phila. Gas Works*, Docket No. R-2017-2586783, Final Order, at 73-75 (Order entered Nov. 8, 2017). In upholding PGW's proposed cross-class recovery of universal service program costs, the Commission expressly concluded: "We agree with the conclusion of the ALJs that there is nothing within PGW's allocation of universal service costs to all firm customers that violates the Code or our Regulations." *Id.*

acknowledge that all parties retain the right to propose a new cost allocation for public purpose programming in future base rate proceedings – though it is not the intent of this provision to allow any particular proposal to be afforded heightened standing or consideration. As such, Pittsburgh UNITED asserts that this provision, in balance, is in the public interest and should be approved. Pittsburgh UNITED St. in Support, pp. 7-8.

D. Infrastructure/Operations/Lead

1. PWSA's Position re: 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 replacements.¹¹² 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.¹¹³ 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 LTIIP.¹¹⁴ This was specifically directed by the Commission 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.¹¹⁵ PWSA St. in Support, pp. 19-20.

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

¹¹² PWSA St. No. 1 at 7-14.

¹¹³ PWSA St. No. 1 at 22-23;

¹¹⁴ Exhibit RAW-4.

¹¹⁵ PWSA St. No. 1 at 22-23.

currently taking to address lead levels in water supply and the replacement of lead service lines.¹¹⁶ 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. PWSA St. in Support, p. 20.

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. PWSA St. in Support, p. 21.

- 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 2020.¹¹⁷
- 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.¹¹⁸

¹¹⁶ PWSA St. 1R at 14-39.

¹¹⁷ See Joint Petition at III.C.1.a.

¹¹⁸ See Joint Petition at III.C.1.d.iii.

- 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 2019.¹¹⁹
- 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.¹²⁰
- 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.¹²¹ 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.¹²²
- 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.¹²³
- 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-

¹¹⁹ See Joint Petition at III.C.1.a.i.

¹²⁰ See Joint Petition at III.C.1.d.iv.

¹²¹ See Joint Petition at III.C.1.a.ii.

¹²² See Joint Petition at III.C.1.d.ii.

¹²³ See Joint Petition at III.C.1.a.iii.

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.¹²⁴

- 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.¹²⁵
- 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 replacement program and 2020-2026 small diameter water main replacement program.¹²⁶
- 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.¹²⁷
- 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.¹²⁸
- 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

¹²⁴ See Joint Petition at III.C.1.a.iv.

¹²⁵ See Joint Petition at III.C.1.a.v.

¹²⁶ See Joint Petition at III.C.1.a.vi.

¹²⁷ See Joint Petition at III.C.1.b.

¹²⁸ See Joint Petition at III.C.1.c.

lead service line replacements are documented in the relevant property record.¹²⁹

- 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.¹³⁰

PWSA St. in Support, pp. 21-23.

According to PWSA, 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.¹³¹ PWSA St. in Support, p. 23.

Various issues relating to PWSA's infrastructure and operations were deferred to PWSA's Compliance Plan and LTIIP for evaluation.¹³² According to PWSA, 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) certain 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/LTIIP are interspersed in Settlement Paragraph III.H. Given the nature and breadth of the issues evaluated in this rate proceeding, the Joint

¹²⁹ See Joint Petition at III.C.1.d.i.

¹³⁰ See Joint Petition at III.C.1.d.v.

¹³¹ See Joint Petition at III.H.7.k.

¹³² 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.

Petitioners' agreement to defer various lead, operational and infrastructure issues to the Compliance Plan/LTIIP proceeding is a reasonable compromise. PWSA St. in Support, pp. 23-24.

2. I&E's Position re: Infrastructure/Operations/Lead

Parties submitted extensive testimony regarding PWSA's lead service line replacement program (LSLRP).¹³³ PWSA expects to receive approximately \$50 million from Pennsylvania Infrastructure Investment Authority (PennVEST) to replace lead service lines in 2019 and 2020. With these funds, PWSA plans to replace approximately 3,400 public-side lead service lines and 2,800 private-side lead service lines in several neighborhoods. I&E St. in Support, p. 29.

I&E expressed concern that PWSA's lead line replacement plan did not include basic information about its program, and accordingly, it was not possible to evaluate whether PWSA's proposed replacements are cost-effective.¹³⁴ At public input hearings in September 2018, PWSA customers expressed similar concern that if more infrastructure spending results from rate increases, it should be clear where the lead service line replacements are occurring.¹³⁵ At the same time, these customers also indicated support for infrastructure improvements through rate increases, including prioritizing safe drinking water. I&E St. in Support, pp. 29-30.

After settlement negotiations, PWSA agreed to numerous terms regarding its LSLRP.¹³⁶ In summary, through the Settlement, PWSA agrees to form a Community Lead Response Advisory Commission (CLRAC) consisting of interested parties from this proceeding,

¹³³ See PWSA St. No. 1, pp. 8-10; I&E St. No. 4, pp. 5-6; Pittsburgh UNITED St. No. 2, pp. 64-65, 83-88, 95; Pittsburgh UNITED St. No. 4; Pittsburgh UNITED St. No. 5; OSBA St. No. 1, pp. 9-10; OCA St. No. 5, p. 4.

¹³⁴ I&E St. No. 4, pp. 3-7.

¹³⁵ Transcript of Public Input Hearing, September 4, 2018, 7 p.m., Docket Nos. R-2018-3002645 & R-2018-3002647, p. 103 (Testimony of PWSA customer Madeline Weiss); Transcript of Public Input Hearing, September 6, 2018, 7 p.m., Docket Nos. R-2018-3002645 & R-2018-3002647, pp. 255-256 (Testimony of PWSA customer Glen Grayson, Jr.).

¹³⁶ Joint Petition, pp. 9-13.

representatives from local community groups, and a public health expert to be agreed upon by the parties 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. The Settlement lists numerous issues CLRAC and PWSA will address, including:

- PWSA will develop and implement a plan, in consultation with CLRAC, to encourage greater participation in PWSA's replacement program and reduce the number of property owners who refuse to have their private-side service line replaced;
- PWSA will begin tracking customers' reasons for rejecting service line replacements;
- PWSA will make all historical service line records available for public viewing on its website map;
- PWSA will make its best efforts to send a letter notifying the resident and property owner of the results of curb box inspections;
- PWSA will present to the CLRAC an analysis of its per-line costs for replacing lead service lines to facilitate a discussion of the drivers of those costs;
- PWSA will develop and implement a plan in consultation with CLRAC and the Low Income Assistance Advisory Commission to encourage greater participation in its customer requested lead sampling program and continue to provide water testing kits, filters and replacement cartridges to certain households. An outreach program will be developed to notify customers of their eligibility for a filter;
- PWSA will develop and implement a plan in consultation with CLRAC for prioritizing lead service line replacements where curb box inspections are completed in certain neighborhoods based on certain criteria;
- PWSA will prepare a study in consultation with CLRAC on the feasibility of including all lead service lines in PWSA's 2019 LSLRP and 2020 to 2026 small diameter water main replacement program; and
- Various efforts to minimize the number of partial lead service line replacements.

I&E St. in Support, pp. 30-31.

I&E supports these Settlement terms because they provide robust, detailed and immediate oversight to PWSA's LSLRP. PWSA's LSLRP is central to customer safety and

reliability of service and these Settlement terms help ensure the program is implemented efficiently and effectively. However, PWSA's implementation of a LSLRP will be an important issue that I&E anticipates will need to be addressed in future PWSA proceedings until the problem is resolved. PWSA's LSLRP will be further addressed in the Compliance Plan proceeding. Because PWSA's LSLRP has been thoroughly addressed through settlement negotiations, I&E supports the terms related to PWSA's LSLRP. I&E St. in Support, p. 31.

3. OCA's Position re: Infrastructure/Operations/Lead

In his Direct Testimony, OCA witness Terry L. Fought noted PWSA's plans to replace lead service lines throughout its service territory. Mr. Fought stated that "The OCA supports the Authority's replacement of lead service lines, including the customer portion of the lead service line. The OCA reserves the right to address the program, including funding, and modifications, as well as education and outreach efforts in detail in the compliance plan filing." OCA St. 5 at 4. OCA St. in Support, p. 11.

The Settlement includes detailed terms related to PWSA's 2019 lead service line replacement program. Settlement ¶ III.C.1. These terms include the creation of a CLRAC to advise PWSA on matters related to lead service line replacements. Settlement ¶ III.C.1.a. OCA intends to fully participate in the CLRAC. Further, programs for lead service line replacements beyond 2019 will be addressed in the Compliance Plan proceeding. Settlement ¶ III.H.7.k. OCA St. in Support, p. 11.

OCA witness Fought raised concerns about PWSA's levels of unaccounted for water (UFW) and the method PWSA used to calculate UFW. OCA St. 5 at 4-10. Mr. Fought recommended that PWSA improve its recordkeeping and "ensure that all connections are metered, and that the amount of water entering the system is also metered." OCA St. 5 at 10. Mr. Fought also recommended that PWSA submit a Section 500 form, which is part of the PUC Annual Form for Public Water Utilities, as part of its annual reports to the Commission. OCA St. 5 at 5, 10. The Section 500 form provides important data and uses a calculation method that

would allow PWSA and the parties to better assess its level of UFW. OCA St. in Support, pp. 11-12.

As part of the Settlement, PWSA has accepted Mr. Fought's recommendation and agreed to submit a Section 500 form as part of its annual report to the Commission. Settlement ¶ III.C.2. This improved recordkeeping and reporting will allow PWSA to better assess ways in which it can reduce UFW in the future. OCA St. in Support, p. 12.

OCA witness Fought made recommendations to address a variety of operational and quality of service issues in PWSA's water and wastewater systems. *See* OCA St. 5 at 4. The Settlement requires full investigation of these technical operational matters in the Compliance Plan proceeding. *See* Settlement ¶ III.H.7.a through e. According to OCA, this will allow OCA and other parties to fully address these items and to develop a plan to attain PWSA's full compliance with Commission regulations as part of the currently pending Compliance Plan. OCA St. in Support, p. 12.

4. OSBA's Position re: Infrastructure/Operations/Lead

The Settlement sets forth a number of issues pertaining to the LSL Program. The LSL Program is a program limited to residential customers of PWSA. OSBA's interest in the LSL Program was limited to the issue of cost recovery. The Settlement preserves the issue for examination and resolution in the Authority's next base rate cases.¹³⁷ OSBA St. in Support, p. 6.

5. Pittsburgh UNITED's Position re: Infrastructure/Operations/Lead

PWSA is in the process of changing the way it chemically treats its water, in an effort to better control the corrosion of its lead-containing infrastructure and reduce lead levels in its drinking water.¹³⁸ PWSA is also replacing a portion of the lead service lines in its system, as

¹³⁷ Settlement at 9, para. 10

¹³⁸ *Id.* at 8, 13-14.

part of a broader lead remediation program.¹³⁹ PWSA has received \$50 million from the PennVEST to replace lead service lines in 2019.¹⁴⁰ Pittsburgh UNITED St. in Support, pp. 8-9.

Pittsburgh UNITED shares “PWSA’s goals . . . to systematically eradicate lead service lines and to eliminate any potential health risks to individuals it serves.”¹⁴¹ To that end, Pittsburgh UNITED’s testimony identified a number of specific, reasonable steps PWSA must take to achieve those goals.¹⁴² Pittsburgh UNITED St. in Support, p. 9.

The proposed Settlement adopts a portion of Pittsburgh UNITED’s recommendations for PWSA’s 2019 lead remediation program, including increased transparency and community input in PWSA’s lead remediation planning and programs; improved prioritization of vulnerable neighborhoods for service line removal; a comprehensive assessment of PWSA’s high costs for service line replacement; new limitations on PWSA’s use of partial service line replacements; an expanded commitment to replacing service lines running underneath a customer’s private property; increased public health protections for customers before and after service line replacement; and improved access to water filters that remove lead. While the Settlement does not adopt all of Pittsburgh UNITED’s recommendations, Pittsburgh UNITED believes the lead-related settlement terms are reasonable and in the public interest. The Settlement also preserves Pittsburgh UNITED’s right to seek further changes to PWSA’s lead remediation program in the Compliance Plan and LTIIP proceedings. Pittsburgh UNITED respectfully requests that the Commission approve the Settlement as quickly as possible so that PWSA can begin implementing these critical measures. Pittsburgh UNITED St. in Support, pp. 9-10.

According to Pittsburgh UNITED, for PWSA’s lead remediation efforts to succeed, customers must be informed about those efforts and have the ability to provide input on

¹³⁹ *Id.* at 14-15.

¹⁴⁰ Joint Petition at 9, § III.C.1.

¹⁴¹ PWSA St. 1-R, at 38.

¹⁴² *See* Pittsburgh UNITED St. 4, at 56-58; Pittsburgh UNITED St. 5, at 34-37.

program design and implementation. The proposed Settlement establishes a CLRAC, comprised of interested parties to this proceeding, representatives of community groups, and a public health expert agreed upon by the parties.¹⁴³ The CLRAC will meet quarterly for at least two years.¹⁴⁴ PWSA staff will provide the CLRAC with regular updates on PWSA's lead remediation efforts.¹⁴⁵ PWSA will also consult with the CLRAC on a number of critical issues, described in more detail below. Pittsburgh UNITED St. in Support, p. 10.

In addition, the Settlement improves PWSA's process for providing information to customers about the composition of their service line. According to Pittsburgh UNITED, some customers have experienced significant delays in receiving the results of curb box inspections at their homes. PWSA will undertake best efforts to notify customers of curb box inspection results within 90 days of the inspection, and all customers will receive results within 120 days.¹⁴⁶ PWSA will also make all historical service line records available for public viewing on its website map, and it will update that map every month with the locations of lead service line replacements.¹⁴⁷ Pittsburgh UNITED St. in Support, p. 10.

Pittsburgh UNITED asserts these provisions are in the public interest because they will increase community knowledge of and involvement in PWSA's lead remediation efforts. Pittsburgh UNITED St. in Support, p. 10.

Pittsburgh UNITED asserts that the risks of lead exposure are not evenly distributed among PWSA's customers. According to Pittsburgh UNITED, children and pregnant women are particularly vulnerable to adverse health effects from lead exposure, and the proportion of children in Pittsburgh with elevated concentrations of lead in their blood is much

¹⁴³ Joint Petition at 9, § III.C.1.a.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ Joint Petition at 10, § III.C.1.a.ii.

¹⁴⁷ Joint Petition at 10, 13, § III.C.1.a.ii, C.1.d.ii.

higher in some neighborhoods than others.¹⁴⁸ Pittsburgh UNITED asserts that low income individuals and people of color are also at disproportionate risk of lead exposure because they are more likely to live in older homes with aging infrastructure.¹⁴⁹ For these reasons, Pittsburgh UNITED claims PWSA must prioritize service line replacements in neighborhoods with the highest concentration of elevated risk factors for lead exposure.¹⁵⁰ Pittsburgh UNITED St. in Support, p. 11.

According to Pittsburgh UNITED, the Settlement will improve PWSA's process for selecting neighborhoods for lead service line replacement. PWSA has chosen seven neighborhoods for replacements in 2019: Morningside, Homewood, Perry, Mt. Washington, Southside, Northside, and Greenfield.¹⁵¹ PWSA will work with the CLRAC to develop a plan for prioritizing replacements within those neighborhoods based on the set of health-protective factors recommended by Pittsburgh UNITED's expert Dr. Bruce Lanphear, including blood lead levels in children, tap water lead levels, age of water mains, age of housing stock, and data on race, income, and populations of pregnant women and young children.¹⁵² If PWSA performs additional replacements in other neighborhoods in 2019, it will consult with the CLRAC for how to prioritize those replacements using the same health-protective factors.¹⁵³ PWSA will also provide regular updates to the CLRAC regarding its plans for prioritizing neighborhoods for lead service line replacements.¹⁵⁴ Pittsburgh UNITED St. in Support, p. 11.

Pittsburgh UNITED concludes these Settlement terms are in the public interest because they will ensure that PWSA prioritizes service line removal for customers with a higher risk of lead exposure. Pittsburgh UNITED St. in Support, p. 12.

¹⁴⁸ Pittsburgh UNITED St. 5, at 5-7, 11-12.

¹⁴⁹ *Id.* at 6.

¹⁵⁰ *Id.* at 17-18.

¹⁵¹ Joint Petition at 11, § III.C.1.a.v.

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ Joint Petition at 9, § III.C.1.a.

Minimizing the cost of lead service line replacements is important for ensuring that PWSA makes reasonable use of ratepayer funds and maximizes the number of replacements PWSA performs with available funds. Pittsburgh UNITED expert Gregory Welter found that contractors' lead service line replacement costs (\$12,541 per line) were more than double the average of the costs of seven other utilities (\$6,145 per line).¹⁵⁵ He recommended that PWSA investigate this discrepancy and better track its costs.¹⁵⁶ Pittsburgh UNITED St. in Support, p. 12.

The proposed Settlement requires PWSA to investigate its lead service line replacement costs and present an analysis to the CLRAC.¹⁵⁷ PWSA's analysis will incorporate any information it obtains from other utilities performing lead service line replacements, and it will include any cost differences between replacements conducted by outside contractors and those conducted by PWSA work crews.¹⁵⁸ PWSA will consider suggestions from the CLRAC for lowering costs.¹⁵⁹ PWSA must also provide regular reports on its replacement costs throughout the two-year term of the CLRAC.¹⁶⁰ Pittsburgh UNITED St. in Support, p. 12.

Pittsburgh UNITED concludes the Settlement terms regarding lead line replacement costs are in the public interest because they help ensure that PWSA will make reasonable use of ratepayer funds. Pittsburgh UNITED St. in Support, p. 12.

PWSA expects to replace at least 2,800 private-side lead service lines with the funding it receives from PennVEST.¹⁶¹ PWSA currently offers to replace a customer's private-

¹⁵⁵ Pittsburgh UNITED St. 4, at 31-32.

¹⁵⁶ *Id.* at 36-37.

¹⁵⁷ Joint Petition at 10, § III.C.1.a.iii.

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

¹⁶⁰ Joint Petition at 9, § III.C.1.a.

¹⁶¹ Joint Petition at 9, § III.C.1.

side lead service line at no direct cost when PWSA plans to replace the corresponding public-side lead service line.¹⁶² But if the customer does not authorize PWSA to replace a private-side lead service line, PWSA performs a partial replacement.¹⁶³ PWSA does not track customers' reasons for declining PWSA's offer to replace their private-side lead service line at no direct cost.¹⁶⁴ Additionally, because it is the property owner, and not the resident, who must provide consent, non-resident landlords can refuse consent, leaving tenants exposed to elevated lead levels that can result from partial service line replacements. Together, these circumstances heighten the risk that customers, and especially tenants, will be exposed to partial replacements and the related health risks. Pittsburgh UNITED St. in Support, p. 13.

The Settlement contains several terms aimed at reducing these risks. First, PWSA must consult with the CLRAC to identify ways to improve its outreach procedures for obtaining customer consent to replace private-side lead service lines.¹⁶⁵ To inform that consultation, PWSA will begin tracking why property owners refuse to authorize PWSA to replace their private-side lead service lines.¹⁶⁶ PWSA and the CLRAC will consider implementing a process whereby the property owner's refusal of a private-side replacement will be recorded on the property record.¹⁶⁷ Pittsburgh UNITED asserts this procedure could help incentivize property owners to accept PWSA's offer and ensure that would-be purchasers of the property know that the home still has a private-side lead service line. Pittsburgh UNITED St. in Support, p. 14.

In addition, the Settlement requires PWSA to consult with the CLRAC regarding whether to seek authorization from the City to replace private-side lead service lines at rental properties without the owner's consent.¹⁶⁸ If PWSA does not obtain this authority, it will not

¹⁶² Pittsburgh UNITED St. 4, at 21.

¹⁶³ *Id.* at 48.

¹⁶⁴ *See id.* at 50.

¹⁶⁵ Joint Petition at 12, § III.C.1.b.

¹⁶⁶ Joint Petition at 10, § III.C.1.a.i.

¹⁶⁷ Joint Petition at 13, § III.C.1.d.i.

¹⁶⁸ Joint Petition at 12-13, § III.C.1.c.

perform partial lead service line replacements in 2019 at rental properties that are not owner occupied.¹⁶⁹ Pittsburgh UNITED believes this settlement term will help protect tenants who do not want a partial replacement but are powerless to refuse one. Pittsburgh UNITED St. in Support, p. 14.

Taken together, Pittsburgh UNITED concludes the terms aimed at addressing the issue of partial lead line replacements will reduce the number of partial lead service line replacements performed by PWSA in 2019. According to Pittsburgh UNITED, they will help protect public health and so are in the public interest. Pittsburgh UNITED St. in Support, p. 14.

PWSA currently offers to replace a customer's private-side lead service line at no direct cost when PWSA plans to replace the corresponding public-side lead service line. At the outset of this proceeding, PWSA had not committed to extending this policy into 2019.¹⁷⁰ Except in limited circumstances, PWSA does not offer to replace private-side lead service lines when the public-side service line is not made of lead.¹⁷¹ Nevertheless, Pittsburgh UNITED's experts pointed out in their testimony that private-side lead service lines can leach lead into drinking water in the same manner as public-side lead service lines, and thus should be removed to reduce customers' risk of lead exposure.¹⁷² Pittsburgh UNITED St. in Support, p. 15.

The Settlement requires PWSA to continue to replace private-side lead service lines at no direct cost when PWSA replaces the corresponding public-side lead service line through 2019.¹⁷³ During this time, PWSA plans to replace at least 2,800 private-side lead service lines under this program.¹⁷⁴ In addition, PWSA, in consultation with the CLRAC, will study the

¹⁶⁹ *Id.*

¹⁷⁰ PWSA St. 1, at 8-9.

¹⁷¹ Pittsburgh UNITED St. 4, at 38.

¹⁷² *Id.* at 40; Pittsburgh UNITED St. 5, at 22-23.

¹⁷³ Joint Petition at 13, § III.C.1.d.iii.

¹⁷⁴ Joint Petition at 9, § III.C.1.

feasibility of replacing all private-side lead service lines in its system.¹⁷⁵ Pittsburgh UNITED St. in Support, p. 15.

These terms will increase the number of customers whose private-side lead service lines are replaced and will reduce customers' risk of exposure to lead. Pittsburgh UNITED concludes these terms are in the public interest. Pittsburgh UNITED St. in Support, p. 15.

Filters can offer short-term protection from elevated lead levels in drinking water.¹⁷⁶ PWSA currently offers filters and replacement cartridges free of charge to customers who receive lead service line replacements and to any customer who sends in a tap water sample with lead concentrations above 15 parts per billion.¹⁷⁷ However, many customers who are not eligible for a free filter are at risk of lead exposure, according to Pittsburgh UNITED.¹⁷⁸ And the cost of purchasing a filter and replacement cartridges can be a significant burden for low income customers.¹⁷⁹ Pittsburgh UNITED St. in Support, p. 16.

Under the terms of the Settlement, PWSA must continue to provide filters and replacement cartridges free of charge to customers who (1) have had their service line replaced or (2) return a tap water sample showing elevated lead levels.¹⁸⁰ PWSA will also expand its filter program to include low income customers who have not yet had their service lines replaced and whose service lines are made of either lead or an unknown material according to PWSA's historical records or curb box inspection results.¹⁸¹ PWSA will also consult with the CLRAC to

¹⁷⁵ Joint Petition at 12, § III.C.1.a.vi.

¹⁷⁶ See Pittsburgh UNITED St. 5, at 24-26.

¹⁷⁷ Pittsburgh UNITED St. 5, at 23-24; PWSA St. 1-R, at 24.

¹⁷⁸ See Pittsburgh UNITED St. 5, at 24-26.

¹⁷⁹ Pittsburgh UNITED St. 2, at 85-86.

¹⁸⁰ Joint Petition at 10-11, 13, § III.C.1.a.iv(a), C.1.d.v.

¹⁸¹ Joint Petition at 11, § III.C.1.a.iv(b).

develop strategies to increase participation in PWSA's pre- and post-replacement tap water sampling program.¹⁸² PWSA offers tap water sampling at no cost, but not all PWSA customers who receive a lead service line replacement return a water sample.¹⁸³ Pittsburgh UNITED St. in Support, p. 16.

Pittsburgh UNITED concludes these terms are in the public interest. They will help protect public health by increasing customers' awareness of drinking water lead levels and access to filters. Pittsburgh UNITED St. in Support, p. 16.

E. Customer Service Issues

1. PWSA's Position

PWSA submits the customer service policies and procedures of the Authority were thoroughly examined by the parties over the course of the litigation. This examination included 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. [footnote omitted]. According to PWSA, a large portion of the 1,973 discovery requests served upon the Authority concerned customer service issues; additionally, two OCA witnesses and two Pittsburgh UNITED witnesses testified extensively on customer services issues. PWSA St. in Support at 24. PWSA asserts the Authority responded to the other parties' customer service concerns with the Rebuttal Testimony of Julie Quigley as follows:

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

¹⁸² Joint Petition at 10-11, § III.C.1.a.iv(a).

¹⁸³ Pittsburgh UNITED St. 5, at 28-29.

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. [footnote omitted].

Id. at 25.

PWSA further explains the Parties' settlement discussions resulted in a 3-prong approach to address customer service issues. Consequently, 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 more complex issues to the Compliance Plan proceeding. *Id.* Each party agreed upon this 3-prong approach while specifically reserving all rights concerning whether PWSA is compliant with applicable regulatory and legal requirements. [footnote omitted].

a. Immediate Actions on Customer Service Issues

One of the immediate actions PWSA has agreed to take is to continue tracking informal complaint information but with the enhancement of specifically noting whether the complaint relates to water, sewer, or stormwater. This enhancement includes the Authority's agreement 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. *Id.* at 26.

PWSA contends that other immediate actions include the following:

In Sections D.6 and D.8 [of the Joint Settlement] PWSA [has] 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 subjective view about the efficacy of an individual's concerns.

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

Id. at 26-27.

PWSA further states that under the terms of the Joint Settlement, the Authority has agreed to update internal training materials. For instance, in Section D.4, PWSA agrees to continue to issue written confirmation of payment arrangement terms and to add this practice to its customer service training materials. *Id.* at 27. In Section D.7, paragraphs a through f, PWSA agrees to continue to train its employees concerning medical certificates and to reform the Authority's internal medical certificate policies to ensure consistency with the Commission's regulations, which temporarily restrict service termination upon the customer's presentation of a medical certificate as defined at 66 Pa.C.S. § 1403. *Id.* Also, in Section D.9, PWSA agrees to accept from tenants wishing to exercise their rights pursuant to DSLPA [footnote omitted] any document issued by a public agency or public utility containing name and address as proof of identification. [footnote omitted]. *Id.*

Thus, PWSA asserts the above immediate actions that the Authority has agreed to take concerning customer service issues represents a reasonable compromise whereby the issues will be addressed as soon as practicable and consistent with the understanding of the parties.

b. Going-Forward Customer Service Issues

PWSA agrees to create a notarized form for owners seeking to voluntarily discontinue service to a residential property occupied by a tenant. As Mr. Vitek explained, DSLPA prohibits a public utility from discontinuing service to a landlord ratepayer “unless the landlord ratepayer also submits a document bearing their notarized signature, swearing under penalty of perjury that the unit is unoccupied.” [footnote omitted]. Mr. Vitek explained the importance of this provision to prevent illegal self-help eviction, noting that “[i]f PWSA allows a landlord ratepayer to discontinue service to a leased premises, without requiring the appropriate documentation evidencing the tenant’s consent to the discontinuance, it is abdicating its responsibility under law and condoning constructive/self-help evictions in violation of the tenants’ due process rights.” [footnote omitted]. Thus, the provision in the Settlement requiring PWSA to create a notarized form for landlords to complete prior to the voluntary discontinuance of service to a leased premises is in the public interest, as it protects tenants from unlawful self-help evictions consistent with the provisions of DSLPA.

PWSA offers that the Joint Settlement provides a pathway for the Authority and the parties to establish an on-going cooperative process: 1) to determine an appropriate informal complaint tracking information review process, under Section D.2; and, 2) to provide input regarding PWSA’s current bill redesign process, under Section D.3. PWSA explains that the Authority’s prior bills did not consider the legal and regulatory requirements governing public utilities under the Commission’s jurisdiction. In Section D.3, PWSA identifies five specific elements that the Authority 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. PWSA contends that the cooperative outlined 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 comply with regulations as a public utility. *Id.* at 28.

c. Customer Service Issues Deferred to Compliance Plan

PWSA stresses that the parties could not achieve amicable resolution of certain consumer services issues. PWSA states, “These issues were difficult primarily because they involved 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.” Also, according to PWSA, proving problematic was the fact that the parties were required to consider the interrelatedness of PWSA’s Compliance Plan proceeding and how the issues being addressed in the present proceeding met with the expectations of the of the compliance proceeding. *Id.* Consequently, the parties agreed to identify and incorporate specific unresolved issues into the Joint Petition, which would be deferred to and addressed in the Compliance Plan proceeding. *Id.* PWSA notes that these issues are set forth in Section H.8 of the Joint Settlement. PWSA suggests the deferred approach “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.” *Id.*

2. I&E’s Position

I&E commented that it did not take a formal position as to the settlement terms detailing PWSA’s commitments “to refine and improve the Authority’s customer service practices.” I&E St. in Support at 33. I&E acknowledged that PWSA had committed to the following:

- (1). continuing its tracking of informal complaint information, including tracking whether the complaints are related to water, sewer, or stormwater;
- (2). undertaking a process to modify its bills to provide more detailed information on rates and approved tariff changes;
- (3). continuing its practice of issuing written confirmation of payment arrangement terms;
- (4). revising 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;

- (5). informing customers of the payment arrangement terms based on the customers' ability to pay upon contact with the customer;
- (6). reforming its internal medical certificate policies to, inter alia, better inform customers of renewal options, stop termination when presented with an approved certificate, and accept additional medical certificates to prevent termination of service as long as the customer is paying their current bills for service;
- (7). reforming its internal policies governing complaint procedures to clarify that its dispute process is available to current customers, applicants for service, and tenants and/or occupants not listed on the current bill;
- (8). accepting documents issued by public agencies or public utilities that contain the name and address of the tenant as proof of identification in circumstances where a tenant exercises their right to continued service pursuant to the Discontinuance of Services to Leased Premises Act ("DSLPA");
- (9). creating a new DSLPA-compliant form for use when owners desire to voluntarily discontinue service to a residential property occupied by a tenant; and
- (10). committing to implementing the aforementioned practices in compliance with the Final Order in this case.

Id. at 32. Because the above Settlement terms "are largely geared towards better informing customers" about their utility service, customer rights and improving PWSA's service to its customers, I&E submits it supports these terms. *Id.* at 33.

3. OCA's Position

OCA voices support for the Settlement terms, concerning customer service issues, as follows.

a. Informal Complaint Tracking

OCA's witness, Barbara Alexander, recommended that PWSA improve its current tracking of informal disputes and complaints and types of customer contacts by establishing an internal process for analyzing these complaints to identify and to react to any trends in the complaint data, to ensure compliance with the Commission's informal dispute and complaint processing regulations. OCA St. in Support at 12. As rationale for this recommendation, Witness Alexander explained that capturing and examining this key information would enable PWSA to identify the "red flags" that suggest the need for additional internal training for the customer service and/or field operations staff. *Id.* OCA asserts that PWSA accepted Ms. Alexander's recommendation as a part of the Settlement.

This includes tracking informal complaint information; tracking whether complaints are related to water, sewer, or stormwater service; and conducting a regular review of complaint information to identify any trends or whether there is a need for new or additional internal training policies.

Id. at 13. OCA also notes that PWSA has agreed to work with the parties to develop an appropriate complaint tracking information review process. *Id.*

b. Modifications to Customer Bills

OCA posits that Witness Alexander found significant deficiencies in PWSA's billing information, thereby rendering customer bills non-compliant with the Commission's regulations at 52 Pa.Code § 56.15. According to Witness Alexander, PWSA's customer bills 1) lack detail as to how the bill is calculated; 2) include undefined charges; 3) do not include the rates used to calculate the undefined charges; and 4) improperly state that any charges must be disputed in writing. *Id.*

To address the above deficiencies, the Settlement states PWSA is currently working on re-designing its customer bills. *Id.* at 14. In re-designing the Authority's customer bills, PWSA, at a base level, has agreed 1) to eliminate the requirement that a customer must

dispute charges in writing; 2) to identify, explain, and itemize the actual rates charged for each component of the bill; 3) to identify and itemize the monthly installment amount for any existing payment arrangements; 4) to include the installment amount for any existing payment arrangements in the total due/asked to pay amount; and 5) to direct customers to PWSA's webpage which specifically sets forth fees associated with various bill payment options. *Id.*

Also, the Settlement contains a provision that PWSA will provide the parties and the Commission's Bureau of Consumer Services with a draft of its new bill design. *Id.* at 14. The draft will be provided with sufficient time for the parties to offer feedback and for any necessary changes to be reflected in the final bill design. "Upon request, PWSA will hold a collaborative meeting to discuss its proposed bill modifications." *Id.*

c. Written Confirmation of Payment Arrangement Terms

Witness Alexander raised questions to PWSA concerning customer payment arrangements. While PWSA confirmed that the Authority's practice of issuing written confirmation of payment arrangement terms, Witness Alexander raised the issue concerning the inclusion of training materials for the Authority's customer service representatives. *Id.* As a result, "the Settlement provides that PWSA will continue issuing written confirmations of payment terms and will add this practice to its customer service training material going forward." *Id.* at 14-15.

d. Termination Notices

Witness Alexander testified about the disparity in the information contained in PWSA's 3-day and 48-hour termination notices as compared to the information in the 10-day termination notice. The 10-day notice contains information about the customer's ability to negotiate a payment plan to avoid termination, whereas the other two notices do not. The 3-day and 48-hour notices only list a payment plan option in cases of a medical emergency. *Id.* at 15. To remedy this disparity, under the Settlement, "PWSA will 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.” *Id.* This clarification is in addition to the medical emergency provisions for service termination avoidance. OCA suggests that with clarity added to PWSA’s 10-day, 3-day and 48-hour termination notices, customers will be better informed as to the methods available to prevent the loss of essential water and/or wastewater service. *Id.*

4. OSBA’s Position

OSBA took no position relevant to the customer service provisions of the Settlement. OSBA St. in Support, p. 7.

5. Pittsburgh UNITED’s Position

Pittsburgh UNITED submits that the customer service provisions of the Settlement move toward “bringing PWSA’s customer service policies and procedures into alignment with applicable laws, regulations, and prevailing public policy.” Pittsburgh UNITED St. in Support, p. 17. However, Pittsburgh UNITED notes, several other customer service issues are deferred to the pending Compliance Plan proceeding. *Id.* Pittsburgh UNITED asserts this approach is in the public interest and resolves immediate customer service issues in a fair and reasonable manner as follows.

a. Informal Complaint Tracking

The Settlement “requires PWSA to track customer complaints and, in turn to develop a review process to identify trends and target appropriate training and/or systems improvement to remedy common or repeat issues.” *Id.* Pittsburgh UNITED claims, “This complaint review process will help ensure that PWSA and its staff are learning from mistakes and continually improving their policies and procedures to better serve consumers.” *Id.*

b. Residential Customer Bill Redesign

Pittsburgh UNITED maintains its witness, Mitchell Miller, noted that the information provided in PWSA's current residential bills was critically deficient in terms of charges, consumption rates and customer dispute rights. *Id.* According to Pittsburgh UNITED, the Settlement corrects this deficiency by specifically requiring PWSA to redesign the bill 1) to eliminate the erroneous statement that a customer may only dispute their bill in writing; 2) to include an explanation of specific charges and payment arrangement installment amounts; and 3) to provide information about the fees associated with each of PWSA's bill payment options. *Id.*

c. Payment Arrangements

The Settlement "requires PWSA to revise its termination notice to notify consumers facing termination of service about the availability of payment arrangements." *Id.* at 19. Pittsburgh UNITED contends this provision of the Settlement ensures consumers are informed about their repayment options; helps consumers without the means to make a full payment on their arrears to avoid the loss of critical water and wastewater service; and helps reduce PWSA's overall uncollectible expenses. For these reasons, Pittsburgh UNITED argues this Settlement provision is in the public interest. *Id.*

Pittsburgh United further notes the following:

PWSA agrees to provide payment arrangements consistent with Chapter 14, and expressly acknowledges that victims of domestic violence with a Protection From Abuse Order (PFA) or other court order with evidence of domestic violence may be awarded an extended payment arrangement which "may exceed the standard term lengths" contained in Chapter 14. [footnote omitted] Further consideration of PWSA's policies with respect to victims of domestic violence with a PFA or other court order are expressly deferred for additional investigation in the Compliance Plan proceeding . . . This initial acknowledgement by PWSA, coupled with its express recognition that the issue will be explored in further depth in the Compliance Plan proceeding, will help ensure that consumers who are the victim of domestic violence are able to obtain the relief to which they are entitled pursuant to Chapter 14 of the Public Utility Code and Chapter

56 of the Commission's regulations, and is therefore in the public interest. [footnote omitted].

Id.

d. Medical Certificates

To bring PWSA's current medical certificate process into compliance with the Commission's regulations, Pittsburgh UNITED states PWSA has agreed to implement revisions to its current practices, and the Settlement provides as follows:

(1) PWSA will accept three medical certificates, regardless of whether the consumer continues to pay their current charges as they come due. A fourth or subsequent medical certificate will also be accepted to prevent termination of service if the consumer keeps up with their current charges (irrespective of any underlying arrears).

(2) PWSA will begin informing medically vulnerable consumers of the renewal payment obligations at the time a medical certificate is accepted.

(3) PWSA will train its employees to stop a termination if informed that a household is seeking a medical certificate.

Id. at 20. Implementation of the above revisions to the Authority's current medical certificate process, according to Pittsburgh UNITED, ensures that medically vulnerable households are able to access the Commission's statutory and regulatory protections. *Id.*

e. Complaint Procedures

During this proceeding, Pittsburgh UNITED's Witness Miller pointed out that the Authority's current complaint procedures were non-compliant with the Commission's dispute process for current customers and non-customers. *Id.* at 21. To remedy this matter, the

Settlement requires PWSA to revise its internal policies to clarify that the dispute process is available to current customers, applicants for service and tenants or occupants not listed on the bill, Pittsburgh UNITED asserts. *Id.* “The Settlement further requires PWSA to train its employees to not evaluate or express any view as to the efficacy of an individual’s complaint or an opinion as to whether the individual has an actionable claim with the Commission.” Thus, Pittsburgh UNITED argues this provision of the Settlement ensures all potential complainants will be informed of their dispute and due process rights. *Id.*

f. Discontinuance of Service to Leased Premises Act (DSLPA)

Pittsburgh UNITED submits that the Settlement requires PWSA to adopt two critical changes to the Authority’s policies and procedures concerning the Discontinuance of Service to Leased Premises Act (DSLPA). First, to exercise their right to continued service, a tenant will be allowed to submit as proof of identity *any* documents issued by a public agency or public utility which contains the name and address of the tenant. *Id.* at 22. This change is less restrictive than the Authority’s current practice, which requires tenant to provide a photo identification, asserts Pittsburgh UNITED. *Id.* This change also, Pittsburgh UNITED contends, better adheres to DSLPA, which provides in pertinent part as follows:

Reasonable identification shall include, but not be limited to, a driver’s license, photo identification, medical assistance or food stamp identification, or any similar document issued by any public agency which contains the name and address of the tenant. [Footnote omitted].

Id. (emphasis in original).

Second, in conformity with DSLPA, the Settlement requires PWSA to create a notarized form for owners seeking to voluntarily discontinue service to a residential property occupied by a tenant. Pittsburgh UNITED contends that requiring landlord ratepayers to submit a form with his or her notarized signature, swearing under penalty of perjury, that a residential unit is unoccupied, helps to prevent illegal self-help evictions, which is consistent with the terms of DSLPA. Thus, Pittsburgh UNITED asserts this provision of the Settlement is in the public

interest. Pittsburgh UNITED also notes that other aspects pertinent to PWSA’s adherence to DSLPA are deferred to the Compliance Plan proceeding. *Id.* at 22.

g. Settlement Compliance

The Settlement terms provide for a number of changes to PWSA’s policies and procedures concerning customer service issues and includes PWSA’s commitment to share these changes with a newly formed Low Income Advisory Assistance Committee. *Id.* at 23.

Considering “the myriad number of critical issues addressed in the proposed Settlement – as well as the significant additional issues PWSA must address in the pending Compliance Plan and LTIIP proceedings,” Pittsburgh UNITED submits that formation of the Low Income Assistance Advisory Committee is important and ensures important aspects of the settlement will not be overlooked. *Id.* at 23-24.

F. Tariff Issues

1. PWSA’s Position

PWSA’s proposed tariffs, with mark-ups, are attached to the Settlement as Exhibit 1(a) (water) and Exhibit 2(a) (wastewater). In support of the tariff provisions of the Settlement, PWSA identifies some of the specific changes the Authority has agreed to make to its tariffs in the chart below.

Settlement Term	Change made	Water	Wastewater
Section E(1)	Added language that customer will not be assessed fee if paid one [a fee] 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	Part III, Section C(3)(j)(v) Electronic Notice of Termination	Part III, Section C(3)(j)(v) Electronic Notice of Termination

	notice returned as undeliverable other method to be undertaken		
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)
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

PWSA notes that the above tariff changes are in addition to the changes that were made to revise the rates and implement other parts of the Settlement. PWSA St. in Support, p. 29. The proposed tariff revisions, according to PWSA, resolve the various concerns of the parties in a reasonable manner and therefore should be approved.

2. I&E's Position

While I&E did not submit testimony relevant to PWSA's tariff revisions proposed in the Settlement, I&E was involved in the discussions of these provisions during settlement negotiations. I&E's St. in Support, p. 34-35. I&E acknowledges that the Settlement terms provides for tariff revisions as follows. PWSA agrees 1) not to assess duplicate fees for dual water/wastewater customers; 2) that 72-hour notice of termination by electronic mail will occur only upon the Authority's receipt of a customer's written consent to receive electronic notice; 3) to accept medical certificates from physician assistants; 4) to remove collections expenses and fees from its tariffs; 5) to not require a tenant to assume liability for certain debts; 6) to exempt customers eligible for the Authority's Bill Discount Program from providing security; and 7) to suspend the use of Jordan Tax Service upon the effective date of the Commission's final order approving the Settlement. *Id.* Asserting that these Settlement terms were necessary for a global

resolution of the rate filings, I&E supports these provisions and opines “they are designed to improve PWSA’ service to customers. *Id.*

3. OCA’s Position

OCA’s Witness Alexander challenged PWSA’s municipal lien practices and collection referrals to Jordan Tax Service, Inc. for charges past due more than 90 days. OCA’s St. in Support, p. 15. Witness Alexander opined that these practices may contravene a customer’s rights under Chapter 56 of the Commission’s regulations. Standards and Billing Practices for Residential Utility Service, 52 Pa.Code. § 56.1, et seq. Ms. Alexander explained that these regulations include rights related to payment plans and termination policies. *Id.* at 16. Consequently, OCA argues, the Settlement provides for suspension of PWSA’s referral practice effective upon the date of the Commission’s final order approving the Settlement. *Id.* This suspension, OCA contends, will provide the Commission the opportunity to further investigate the appropriateness and legal ramifications of the Authority’s municipal lien practices and relationship with Jordan Tax Service. *Id.*

4. OSBA’s Position

OSBA took no position relevant to the tariff provisions of the Settlement. OSBA St. in Support at 7.

5. Pittsburgh UNITED’s Position

Pittsburgh UNITED maintains the Settlement obligates PWSA to make numerous changes to its tariff. Pittsburgh UNITED argues these changes are designed to bring PWSA into compliance with applicable laws, regulations and prevailing public policy. Pittsburgh UNITED St. in Support at 24. Pittsburgh UNITED addressed six specific areas of the tariff changes as follows.

a. Dual Water/Wastewater Fees

To protect ratepayers from duplicate fees, the Settlement requires PWSA to revise its tariff to clarify that a dual water/wastewater customer will not be assessed twice for items such as a returned check fee, collection activity fees or historical billing fees. *Id.*

b. Electronic Notice of Termination

To comply with Chapter 14 of the Public Utility Code (Chapter 14), the Settlement requires PWSA to revise its tariff to clarify that the Authority's provision for 72-hour notice of termination by electronic mail will only occur if the customer's express written consent to accept service in this manner has been received by PWSA. *Id.* at 25.

c. Medical Certificates

To comply with Chapter 14, the Settlement requires PWSA to revise its tariff to clarify that the Authority accepts medical certificates from a physician's assistant. *Id.* at 26.

d. Collections Procedures

[T]he proposed Settlement requires PWSA to suspend its use of Jordan Tax Service (JTS) as a debt collection agency unless or until approved by the Commission in the context of the Compliance Plan proceeding and relocates section G of its proposed water and wastewater tariff regarding collections expenses and lien fees to its Supplemental Service Conditions. [footnote omitted]. As . . . explained at length, PWSA's current collections fees, and its associated collections policies and practices, are not just and reasonable and likely violate the Public Utility Code and Commission regulations.

. . . .

This measured approach will shield consumers from excessive collections fees and unlawful collections practices in the short term while protecting other ratepayers from any potential negative consequences of prematurely ending PWSA's contractual relationship

with JTS. Thus, we assert that it is in the public interest for PWSA to suspend its use of JTS, pending a more thorough investigation of its collections practices in the Compliance Plan proceeding.

Id. at 26-27.

e. Responsibility for Prior Arrears

The Settlement requires the Authority to discontinue its practice of requiring a tenant-applicant, as a condition for establishing residential service, to assume liability for debts accrued at the property for which they are not legally responsible. *Id.* at 28. Pittsburgh UNITED opines, “this practice “is unreasonable, unjust, and inconsistent with the Commission’s regulations regarding liability for prior utility debts.”” *Id.*

To be clear, the proposed settlement does not fully resolve the issue, and postpones further consideration of “PWSA’s policies and procedures regarding initiation of new service or transferring service to new customers, and any associated payment obligations” for determination in the Compliance Plan proceeding.

Id. at 28-29. Accordingly, Pittsburgh United contends this Settlement provision “takes the incremental step to ensure that tenants, in particular, are protected from being required to assume liability for the debts of others as a condition to receiving water and/or wastewater service at their rental property.” *Id.* at 29.

f. Security Deposits

To comply with Chapter 14, the Settlement requires PWSA to revise its tariffs to clarify that consumers who are eligible for PWSA’s Bill Discount Program (BDP) will not be charged a security deposit. *Id.*

Pittsburgh UNITED concludes that the abovementioned revisions to PWSA’s tariff, as provided for under the Settlement, constitute a reasonable resolution of the tariff issues and promotes the public interest.

G. Low Income Customer Issues

1. PWSA's Position

PWSA acknowledges that prior to October 2017 the Authority did not have an assistance program for low income customers facing service termination for non-payment. PWSA St. in Support p. 30.

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.

Id.

PWSA's Witness Quigley described the programs available for the Authority's low income customers. Customers who are at or below 250% of the Federal Poverty Level ("FPL") are protected from termination in the winter months (December 1st through March 31st) under the Authority's Winter Shut-Off Moratorium. *Id.* For customers at or below 150% of the FPL, the Bill Discount Program (BDP) provides a 50% reduction of fixed monthly water and sewer conveyance charges. *Id.* at 30-31. Under the Hardship Cash Assistance Program (Hardship Program), PWSA issues cash grants up to \$300 per year for customers at or below 150% of the FPL. Considering these programs are relatively new, Witness Quigley asserted the programs should remain in place without modification, "so their effectiveness can be accurately assessed." *Id.* at 31. However, during the proceeding, the parties achieved compromise for improving the Authority's low- income customer assistance programs as discussed below.

a. 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.

Id. at 32. The collection of this additional data, PWSA opines, will assist the Authority in identifying its low income customer population and thereby enable the Authority to more accurately evaluate the effectiveness of its programs. *Id.*

b. Low Income Assistance Advisory Committee

The formation of a Low Income Assistance Advisory Committee (Advisor Committee) is another important element for improving the Authority's programs for low income customers, under the Settlement terms. *Id.* The Advisory Committee will include interested parties from this proceeding, the Commission's Bureau of Consumer Services (BCS), Dollar Energy Fund (DEF), and local community and social service groups. *Id.* The Settlement provides that within 90 days of the effective date of rates in this proceeding, the Advisory Committee will meet to review program metrics and to give input and feedback on program terms and conditions, as well as outreach documents. *Id.* at 32-33. Under the Settlement terms, PWSA notes, the Advisory Committee's task will be to address issues that include: (1) improving outreach and messaging for programs; (2) launching a social media campaign; (3) assessing the feasibility and associated costs and benefits of transitioning the BDP to a format based on income levels; (4) assessing applicable data; and (5) reviewing changes to PWSA's customer service policies. *Id.* at 33. PWSA asserts the creation of the Advisory Committee gives the Authority an opportunity "to gain valuable feedback and input that will improve the overall effectiveness of its low-income customer assistance programs. However, under the Settlement terms, the Authority stresses, "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." *Id.*

c. Revisions to Bill Discount Program

“Under the Settlement, PWSA agreed to an increase in funding for the BDP [footnote omitted] 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.” *Id.* The Settlement also commits PWSA to submitting, in its next base rate filing, a plan detailing the program parameters for each of its low-income customer programs. *Id.* “This plan will address 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.” *Id.* Thus, PWSA suggests these Settlement provisions represent significant steps in developing and facilitating the effectiveness of the BDP. *Id.*

d. Hardship Cash Assistance Program

PWSA acknowledges that under the Settlement terms, the Authority through the Dollar Energy Fund (DEF) and community-based organizations (CBOs) will continue to request that applicant/ratepayers produce proof of their Social Security Number (SSN) as a condition of the application to the program. *Id.* at 34. PWSA also agrees that under the Settlement, “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.” *Id.* PWSA further notes that the Advisory Committee will be tasked with examining issues related to the SSN, as well as the Hardship Program’s structure, including the income threshold, payment requirement and inclusion of child support as income. *Id.*

e. Program Outreach

PWSA concedes that under the Settlement terms, the Authority agrees to continue its current outreach efforts in providing service to low income customers. This outreach includes, (1) screening for eligibility during all credit-related calls; (2) utilizing a referral or warm transfer process to DEF; (3) coordinating with other utilities that participate in the Western

Pennsylvania Utility Group; and (4) supporting DEF's efforts to actively recruit customers with existing debt to enroll in the BDP or apply for a Hardship Program grant. *Id.* at 35. Before modifying or discontinuing these activities, PWSA has agreed to seek Commission approval, as required. *Id.* PWSA asserts, "The continuation of these outreach efforts is important in ensuring that customers who may need assistance are aware of the programs that are available." *Id.*

For all of the above stated reasons, PWSA supports the Settlement terms relating to low income customer issues.

2. I&E's Position

I&E states the parties reached agreement on several issues relative to low-income assistance programming in PWSA's service territory. I&E St. in Support, p. 35. Notably, the Settlement confirms PWSA's commitments to gather additional and more specific information about its low income population, to establish a Low Income Assistance Advisory Committee (Advisory Committee) and to provide additionally funding for the Authority's Bill Discount Program. *Id.* According to I&E, the parties' resolution of the low income customer issues as adopted into the Settlement is in the public interest for the following reasons.

a. Data Collection

I&E asserts that PWSA's commitment to begin to collect additional data is necessary to obtain a more accurate assessment of the Authority's low income population and the needs of that population. *Id.* at 36. This data collection will include the following:

- (1). amount of billed revenue;
- (2). amount of receipts collected;
- (3). number of accounts in arrears;
- (4). the dollars of arrears;
- (5). the number of accounts disconnected for nonpayment;

- (6). the number of accounts receiving a notice of disconnection for nonpayment;
- (7). the number of bill discount participants who entered the bill discount program with unpaid account balances;
- (8). the dollars of unpaid account balances for bill discount program participants at the time those participants entered the bill discount program;
- (9). the number of bill discount participants by agreed-upon poverty ranges;
- (10). average usage (along with average bills, including ALCOSAN charges in wastewater bills);
- (11). the number of PWSA customers receiving a PWSA hardship grant and the average amount of the grant; and
- (12). the average arrearage of PWSA customers receiving a PWSA hardship grant.

Id. I&E contends PWSA's commitment to gathering the above data enables the parties and the Commission to more clearly understand the size of PWSA's low income population, outstanding arrearage amounts, and the need for low-income programming and funding in the Authority's service territory. *Id.* Thus, PWSA opines that the data Settlement provision is in the public interest.

b. Low Income Assistance Advisory Committee

Under the Settlement, I&E voices, PWSA agrees to create an Advisory Committee, consisting of interested parties from this proceeding, the Commission's Bureau of Consumer Services (BCS), Dollar Energy Fund, and local community and social service groups. *Id.* at 37. Meeting quarterly for a least two years, the Advisory Committee will be tasked with improving low income outreach, and reviewing and evaluating information relative to PWSA's low-income programming, contends I&E. *Id.*

I&E submits that PWSA's commitment to establish the Advisory Committee is in the public interest because it will enable PWSA to receive input and feedback necessary to inform its practices and

policies for low-income programming. I&E also submits that including BCS as an eligible participant in the Advisory Group is consistent with the Commission's previous determination that BCS' analysis of PWSA's operations is important to effective regulation and oversight.

Id.

c. Bill Discount Program

I&E discussed at length its rationale for concluding that the Bill Discount Program (BDP) provisions of the Settlement are in the public interest. In pertinent part, I&E submits the following:

[T]he Settlement provides that PWSA will revise its Bill Discount Program rate to provide for a 75% discount on the minimum water and/or wastewater charge for customers with income at or below 150% of the federal poverty level. [footnote omitted]. Currently under its Bill Discount Program as implemented on January 2, 2018, PWSA offers a 50% reduction on the minimum (fixed) monthly water and wastewater conveyance charge to customers who are at or below 150% of the federal poverty level. [footnote omitted]. . . . OCA witness Colton recommended that PWSA increase funding for its Bill Discount Program so as to provide for customers with income at or below 50% of the federal poverty level to receive a 100% discount on their water and wastewater minimum charges.

Although the Settlement term for increased funding for the Bill Discount Program to provide for a 75% discount on the minimum water and/or wastewater charge (as applicable) conflicts with I&E's litigation position in this case, after careful consideration of the record and as part of a compromise of all parties' positions on this issue, I&E supports this term. One important consideration is that PWSA's ratepayers have absorbed substantial rate increases over the last few years, . . . PWSA's residential customers have faced increases that have totaled more than 85% above pre-2016 levels. [footnote omitted]. . . . I&E is also concerned about circumstances in which PWSA's low-income customers' inability to pay their bills could increase PWSA's already concerning level of uncollectibles, which would negatively impact all PWSA customers.

Additionally, it is important to note that in conjunction with the increased funding for PWSA's Bill Discount Program, PWSA has committed to providing certain information in its next base rate case that will assist parties and the Commission with evaluating whether the funding and parameters of its low-income program are appropriate and in the public interest. More specifically, the Settlement obligates PWSA to submit a detailed plan that will outline the eligibility parameters, benefits, budget, and needs assessment for each of its low-income assistance programs, including the Bill Discount Program, the Winter Moratorium, and the Hardship Fund. [footnote omitted]. I&E submits the PWSA's agreement to provide this information is essential to protecting the public interest because it is crucial to the determination of whether PWSA's low-income programming is effective, targeted to the needs of its population, and appropriately funded.

....

I&E submits that PWSA and all of its customers benefit when low-income programming is cost-effective, efficient, and it mitigates uncollectible expense, thereby protecting the public interest.

Id. at 38-41.

3. OCA's Position

a. Data Collection

OCA explains that its witness, Roger D. Colton, expressed concern that review of PWSA's current low income customer initiatives was impeded by the lack of the Authority's collection of critical data. *Id.* at 16-17. To resolve this concern, according to I&E, the Settlement, incorporates many of Mr. Colton's recommended data points, and PWSA has agreed to immediately begin collecting data on the following:

... the amount of billed revenue; the amount of receipts annually collected; the number of accounts in arrears; the dollar amount of arrears; the number of accounts disconnected for nonpayment; the number of accounts receiving a notice of disconnection for nonpayment; the number of bill discount participants who entered the bill discount program with unpaid account balances; the dollars of

unpaid account balances for bill discount program participants at the time they entered the bill discount program; the number of bill discount participants by poverty level ranges; average usage and average total bills; the number of PWSA customers receiving PWSA hardship grants and the average amount of the grant; and the average arrearage of PWSA customers receiving a PWSA hardship grant.

Id. at 17. To further improve data collection, OCA notes that PWSA agreed to consult with Dollar Energy Fund on whether data is available on the income level of bill discount program participants. *Id.* OCA maintains, “This basic data collection is vitally important to ensure that PWSA and the parties can fully assess and improve upon the Authority’s customer assistance programs in future proceedings.” *Id.*

b. Bill Discount Program

Witness Colton addressed PWSA’s Bill Discount Program (BDP). In his review of PWSA’s BDP, which was established in January 2018, Witness Colton noted the Authority provided a 50% discount on the minimum charge for both water and wastewater bills for customers with incomes at or below 150% of the Federal Poverty Level. OCA St. in Support, pp. 17-18. “Mr. Colton also noted that PWSA did not intend to achieve any particular affordability objectives through this program.” *Id.* at 18. Consequently, Witness Colton recommended short-term and long-term improvements to PWSA’s customer assistance programs, including the development of the appropriate design of PWSA’s universal service program in the pending Compliance Plan proceeding. Notably, some of Witness Colton’s recommendations incorporated into the Settlement are as follows:

First, PWSA agreed to fund the BDP to reflect rates approved as a part of this proceeding, and the \$21 million increase reflects additional funding allocated to fund customer assistance programs. Settlement ¶ III.F.2. PWSA has also agreed to increase the assistance provided through the BDP to provide a 75% discount on the minimum charge for both water and wastewater customers with incomes at or below 150% of the Federal Poverty Level. Settlement ¶ III.F.4. In its next base rate case, PWSA has agreed to submit a detailed plan addressing the parameters of its low-income assistance programs, including design of the BDP and possible additional assistance for customers at

or below 50% of the Federal Poverty Level. Settlement ¶ III.F.4.a.i through vi.

Id.

c. Low Income Assistance Advisory Committee

During this proceeding, according to OCA, the parties examined the effectiveness and efficiency of PWSA's customer assistance programs. OCA maintains that the Authority has agreed to form a Low Income Assistance Advisory Committee (Advisory Committee), which among other things will be tasked with examining funding for the Bill Discount Program with separate budgets for water and wastewater populations. *Id.* at 18-19. Settlement ¶ III.F.3.h. Under the Settlement, the Advisory Committee, which will be composed of representatives from interested parties in this proceeding, the Commission's Bureau of Consumer Services, Dollar Energy Fund, and other local and community groups, will begin meeting quarterly within 90 days of the effective date of the rates in this proceeding. *Id.* at 19. "The Advisory Committee will "review program metrics and provide input and feedback on program terms and conditions and outreach documents." *Id.* OCA asserts that the formation of the Advisory Committee will assist PWSA in the development of more comprehensive and carefully designed customer assistance programs.

d. Outreach Efforts

OCA maintains another outcome of Witness Colton's recommendation, concerning customer assistance programs, was the inclusion of Settlement provisions under which PWSA agreed to work with other area electric and natural gas utilities to exchange information to identify additional income-qualified customers in the Authority's service territory. *Id.* at 20.

In the Settlement, PWSA agreed to continue a variety of outreach efforts:

...including but not limited to: (i) screening for eligibility during all credit-related calls; (ii) utilizing a referral or warm transfer process to Dollar Energy Fund; (iii) coordinating with other utilities that participate in the Western Pennsylvania Utility Group; and (iv) supporting Dollar Energy Fund's efforts to actively recruit customers with existing debt to enroll in the bill assistance program or apply for a grant.

Id. The above terms are intended to enroll more income-eligible customers in the programs, thereby providing vital assistance to PWSA's low income customers, OCA maintains.

4. OSBA's Position

OSBA took no position relevant to the specific low-income programs except for the potential cost recovery of low-income residential costs from commercial customers. OSBA notes that parties have reserved the right to make proposals regarding cost allocation for low-income programming in PWSA's next rate proceeding. *See* Settlement p. 9, ¶ 10. OSBA St. in Support p. 7.

5. Pittsburgh UNITED's Position

Pittsburgh UNITED's Witness Miller examined the Authority's low-income customer assistance programs, that is, the BDP and the Hardship Fund. He concluded "the programs are undersubscribed compared to relative need [footnote omitted] and as proposed do not produce a sufficient level of affordability – particularly for household[s] with the lowest household income." Pittsburgh UNITED St. in Support p. 29-30. Witness Miller contends that the following Settlement provisions move to improving the Authority's low-income customer assistance programs.

a. Low Income Data Collection

Under the Settlement terms PWSA agrees to immediately begin collecting a number of critical data points regarding customer consumption, bill payment, termination, and

program participation for PWSA's low income population. *Id.* at 30. The collection and tracking of this critical data, according to Pittsburgh UNITED, "will in turn better inform PWSA, the Commission, and interested stakeholders in making appropriate adjustments to PWSA's universal service programs to best serve those in need." *Id.* at 31.

b. Low Income Assistance Advisory Committee

Under the Settlement terms, PWSA agrees to establish a Low Income Assistance Advisory Committee, with members from interested parties, BCS, the Dollar Energy Fund (which administers PWSA's programs), and local community and social service groups. In support of this Settlement provision, Pittsburgh UNITED argues as follows:

The charge of the Committee includes addressing issues related to program outreach, program design, fundraising efforts, and specific programmatic terms and conditions which have proven to create burdensome barriers to program enrollment, such as the Social Security Number requirement for Hardship Fund applicants. [footnote omitted] The Committee will also review changes to PWSA's customer service policies and procedures. [footnote omitted] Mr. Miller recommended the creation of a Low Income Assistance Advisory Committee in direct testimony, noting that "[o]ther regulated utilities which operate low income assistance programs have established advisory committees, which have proven to be a helpful tool to identify and resolve issues as they arise. ... This sort of collaborative and community approach to the provision of low income programming ensures that the programs are meeting the needs of the communities they are intended to serve."

Id. at 31.

c. Bill Discount Program Revision

Under the Settlement terms, the rate discount available to low income consumers through the Bill Discount Program (BDP) increases from 50% to 75% off the water and/or wastewater service charge. *Id.* at 32. "While the increase provides less relief than originally proposed by Pittsburgh UNITED, [footnote omitted] the provision is – on balance – a reasonable

incremental step to help economically vulnerable households to withstand the financial pressure of the rate increase, and represents a reasonable compromise amongst the various positions.” *Id.*

d. Low Income Assistance Program Plan Requirement

Under the Settlement terms, PWSA agrees, as a part of the Authority’s next base rate proceeding, to submit a Plan detailing the parameters for each of its low-income assistance programs, which must include any consensus issues adopted by the Low Income Assistance Advisory Committee. *Id.* at 31-32. “Specifically, . . . the Plan must include the eligibility requirements, benefits, budgets, and a needs assessment for each program, a newly proposed conservation program targeted at PWSA’s highest users to help control the costs of the other universal service programs, and a proposal to provide scaled rate assistance based on household income.” *Id.* at 32. Thus, Pittsburgh UNITED argues these Settlement terms provide a starting point for assessing the adequacy and availability of PWSA’s low-income assistance programming in the Authority’s next rate base proceeding. *Id.* at 33.

In reviewing and evaluating the above Settlement provisions relevant to the low income customer issues, Pittsburgh UNITED maintains these provisions are beneficial to ratepayers and therefore in the public interest and should be approved. *Id.* at 31-33.

H. Contractual Issues

1. PWSA’s Position

a. PWSA Services Contract with the City of Pittsburgh

PWSA remarks that the Authority has a Cooperation Agreement (Agreement) with the City of Pittsburgh, which provides for various services to and undertakes various responsibilities for one another. PWSA St. in Support, p. 36. According to PWSA, opposing witnesses challenged certain terms of the Agreement and suggested renegotiation of the

Agreement for regulatory compliance. *Id.* Consequently, the Settlement provides for investigation of the Agreement in the pending Compliance Plan proceeding. *Id.*

PWSA also agreed to provide certain notices to the City and to the parties to this proceeding and acknowledged I&E's reservation of rights as to PWSA's next base rate proceeding. [footnote omitted]. 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.

Id. 36.

b. Billing Arrangement with ALCOSAN

PWSA comments there was also a challenge to the Authority's billing arrangement with the Allegheny County Sanitary Authority (ALCOSAN). *Id.* at 37. As a result, PWSA submits the Settlement provides for the following:

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).

Id. at 38. Addressing the ALCOSAN billing arrangement in the Compliance Plan, PWSA asserts, is a reasonable way to proceed and achieves a balanced compromise of the issue. *Id.*

c. City of Pittsburgh Discount for PAWC

PWSA's contractual arrangement with Pennsylvania-American Water Company (PAWC) is another matter deferred to the Compliance Plan proceeding. PWSA explains the issue as follows:

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. [footnote omitted]. 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. [footnote omitted]. The continued evaluation of this matter in the Compliance Plan proceeding is a reasonable resolution of the concerns expressed by the parties.

Id. at 38-39.

d. Jordan Tax Service Arrangement

PWSA acknowledges that there was disagreement among the parties concerning PWSA’s collections process through Jordan Tax Service. *Id.* at 39.

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.

Id.

PWSA retorts that resolving the Jordan Tax Service issue in the context of the rate proceeding proved difficult in part for several reasons: 1) PWSA is obligated to try to maximize its collections; 2) PWSA and JTS are defendants in a pending class action lawsuit, which currently has estopped JTS from collecting debts owed to PWSA; and 3) a cost effective manner of collecting currently pending overdue payment on debts referred to JTS needs to be developed. *Id.* Consequently, PWSA agreed to suspend the Authority’s use of JTS upon the effective date

of the Commission's final order approving the Settlement. *Id.* at 40. PWSA further agreed to reexamine the JTS issue in the pending Compliance Plan proceeding for compliance with the Commission's statutes and regulations. *Id.* Thus, PWSA suggests that the Authority's agreements as abovementioned are a reasonable way to address the JTS issue. *Id.*

2. I&E's Position

Over the course of the litigation, I&E challenged the rate impact of certain PWSA contractual arrangements. I&E St. in Support at 42. I&E explained its concerns about the contracts as follows.

a. PWSA Services Contract with the City of Pittsburgh

PWSA has a service contract (Cooperation Agreement) with the City of Pittsburgh, which in part provides for the following:

Some of the services the City is to provide to PWSA include telephone and data services, vehicle fuel and repairs, legal aid, computer services, payroll services, and administration of employees' benefit programs. In return, PWSA agrees to provide the City with up to 600 million gallons of free water each year for City agencies, departments, and instrumentalities, equalization payments/rate subsidy for water customers in certain portions of the City not serviced by PWSA, and the actual direct and overhead expenses for services provided by the City. [footnote omitted]. PWSA indicated that its Cooperation payment in the FPFTY [Fully Projected Future Test Year] will be \$7.15 million.

Id.

After examination of PWSA's Cooperation Agreement payments, I&E complains the payments lacked cost justification in several respects. I&E submits the City's invoices did not contain a detailed explanation of charges. Therefore, it is unclear what services the City provided to PWSA, when the services were provided and the cost of such services. *Id.* at 43. I&E further argues, PWSA indicates the City historically billed PWSA \$7.5 million annually;

however, detailed invoices to substantiate payments in that amount are lacking. *Id.* “Instead, consistent with a recent finding in the Auditor General’s Report, [footnote omitted] it appears that City invoices provided did not contain a detailed explanation of what the charges were for, and it was PWSA’s practice to simply pay the invoice.” *Id.*

I&E’s other areas of concern include 1) PWSA providing 600 million gallons of free water to the City without knowing how much free water the City actually uses since many City-owned properties are not metered; 2) the Auditor General’s Report suggesting the City’s usage may be close to one billion gallons water annually, which, if accurate, computes to \$11.4 million in annual revenue not collected by PWSA; and 3) the imposition of the cost of the City’s free water service upon the PWSA’s other ratepayers. *Id.* 43-44.

In view of the above, “I&E recommended that PWSA renegotiate the Cooperation Agreement with the City no later than September 30, 2019.” *Id.* 43. I&E suggested that the renegotiated Cooperation Agreement should include 1) an end to the subsidization of rates to the City; 2) a requirement for an accurate listing of services provided and paid for; 3) a reexamination of PWSA’s subsidization of the City water bills; 4) a provision that the City submit detailed invoices to verify charges assessed for actual expenses and overhead charges. *Id.* I&E also indicated that the Authority should discontinue payment of City invoices for services, unless the invoices contain valid details of charges for actual services provided by the City to PWSA. *Id.* 45.

I&E admitted that renegotiation of the Cooperation Agreement might prove difficult for PWSA, in part, because the City had elected not to participate in the rate proceeding, thereby limiting the development of the record relative to the City’s position on the issues raised by I&E. *Id.* 45-46. Accordingly, I&E agreed to the Settlement terms, under which the Cooperation Agreement will be further investigated in the pending Compliance Plan proceeding. *Id.* at 46. While agreeing to a further investigation, I&E reiterates its “position that provisions in the Cooperation Agreement for PWSA’s payments to the City for anything other than services provided, provision of free service to the City, and subsidy payments for customers outside of PWSA’s service territory should be rescinded.” *Id.* I&E argues, “These provisions conflict with

the Code, and negatively impact PWSA's ability to provide safe and effective service and to charge just and reasonable rates." *Id.*

I&E submits that it supports deferring investigation of the Cooperation Agreement to the Compliance Plan proceeding, in part, because PWSA has agreed in good faith, as a condition of the Settlement, to give the City notice that the City's interests may be implicated in other PWSA proceedings before the Commission. *Id.* 47-48. "In I&E's view, the public interest is served by ensuring that the City is fully aware of the regulatory obligations that now govern PWSA's operations so that it can make informed decisions as it moves forward with renegotiating its Cooperation Agreement with PWSA." *Id.* 48.

b. Billing Arrangement with ALCOSAN

PWSA's billing arrangement with ALCOSAN, according to I&E, also requires restructuring. I&E explained its position as follows:

All wastewater collected and conveyed by the PWSA wastewater conveyance system is treated at ALCOSAN wastewater treatment facilities. For purposes of billing, PWSA customers pay ALCOSAN for wastewater service in the form of a "pass-through" charge on their PWSA bills. . . . [I]n conjunction with the ALCOSAN billing arrangement, PWSA currently carries bad debt expense for collections related to pass through charges by ALCOSAN. The pass through charges that ALCOSAN assesses to PWSA are based on billed volume, not collected revenue, and these charges costs PWSA customers approximately \$3-\$5 million per year. In this case, PWSA claimed an ALCOSAN billing loss of \$3,699,738 in its FPFTY under "other operating expenses." As I&E witness D.C. Patel explained, while ALCOSAN charges and receives full payment from PWSA for wastewater treatment, this arrangement places all the risk of non-payment or partial payment by wastewater customers upon PWSA and causes unpredictability on the month-to-month billing impact for PWSA customers.

Id. at 51-52.

Acknowledging PWSA's claim that there were legal and "practical challenges of disentangling" the Authority from ALCOSAN, I&E supports the Settlement terms that provide for investigating PWSA's billing arrangement with ALCOSAN in the pending Compliance Plan. *Id.* at 52-54. I&E also notes that, under the Settlement, PWSA commits to evaluating potential ways to address the Authority's contract with ALCOSAN, including renegotiation of the contract. *Id.* at 54. I&E submits that the possibility of a renegotiated contract is in the public interest because PWSA and ratepayers are both negatively impacted by the PWSA's current billing arrangement with ALCOSAN. *Id.*

c. City of Pittsburgh Discount for PAWC

I&E contends PWSA's rate subsidy directly paid to Pennsylvania-American Water Company (PAWC) is another cost passed on to the Authority's ratepayers. *Id.* at 56. I&E maintains the subsidy payment stems from a 1973 agreement between the City and PAWC's predecessor, Western Pennsylvania Water Company. *Id.* Under the 1973 agreement, certain PAWC water customers located within the City limits receive a discount on their bills. *Id.* I&E notes, "PWSA's filing projected...the City of Pittsburgh Discount subsidy to be \$4.8 million in its FPFTY." *Id.* I&E remarks, in part, that the subsidy had a significant impact on the total requested revenue increase in the rate proceeding and elimination of the subsidy would result in financial relief to the Authority. *Id.* at 57. While I&E opposed the subsidy, it did not recommend an immediate adjustment to PWSA's claim that the Authority was legally obligated to pay the subsidy to PAWC. *Id.*

Instead, in recognition of the practical challenges and timing of disentangling PWSA from the subsidy arrangement, I&E recommended that PWSA work out a plan to reduce the water rate subsidy to PAWC in a phased manner so as to eliminate the rate subsidy completely by PWSA's next base rate case filing, or September 30, 2019, whichever occurs first.

Id.

I&E submits as a compromise to its recommendation, the Settlement provides for continuing the investigation of the subsidy payments in PWSA's pending Compliance Plan proceeding. *Id.* at 58. I&E asserts that deferral of the subsidy issue to the Compliance Plan is in the public interest. First, deferral allows the Authority additional time to renegotiate the subsidy with PAWC and may avoid expensive and time consume litigation. Second, deferral allows for time to notify PAWC customers that they may be affected by potential changes to their rates depending upon the outcome of the subsidy investigation. *Id.* at 59.

I&E concludes it supports the Settlement terms deferring the above contractual issues to the pending Compliance Plan proceeding, while reserving its right to further challenge PWSA's contractual arrangements in that proceeding.

3. OCA's Position

As discussed above, OCA found the revenue allocation provisions of the Settlement were problematic, in part, because of PWSA's contractual relationships. Thus, OCA clarified its agreement to the contractual provisions of the Settlement as follows.

a. PWSA Services Contract with the City of Pittsburgh

OCA contends PWSA's Services Contract with the City of Pittsburgh, i.e., Cooperation Agreement, requires the Authority to provide water and wastewater services to the City; however, the City currently does not pay for these services, which includes public fire service. Also, many of the City-owned properties are unmetered. OCA St. in Support at 20. OCA further contends there is no allocation of costs for service to the City in the Authority's COSSs, thereby burdening other customer classes with absorbing these costs. *Id.* To resolve these issues, OCA recommended PWSA 1) promptly address the City's status as a customer; 2) meter all City-owned properties, if metering is feasible; 3) require the City to pay for its usage; and 4) require the City to pay a portion of the costs incurred by PWSA for public fire protection service. *Id.* at 20-21.

OCA submits its recommendations resulted in a compromise. “As part of the Settlement, PWSA has agreed that its Services Contract with the City of Pittsburgh will be investigated as part of the Compliance Plan proceeding.” *Id.* at 21. OCA notes that PWSA is presently attempting to renegotiate its Cooperation Agreement with the City and has agreed to update the parties quarterly on these efforts. “Further, PWSA has agreed to provide “a breakdown of estimated services received from the City of Pittsburgh and the associated costs, including the reasonableness of each cost,” both in the Compliance Plan proceeding and in its next base rate case.” *Id.* A further investigation of the Cooperation Agreement, OCA asserts, “will provide important steps toward making PWSA’s rates fair, rational and based on the cost to serve all customers.” *Id.*

b. Billing Arrangement with ALCOSAN

OCA confirms that the parties agreed to further investigate PWSA’s billing arrangement with ALCOSAN in the pending Compliance Plan proceeding. *Id.* Under the Settlement, the parties agreed the investigation will include 1) an evaluation of the feasibility of measuring stormwater separately from wastewater flows and 2) a plan for developing separate cost of service studies for wastewater and stormwater service to assist in the development of a separate stormwater tariff. *Id.*

c. City of Pittsburgh Discount for PAWC

OCA confirms that the parties agreed to further investigate the City of Pittsburgh discount for PAWC water customers as part of the pending Compliance Plan proceeding. *Id.* at 22.

d. Jordan Tax Service Arrangement

Over the course of the litigation, OCA challenged PWSA’s municipal lien practices and the use of Jordan Tax Service, Inc. (JTS) as the Authority’s third-party debt collection agent. *Id.* OCA notes that under the Settlement, PWSA agrees to suspend its use of

JTS as of the effective date of the Commission's final order approving the Settlement. *Id.* Also, the JTS collection arrangement will be further investigated in the pending Compliance Plan proceeding for compliance with the Commission's regulations. *Id.*

4. OSBA's Position

OSBA took no position relevant to the Settlement contractual issues. OSBA St. in Support, p. 7.

5. Pittsburgh UNITED's Position

Pittsburgh UNITED argues, in part, that PWSA's current collection practices, associated fees and use of Jordan Tax Service contravene the Commission's statutes, regulations and policies. However, Pittsburgh UNITED offers that the Settlement reserves critical contractual issues for further examination in the pending Compliance Plan proceeding. Pittsburgh UNITED St. in Support, p. 33. This examination will include PWSA's Services Contract with the City of Pittsburgh; PWSA's billing arrangement with ALCOSAN; the City of Pittsburgh's Discount for PAWC water customers; and PWSA's collection arrangement with Jordan Tax Service. *Id.* Thus, Pittsburgh UNITED suggests that deferral of this examination to the Compliance Plan proceeding presents a reasonable opportunity for a more detailed inquiry.

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

1. PWSA's Position

a. Consolidation of Compliance Plan and LTIIP

PWSA points out that a broad range of issues have been deferred to the Authority's Compliance Plan proceeding and/or LTIIP for more complete consideration. PWSA St. in Support at 40. In deferring certain issues for later consideration, PWSA submits the Settlement provides for the following.

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. Second, PWSA committed to not object in the Compliance Plan and/or LTIP proceeding to the admission of any testimony, documents, or answers to interrogatories exchanged throughout the course of this proceeding. Third, PWSA agreed to submit a revised Compliance Plan and LTIP 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/LTIP proceeding, whichever is sooner. Lastly, in the revised Compliance Plan and LTIP, 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.

Id. To streamline the process, PWSA adds that within 30 days of the Settlement's signature date, the Authority agreed to file a Petition with the Commission requesting consolidation of the Compliance Plan and LTIP proceedings. PWSA suggests that the Authority's agreement to the above Settlement provisions is reasonable and demonstrates its desire to resolve a number of issues in an orderly fashion.

b. Issues To Be Investigated in the Compliance Plan (Not Addressed Above)

Recognizing PWSA's transition to the Commission's jurisdiction presents a unique and challenging process, PWSA maintains time constraints precluded a comprehensive evaluation of the myriad issues raised in this proceeding. *Id.* 42. Therefore, PWSA committed to addressing certain issues in the Compliance Plan proceeding and/or LTIP.

Notably, the Settlement provides for the following.

- 1) PWSA committed to considering the proposal to assess the City of Pittsburgh a separate rate for public fire hydrant service in its Compliance Plan.
- 2) PWSA 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.

- 3) PWSA agreed to address in the Compliance Plan or LTIIP various infrastructure/operations/lead issues, including a) measuring and remediating unaccounted for/non-revenue water; b) establishing records for estimated flows used for blow-offs, street sweeping, flushing, firefighting, and main breaks, etc.; c) conducting leak surveys; d) compliance with Chapter 65 of the Commission's regulations; e) a plan to address "party line" service; f) metering and billing of all City water/wastewater locations; g) a plan to track age of customer meters and to test and/or replace meters over twenty (20) years old; h) the development of operating metrics for infrastructure improvements projects; i) the cost effectiveness of dollars spent for infrastructure improvement; j) a Risk Assessment Model for prioritizing projects; k) a plan to adopt twenty (20) operating metrics; l) 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; and m) PWSA's present line extension fee structure.

Id. at 43.

PWSA summarizes the Settlement offers a reasonable resolution of the issues, reduces administrative burden on the Commission and avoids costly litigation. Therefore, the Settlement is in the public interest and should be approved by the Commission without modification. *Id.* at 44.

2. I&E's Position

Essentially, I&E agrees with the Settlement provisions relating to the Compliance Plan and LTIIP. I&E indicates its support for these provisions as necessary for a collective resolution of the proceeding. I&E St. in Support at 60-61. I&E comments on these provisions, in part, as follows.

a. Consolidation of Compliance Plan and LTIIP

PWSA's agreement to petition the Commission for consolidation of the Compliance Plan proceeding and LTIIP will relieve the parties and the Commission of

unnecessarily committing resources to separate proceedings and will avoid the risk of conflicting determinations. *Id.* at 61.

“I&E identified two issues implicated in both PWSA’s LTIP and its Compliance Plan: (1) the 5-year plan for PWSA to complete its Unmetered and Flat Rate Properties meter installation program and (2) PWSA’s projected workforce.” *Id.* I&E claims that these issues and other interrelated issues should be resolved on a unified basis in a consolidated proceeding. *Id.*

b. Revision of Compliance Plan

PWSA agrees to revise its Compliance Plan and LTIP within 30 days of the Commission’s entry of a final order in this proceeding or submission of direct testimony in the Compliance Plan/LTIP proceeding, whichever is sooner, in compliance with the terms of this Settlement. *Id.* Concomitantly, PWSA agrees to provide supplemental information concerning internal policies, procedures, and operations, including but not limited to a) requirements for residential service; b) collections practices; c) service termination procedures; d) policies relevant to Protection from Abuse orders or other court orders; e) Call Center Metrics; f) data points about its Low Income Assistance Programs; g) line extension fee structure; h) future plans for the Highland No. 1 Reservoir and the Highland Membrane Filtration Plant (HMFP); i) public fire hydrant service; and j) reduction of uncollectibles practices. *Id.* at 62-63.

c. Highland Membrane Filtration Plant

The Pennsylvania Department of Environmental Protection (DEP), upon discovering the Authority’s HMFP disinfection process failed to achieve at least 90% inactivation of Giardia cysts and 99.9% inactivation of viruses, issued an Administrative Order on October 25, 2017 taking the HMFP out of service. *Id.* at 64.

PWSA agrees, within 30 days of the signature date of the Settlement and until the filing of its next base rate case, to start providing the parties on a quarterly basis a detailed cost

breakdown regarding the HMFP. *Id.* at 63. This cost breakdown will include a) actual and projected operating and capital costs regarding the HMFP to date as a result of the October 25, 2017 Department of Environmental Protection Administrative Order and b) the HMFP's actual and projected operating costs on a calendar year basis. *Id.* at 63.

PWSA further agrees it will provide with its next base rate filing a cost/benefit analysis comparing continuing to operate the HMFP instead of covering and placing a physical barrier around Highland No. 1 Reservoir. *Id.*

I&E indicates that PWSA's agreement to provide the above analyses will assist the parties in evaluating PWSA's options regarding Highland Park Reservoir No. 1 and HMFP and will ensure that ratepayer funds are prudently spent. *Id.* at 65-66.

d. Public Fire Hydrant Service

I&E proposed that no later than PWSA's next base rate case the Authority should assess the City of Pittsburgh a rate for the public fire hydrant service provided by the Authority. *Id.* at 25. PWSA agrees to consider this proposal in the Compliance Plan proceeding. *Id.* at 66. Recognizing that the public fire hydrant service is entangled with the earlier discussed Cooperation Agreement, I&E supports deferring this Settlement provision to the Compliance Plan. *Id.* at 67. I&E asserts, "It will not be acceptable for PWSA to continue to provide the City with water and wastewater service as currently designed absent the unique circumstances of this current base rate proceeding." *Id.* at 26.

e. Flat Rate for Unmetered/Unbilled Service

"In the Compliance Plan proceeding, PWSA agrees to consider the proposal for a flat rate for both water and wastewater for all unmetered and unbilled municipal and government properties or buildings served by PWSA, for inclusion in the next base rate case." *Id.* at 67. I&E supports this provision of the Settlement for the reasons mentioned above concerning the public fire hydrant service. *Id.* at 69.

f. Infrastructure/Operations/Lead Issues in Compliance
Plan/LTIIP

PWSA agrees to investigate various issues relating to infrastructure, operations and lead remediation in the pending Compliance Plan proceeding or LTIIP. *Id.* at 69-70. These issues are enumerated in the Settlement Petition. Settlement, pp. 26-29. I&E expressed concern for PWSA's operational deficiencies. However, I&E also acknowledged that PWSA had only recently come under the Commission's jurisdiction. Thus, I&E indicated it was reasonable to allow the Authority time to come into compliance with the Commission's statutes and regulations. *Id.* at 71-75. Therefore, I&E supports reserving the above issues for further investigation in the Compliance Plan proceeding or LTIIP. *Id.*

g. Other Issues

I&E notes that PWSA agrees to address other issues in the Compliance Plan proceeding and LTIIP, including customer service issues, the line and extension fee structure, third party collections activities and previously mentioned contractual arrangements, and low income customer issues. *Id.* at 76-79. Considering the time constraints of the rate proceeding, I&E indicates it is appropriate to defer these issues for investigation in the Compliance Plan proceeding and LTIIP. *Id.*

I&E concludes that the above Settlement terms represent a compromise on the part of all the parties, avoid continuing litigation and expenses, and conserve time of the Commission and the parties. *Id.* at 79-81. Therefore, I&E requests approval of the Settlement without modification.

3. OCA's Position

a. Consolidation of Compliance Plan and LTIIP

OCA states the Settlement provides for further investigation of a wide variety of issues in the pending Compliance Plan proceeding and/or LTIIP. OCA St. in Support at 23. OCA adds that PWSA has agreed to the following procedural measures:

- 1) PWSA will petition the Commission for consolidation of the Compliance and LTIIP proceedings.
- 2) PWSA will not object to the admission of any testimony, documents, or answers to interrogatories developed during the within base rate proceeding into the record in the Compliance Plan and/or LTIIP proceedings.
- 3) PWSA will submit a revised Compliance Plan and LTIIP within 30 days of the Commission's final order in this base rate proceeding, or submission of direct testimony in the Compliance Plan/LTIIP proceedings, whichever is sooner.
- 4) PWSA will "provide supplemental information about its internal policies, procedures, and processes," including a) information on topics raised by the OCA in this proceeding, such as PWSA's collections policies; b) service termination procedures; c) call center metrics; d) data points and other operational details regarding the customer assistance programs; e) public fire hydrant service; and f) reduction of uncollectibles.

Id. OCA suggests that above procedural measures will assist the parties in refining the issues for further investigation. *Id.*

b. Issues To Be Investigated in the Compliance Plan (Not Addressed Above)

Mirroring PWSA, OCA reiterates the issues reserved for in-depth examination as part of the Compliance Plan and/or LTIIP proceedings, and OCA adds issues, which it previously discussed concerning the Authority's customer service issues and low-income customer assistance programs. Thus, OCA posits that reserving certain issues for more detailed analysis "will allow the OCA and other parties to fully address these items and to develop a plan to attain PWSA's full compliance with Commission regulations. . ." *Id.* at 25.

OCA concludes the Settlement represents a fair and reasonable resolution of the issues raised in this proceeding; therefore, the Settlement is in the public interest and should be approved by the Commission without modification. *Id.* at 27.

4. OSBA's Position

OSBA did not offer a statement concerning either the proposed consolidation of the Compliance Plan proceeding and LTIIP or the other issues deferred for further investigation. However, OSBA supports the Settlement and respectfully requests that the ALJs and the Commission approve the Settlement in its entirety. OSBA St. in Support at 8.

5. Pittsburgh UNITED's Position

a. Consolidation of Compliance Plan and LTIIP

Pittsburgh UNITED maintains the Settlement provides for procedural measures listed below:

- 1) PWSA will petition the Commission for consolidation of the pending Compliance Plan proceeding and LTIIP.

- 2) PWSA agrees it has the burden of proof in the Compliance Plan proceeding.
- 3) PWSA will not object in the Compliance Plan or LTIIIP proceeding to the admission of testimony and discovery responses admitted in the base rate proceeding.
- 4) PWSA will revise its Compliance Plan and LTIIIP to provide supplemental information concerning the designated policies, practices and procedures of the Authority.

Pittsburgh UNITED St. in Support, p. 34.

Pittsburgh UNITED argues these procedural measures “are designed to protect the interests of the respected parties, reduce unnecessary litigation expenses, and provide a reasonable path forward to resolve a number of issues presented throughout this proceeding.”
Id.

b. Issues to be Investigated in Compliance Plan

Certain issues are reserved for consideration in PWSA’s pending Compliance Plan proceeding, notes Pittsburgh UNITED. *Id.* at 35. Some of these issues include 1) fire hydrant service; 2) flat rate billing for unmetered and unbilled municipal and government properties; 3) infrastructure and operations; 4) post 2019 lead service line remediation programming; 5) unresolved customer service issues; 6) line extension fees; 7) third party collection activities; 8) contractual matters; 9) low income programming; and 10) future data reporting obligations. *Id.* at 35. Pittsburgh UNITED suggests certain practices of the Authority violate the Commission’s statutes and regulations; however, time constraints prevented the parties from resolving all issues in a single proceeding. *Id.* Accordingly, Pittsburgh UNITED asserts that deferring certain issues to the Compliance Plan proceeding and LTIIIP offers a reasonable and just resolution of the issues. *Id.* at 36.

Pittsburgh UNITED concludes the Settlement was reached after an extensive investigation of PWSA's filing and associated policies, practices and procedures. *Id.* Many complex issues resulted in a reasonable resolution. Other issues were deferred for further investigation. "Acceptance of the Settlement avoids the necessity of further administrative and possible appellate proceedings regarding the settled issues, at what would have been a substantial additional cost to the Joint Petitioners." *Id.* Therefore, Pittsburgh UNITED submits the Settlement is in the public interest and requests Commission approval of the Settlement without modification.

VI. RECOMMENDATION

The Commission encourages parties in contested on-the-record proceedings to settle cases. *See*, 52 Pa.Code § 5.231. Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission's decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a "settlement" reflects a compromise of the parties' positions, which arguably fosters and promotes the public interest. When parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest. *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

In general, the Settlement proposed in this proceeding represents a "black box" approach to all individual revenue requirement issues. Black box settlements avoid the need for protracted disputes over the merits of individual revenue adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on a variety of financial numbers. It is unlikely that the parties would have been able to reach a consensus on each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ widely. As such, the parties have not specified a dollar amount for each issue or adjustment

raised in this case. Attempting to reach an agreement regarding each adjustment in this proceeding would likely have prevented any settlement from being reached. OCA St. in Support, pp. 6-7.

Section 1301 of the Public Utility Code, 66 Pa.C.S. § 1301, provides: “every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission.” In deciding any general rate increase case brought under Section 1308(d) of the Code, 66 Pa.C.S. § 101 *et seq.*, certain general legal standards always apply.

The burden of proof to establish the justness and reasonableness of every element of the utility’s rate increase rests solely upon the public utility. 66 Pa.C.S. § 315(a). “It is well-established that the evidence adduced by a utility to meet this burden must be substantial.” *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, 409 A.2d 505, 507 (Pa.Cmwlt. 1980).

The Settlement proposed in this proceeding provides for a \$21 million increase in retail user rates, as opposed to PWSA’s original, \$27 million request. As set forth in Exhibits 1 and 2 and the proof of revenues attached as Exhibit 3 to the Joint Petition, the Settlement Rates are designed to produce a net increase in user charge operating revenues of \$21 million,¹⁸⁴ based upon data for a FPFTY ending December 31, 2019, as adjusted. The Settlement Rate increase is \$6 million less than PWSA’s original request.

The anticipated impact of the agreed-upon Settlement Rates upon the average customer in various customer classes is shown in part of Exhibit 3 attached to the Settlement. Under the Settlement Rates, a typical residential water and wastewater conveyance customer using 3,000 gallons of water per month will see his or her monthly bill increase from \$63.62 to \$72.49, an increase of \$8.87 or 13.9%.

¹⁸⁴ The Settlement (a) increases PWSA’s total annual user charge revenues for water service by approximately \$16.639 million, or 17.1%; and, (b) increases PWSA’s total annual user charge revenues for wastewater conveyance service by approximately \$4.374 million, or 7.2%.

We agree with the Joint Petitioners that the Settlement reached in this proceeding is in the public interest for several reasons. The interests of various stakeholders were well represented in this proceeding as evidenced by the myriad of issues raised herein and the thoroughness and thoughtfulness of the Statements in Support of the Settlement filed by the Joint Petitioners.

The General Assembly imposed a specific statutory obligation upon the Commission to ensure that PWSA is permitted to impose, charge or collect rates or charges as necessary to permit it to comply with its covenants to the holders of any bonds or other financial obligations.¹⁸⁵ Additionally, during the course of this rate proceeding, Moody's, a credit rating agency, downgraded PWSA's credit rating from A2 with a negative outlook to A3 with a negative outlook, with debt burden, coverage and liquidity levels being listed as factors in its decision for the downgrade.¹⁸⁶ Finally, in its filing, PWSA claimed that additional revenue was necessary because of increased costs, revised sales projections that showed a reduction in sales compared to the 2018 forecast, a need for PWSA to maintain its credit rating so that it could raise future capital on reasonable terms, and its commitment to undertake a comprehensive Capital Improvement Plan that will require increased operating and construction expenditures.¹⁸⁷ These facts warrant consideration in the determination of PWSA's revenue requirement. The Settlement is in the public interest because it addresses these concerns.

PWSA was not subject to the jurisdiction of the Commission until April 1, 2018. This first base rate proceeding is a challenging one as PWSA makes changes in an effort to comply, over time, with the Public Utility Code and Commission regulations. The data typically used to evaluate a requested rate increase is not available in this proceeding but, as part of the Settlement, certain terms were included that will be useful in subsequent base rate proceedings.

¹⁸⁵ 66 Pa.C.S. § 3208 (c)(1); I&E St. No. 1, p. 10.

¹⁸⁶ PWSA St. No. 3R, p. 3; Ex. KLC-3.

¹⁸⁷ PWSA St. No. 1, pp. 15-17.

The testimony of record, particularly the testimony submitted by OCA, raised a variety of concerns related to PWSA's projected expenses for 2019 and whether its budgeted claims for the FPFTY were overstated. *See* OCA St. 1 at 4. To address these concerns, the Settlement provides that PWSA will submit quarterly reports to the parties on a number of financial data points. As part of these reports, the Authority will track and categorize monthly expenses; provide data on vacant positions filled and salaries; provide copies of reports to the Pennsylvania Department of Environmental Protection (DEP) on the number of lead service lines replaced and location of replacements; and amounts of actual debt service and new debt. Settlement ¶ III.A.2.a through f. Further, the Settlement provides that:

To the extent that PWSA's actual 2019 actual revenues net of expenses produce a surplus greater than its FPFTY projections as reflected in subsections a through d above, PWSA agrees to use the excess in its discretion, to: i) add to its year end "days cash on hand"; ii) pay down its operating or construction line of credit; and/or iii) repay an item in PWSA's borrowing portfolio. PWSA agrees that it will 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.

Settlement ¶ III.A.2.f.; OCA St. in Support, p. 8.

The reporting requirements contained in the Settlement are important because they will allow the parties to track how PWSA is spending any additional funds resulting from this rate increase and ensure that the funds are being used in a manner that benefits ratepayers. The Settlement allows PWSA to improve its quality of service and stabilize its financial situation. The Settlement terms require PWSA to be accountable for its use of the additional funds and will provide the parties with important financial data in a future base rate case.

The Joint Petitioners agree the Settlement rate increase shall be allocated as proposed by OCA witness Scott Rubin, with a proportionate increase to all existing rates. Additionally, the Joint Petitioners agree that no precedent has been established in this base rate case for the allocation and recovery of BDP-CAP costs and LSL replacement costs. Parties reserve the right to make proposals regarding cost allocation for lead service line replacement

programming and low-income programming in PWSA's next rate proceeding. I&E St. in Support, p. 20.

In summary, OCA witness Rubin concluded PWSA's failure to include data for the City water and wastewater usage, as well as inaccuracies in estimating fire protection costs, rendered PWSA's cost-of-service studies grossly inaccurate and unsuitable for use. In the absence of meaningful cost studies, OCA witness Rubin recommended that each retail rate element (i.e., each customer charge and volumetric charge) should be increased by the same percentage to achieve the water and wastewater revenue requirements determined by the Commission.¹⁸⁸ I&E St. in Support, p. 21.

We agree with the Joint Petitioners that it is in the public interest that the Settlement rate increase be proportionally allocated to all existing rates for the reasons included in their Statements in Support.

The Settlement also addresses customer service issues, tariff issues and low income customer issues. These terms are important, and we believe necessary to move PWSA forward toward full compliance with the Code and the Commission's regulations. Therefore, we find the terms addressing these areas included in the Settlement to be in the public interest.

This base rate case is PWSA's first before the Commission. PWSA also has a Compliance Plan – Stage 1 proceeding currently before the undersigned ALJs at Docket Nos. M-2018-2640802 (Water) and M-2018-2640803 (Wastewater). Many of the issues raised by the Joint Petitioners in this base rate proceeding will be addressed in the Compliance Plan – Stage 1. Other issues raised will be addressed in the Compliance proceeding to follow that, the LTIP proceeding or, perhaps, in the next base rate proceeding. The Joint Petitioners recognized the jurisdictional issues, compliance issues and base rate issues in this case. They were aware of their limitations and attempted to craft a pragmatic solution that enables PWSA to meet its service requirements under the Code and its financial obligations as well.

¹⁸⁸ OCA St. No. 2, p. 22.

We find the Settlement to be in the public interest and recommend its approval. The Settlement constitutes a fair, just and reasonable resolution of the Commission's investigation. The proposed Settlement tariffs for water and wastewater, being the first such tariffs to be filed with the Commission by PWSA, shall be corrected as follows:

- Wastewater Tariff
- Combine Pages 6 and 7.
- Page No. 12 - Identifies termination and resumption of service charges but also states "if the customer has not paid a service termination fee under PWSA's water tariff." This tariff language should be clarified (i.e. These fees waived if a customer has paid a fee under the water tariff). Water tariff does not mention this point. Page No. 13 – After section G wording insert wording such as "TBD" or "Reserved for Future Use".
- Page 17 – Revise 2 to specify "low-income criteria of annual household gross income at or below 150% of the Federal Poverty Level".
- Page No. 18 – Underline "ALCOSAN".
- Page No. 19 – Underline "Bona Fide Service Applicant," "Capital Lease Agreement," "City," "City Lien Verification Letter," "Combination Sewer or Combined Sewer," and "Commercial or Commercial Property".
- Page 19 – Revise 6 to specify "certificated service territory or areas served by PWSA as of December 21, 2017".
- Page 22 – Revise 32 to add "Health or Education Property", remove "or to any customer who purchases wastewater conveyance service from the Authority".
- Page No. 38 - PWSA requires 7-day notice if a customer wishes to discontinue service. 52 Pa.Code § 65.12 only requires 3-day notice.
- Page No. 40 - Allows termination of service to multiple premises on shared main connection if one customer becomes delinquent. PWSA must address and comply with 66 Pa.C.S. § 1406.
- Page 43 – Revise 6 to specify interest shall be calculated at the applicable rate for late payment charges.
- Page 44 – Revise 2.c. to replace interest rate with "simple annual interest rate determined by the Secretary of Revenue for interest on underpayment of taxes", consistent with 66 Pa.C.S. § 1404(c)(6).
- Page No. 46 – Under Tapping Fee, spacing not correct with the numbers. Settlement Term H.4.g. points out the line extension fee structure issues will be addressed in the compliance plan.

- Water Tariff
- Page 8 – Specify these rates apply to all customers except public fire protection and private fire protection customers, unless otherwise specifically identified in this tariff.
- Page 9 - Specify these rates apply to all customers except public fire protection and private fire protection customers, unless otherwise specifically identified in this tariff.
- Page No. 13 – After section G wording insert wording such as “TBD” or “Reserved for Future Use”.
- Page 19 - Revise 2 to specify “low-income criteria of annual household gross income at or below 150% of the Federal Poverty Level”.
- Page No. 23 – underline “Main” and “Party Water Service Line”.
- Page 23 – Revise 26 to add “Health or Education Property”.
- Page No. 29, change iv to iii, etc.
- Page No. 32 underline “Fixture” and “Water Use”. Remove spacing between Plumbing & Fixture and IPC Maximum & Water Use.
- Page No. 43 underline “New Meters”.
- Page No. 43 states PWSA requires 7-day notice if a customer wishes to discontinue service. PWSA must address compliance with 52 Pa.Code § 65.12 which only requires 3-day notice.
- Page 45 - Revise 6 to specify interest shall be calculated at the applicable rate for late payment charges.
- Page No. 46 – remove extra page or “Reserve for Future Use”
- Page 47 - Revise 2.c. to replace interest rate with “simple annual interest rate determined by the Secretary of Revenue for interest on underpayment of taxes”, consistent with 66 Pa.C.S. § 1404(c)(6).
- Page 53 – Tapping fees and connection fee must address compliance with 52 Pa.Code § 65.21.
- Page 54 - Lists prices for valve operation and purchase of meters from PWSA. PWSA must address compliance with 52 Pa.Code § 65.7.
- Page 38 - PWSA’s statement that it will maintain historic pressures must address compliance with 52 Pa.Code § 65.6.

Ordinarily, after the Commission issues its order in a base rate proceeding the utility is permitted to file a tariff or in this case tariffs incorporating the terms of the Joint Petition for Settlement and changes to rates, rules and regulations contained therein to become effective upon at least one day’s notice after entry of the Commission’s Order approving the

Settlement for service rendered on and after a certain date. The undersigned recommend that PWSA file its corrected tariffs for water and wastewater with the Commission as soon as possible to allow sufficient time for Commission review.

VII. CONCLUSIONS OF LAW

1. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the Commission. 66 Pa.C.S. § 1301.

2. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management...to raise the money necessary for the proper discharge of public duties. *Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923).

3. The Commission has jurisdiction to employ the concept of a Fully Projected Future Test Year (FPFTY) as authorized by Act 11 of 2012. As amended under Act 11, Section 315 of the Public Utility Code allows a utility to project investment, and correspondingly include it in the utility's claimed revenue requirement, through the twelve month period beginning with the first month that the new rates will be placed in effect. 66 Pa.C.S. § 308 *et seq.*

4. When parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest. *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

5. The Joint Petition for Settlement is in the public interest.

6. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm'n*,

955 A.2d 456, 461 (Pa.Cmwlth. 2008); *City of Lancaster v. Pa. Pub. Util. Comm'n*, 769 A.2d 567, 571-72 (Pa.Cmwlth. 2001). The question of reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm'n*, 516 A.2d 426 (Pa.Cmwlth. 1986); *Park Towne v. Pa. Pub. Util. Comm'n*, 433 A.2d 610 (Pa.Cmwlth. 1981).

7. The Petition for Leave to Withdraw Complaint filed by Peoples Natural Gas Company LLC at Docket No. C-2018-3004864 is in the public interest. 52 Pa.Code § 5.94.

VIII. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement that the Pittsburgh Water and Sewer Authority, the Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, and Pittsburgh UNITED have filed at Docket No. R-2018-3002645 and Docket No. R-2018-3002647, including all terms and conditions stated therein, be approved as corrected and modified in the Recommendation section of this Recommended Decision.

2. That the Pittsburgh Water and Sewer Authority is authorized to file tariffs, tariff supplements or tariff revisions containing rates, rules and regulations, consistent with the findings herein and Exhibits 1, 2 and 3 set forth and attached to the Joint Petition for Settlement, to produce an increase in annual revenues of \$21 million.

3. That the Pittsburgh Water and Sewer Authority tariffs, tariff supplements and/or tariff revisions may be filed on at least one-day's notice to be effective for service rendered on and after the effective date of the tariffs.

4. That the Pittsburgh Water and Sewer Authority, the Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, and Pittsburgh UNITED shall comply with the terms of the Joint Petition for Settlement submitted in this proceeding as though each term therein were the subject of an individual ordering paragraph.

5. That the tariffs filed at Docket No. R-2018-3002645 (Water) and Docket No. R-2018-3002647 (Wastewater) include the modifications/corrections set forth in the Recommendation section of this Recommended Decision.

6. That the formal complaints of the Office of Consumer Advocate filed at Docket No C-2018-3003165 (Water) and C-2018-3003173 (wastewater) are satisfied and marked closed.

7. That the formal complaints of the Office of Small Business Advocate filed at Docket No C-2018-3003388 (Water) and C-2018-3003384 (wastewater) are satisfied and marked closed.

8. That the formal complaint of the Pennsylvania-American Water Company filed at Docket No C-2018-3003941 is dismissed and marked closed.

9. That the formal complaints of the Duquesne Light Company filed at Docket No. C-2018-3005022 and Docket No. C-2018-3005036 are dismissed and marked closed.

10. That the formal complaints of James Ferlo filed at Docket No. C-2018-3004291 and Docket No. C-2018-3004311 are dismissed and marked closed.

11. That the Petition for Leave to Withdraw Complaint filed by Peoples Natural Gas Company LLC at Docket No. C-2018-3004864, is granted.

12. That upon acceptance and approval by the Commission of the tariffs, tariff supplements or tariff revisions filed by Pittsburgh Water and Sewer Authority, consistent with this Order, this proceeding at Docket No. R-2018-3002645 (Water) and Docket No. R-2018-3002647 (Wastewater) shall be marked closed.

Date: January 17, 2019

/s/
Mark A. Hoyer
Deputy Chief Administrative Law Judge

/s/
Conrad A. Johnson
Administrative Law Judge