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April 2, 2019

By Hand Delivery

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street – Second Floor North
PO Box 3265
Harrisburg, PA 17105-3265

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FRONT DESK

RE: Community Utilities of Pennsylvania Inc. Wastewater Divisions; Docket No. R-2019-_____; **AMENDED SUPPLEMENT NO. 2 TO TARIFF WASTEWATER – Pa. PUC NO. 1- FILING FOR INCREASE IN RATES FOR THE SERVICE TERRITORIES FORMALLY KNOWN AS PENN ESTATES UTILITIES, INC. AND UTILITIES, INC. – WESTGATE AND REQUEST FOR CONSOLIDATION OF PROCEEDINGS**

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission on behalf of Community Utilities of Pennsylvania Inc. (CUPA) Wastewater Divisions are the following documents:

- 1) Amended Supplement No. 2 to Tariff Wastewater - Pa. PUC No. 1, tariff page 2; and
- 2) Amended Supporting Data required by 52 Pa. Code §53.52, Attachment (b)(1) Statements.

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
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A copy of the enclosed materials has been served upon the Commission's Bureau of Investigation and Enforcement, the Pennsylvania Office of Consumer Advocate and the Office of Small Business Advocate.

Thank you for your attention to this matter. If you have any questions, please feel free to call either me or undersigned counsel.

Very truly yours,



Thomas J. Sniscak (Attorney ID No. 33891)
Whitney E. Snyder (Attorney ID No. 316625)
Bryce R. Beard (Attorney ID No. 325837)

*Counsel for
Community Utilities of Pennsylvania Inc.*

WES/das
Enclosures

cc: Per Certificate of Service

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LIST OF CHANGES

Supplement No. 2 increases rates to move towards unitization of the former Penn Estates Utilities, Inc.'s and Utility Inc. of Pennsylvania in compliance with Ordering Paragraph No. 2 of the Order of the Commission dated December 3, 2015, at Docket No. A-2015-2504891. The increase in annual operating revenue is intended to produce an additional \$378,770 per year.

Supplement No. 2 also adds Section K – Liability of Company to Part III: RULES AND REGULATIONS, adding provisions to govern the liability of the Company in the event of damage due to blockage, break or overload as a result of defects in the customer's service pipes, or damage to property when not due to the lack of reasonable care on the part of the Company.

Community Utilities of Pennsylvania Inc.
Wastewater Division
R-2019-_____
Statement of Reasons for Rate Increase
Answer to 52 PA. Code 53.52 (b) (1)

Community Utilities of Pennsylvania – Wastewater Operations

Community Utilities of Pennsylvania Inc. ("Company") is filing Supplement No. 1 to Tariff Wastewater – Pa. P.U.C. No. 1. on April 1st, 2019 with a requested effective date of June 1st, 2019 for the purpose of increasing Wastewater service revenue by \$378,770 per annum which represents a 20.80% increase over the service revenues previously generated by the service territories formally known as Penn Estates Utilities, Inc. and Utilities Inc., of Pennsylvania.

For the twelve months ended December 31, 2018, December 31, 2019, and December 31, 2020, respectively, utility operations produced book net income, forecasted net income under present rates, and fully projected pro-forma net income under proposed rates as follows:

<u>Period</u>	<u>Net Income/(Loss)</u>	<u>Reference</u>
Base Year per Books (12/31/2018)	\$222,334 ¹	Section 1 (pp. 1-19)
Future Test Year (12/31/2019)	\$149,329 ¹	Section 1 (pp. 1-19)
Future Test Year (12/31/2020)	\$62,517 ¹	Section 1 (pp. 1-19)
Pro-Forma Proposed (12/31/2020)	\$327,217 ²	Section 1 (pp. 1-19)

The current rate filing is necessary to realize a reasonable rate of return on the Company's actual and forecasted capital investment and recover forecasted operating expenses. The factors given consideration in calculating the proposed increase are set forward in the following narrative.

Operating Revenues

The per books operating revenue for the twelve months ended December 31, 2018 totaled \$1,820,659. The Company performed a billing analysis to reflect the proper level of service revenue for the test years ended December 31, 2018, December 31, 2019, and December 31, 2020. The analysis produced an adjustment that resulted in an overall decrease in service revenue of \$1,352 for the twelve months ended

¹ Present rates
² Proposed rates

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December 31, 2019. These adjustments, combined with projected levels of miscellaneous revenues, forfeited discounts, and uncollectible accounts produce pro-forma operating revenue under present rates of \$1,804,002 for the twelve months ended December 31, 2019, and December 31, 2020. After accounting for the increase in uncollectible accounts (\$3,191) related to the Company's revenue request of \$378,770, the Company's proposed fully projected test year net operating revenue is \$2,179,582.

Operating Expenses

For the twelve months ended December 31, 2018, December 31, 2019, and December 31, 2020, respectively, utility operations produced per book, forecasted, and fully projected pro-forma operating expenses as follows:

<u>Period</u>	<u>Operating Expense</u>	<u>Reference</u>
Base Year Per books (12/31/2018)	\$1,472,653	Section 1 (pp. 1-11)
Future Test Year (12/31/2019)	\$1,498,679	Section 1 (pp. 1-11)
Future Test Year (12/31/2020)	\$1,544,112	Section 1 (pp. 1-11)
Fully projected (12/31/2020)	\$1,664,165	Section 1 (pp. 1-11)

The Company has projected net increased operating expenses costs of \$191,512 between the base year ended December 31, 2018 and the fully projected future test year ended December 31, 2020 as reflected in response to tariff Regulation c (1) Sheets1a.

Original Cost – Plant in Service

The original costs of the plant in service at December 31, 2018 were compiled through Company records. The gross plant in service per books at the end of the base year is \$15,538,788. Pro-forma plant additions of \$730,724 and \$1,290,861 for the future test years ended December 31, 2019, and December 31, 2020 respectively have been included on Tariff Regulation (c) (3) to reflect the fully projected future test year level of utility plant in service as of December 31, 2020.

Accumulated Depreciation and Annual Depreciation Expense

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The calculations of annual and accumulated depreciation are based upon the straight-line method. An adjustment has been made to calculate pro-forma depreciation expense and the level of pro-forma accumulated depreciation using class of asset rates on the Company's books, going level, as well as projected plant in service as of December 31, 2019, and December 31, 2020. Capital adjustments result in a decrease to depreciation expense of \$3,827 and increase of \$31,377 for the future test years ended December 31, 2019, and December 31, 2020 respectively. The pro-forma accumulated depreciation amounts to \$7,311,512 and \$7,755,579 as of December 31, 2019, and December 31, 2020 respectively. Please see Supporting Schedules No. 4 and No. 9 in Section 2.

Calculation of Rate Base

Five elements were used to determine rate base for the Company have been included on Tariff Regulation (c) (3). They are as follows:

- I. Net Plant in Service
- II. Contributions in Aid of Construction (Net)
- III. Net Plant Acquisition Adjustment
- IV. Customer Deposits
- V. Accumulated Deferred Income Taxes
- VI. Pro forma Plant Additions (Net of Retirements)
- VII. Cash Working Capital

I. Net Plant in Service

Net Plant in Service was determined by deducting per-books and pro forma accumulated depreciation from per books and pro forma gross utility plant in service as of December 31, 2018, December 31, 2019, and December 31, 2020.

Water Operations	Supporting Schedule No.	Per Books Base Year Ended 12/31/2018	Future Test Year Ended 12/31/2019	Pro-forma FPFTY Ended 12/31/2020
Utility Plant in Service	(c)(3)	\$ 15,538,788	\$ 16,269,513	\$ 17,560,373
Accumulated Depreciation	(c)(4)	(6,936,514)	(7,311,512)	(7,755,579)
Net Utility Plant:		\$ 8,602,275	\$ 8,958,001	\$ 9,804,794

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II. Cash Working Capital

The amount included for Cash Working Capital is based on 1/8 method using per books and pro forma operating and maintenance expenses and taxes other than income of \$1,170,056, \$1,231,901, and \$1,291,229 for the test years ended December 31, 2018, December 31, 2019, and December 31, 2020 respectively resulting in cash working capital levels of \$146,257, \$153,988, and \$161,404 for the test years ended December 31, 2018, December 31, 2019, and December 31, 2020 respectively. Please see Supporting Schedules No. 11 in Section 2.

III. Accumulated Deferred Income Taxes

The amount included in Accumulated Deferred Income Taxes are per books and projected pro-rated amounts of (\$549,861), (\$803,544), and (\$871,681) for the test years ended December 31, 2018, December 31, 2019, and December 31, 2020 respectively.

IV. Customer Deposits

The amount included in Customer Deposits are per books (\$3,314), for the test years ended December 31, 2018, December 31, 2019, and December 31, 2020.

V. Plant Acquisition Adjustment

The amount included in Plant Acquisition Adjustment is the per books number net of accumulated amortization as of December 31, 2018 and amounts to (\$1,291,901). Net PAA is rolled forward to December 31, 2019 and December 31, 2020 using current amortization rates and result in Net PAA of (\$1,233,328) and (\$1,174,754) for the test years ended December 31, 2019, and December 31, 2020 respectively.

Rate of Return

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The Company uses the capital structure of its parent company, Utilities, Inc. to calculate its rate of return. Utilities Inc.'s capital structure as of December 31st, 2018 is as follows:

Debt	\$272,742,026
Common Equity	<u>269,100,108</u>
Total Capital	\$541,852,134

For December 31, 2020, the Company adopts a 50/50 debt-to-equity capital ratio and 6.16% cost of debt. The Company has utilized an overall 8.46% weighted average cost of capital and 10.75% cost of equity for this application.

Tariff Design

Community Utilities is proposing to consolidate rates between its two service territories formally known as Penn Estates Utilities, Inc. and Utilities, Inc. of Pennsylvania. The overall proposed increase in a residential customer's bill is approximately 27.90% for customers of the formally known territory, Penn Estates Utilities, Inc. and 13.23% for residential customers of the formally known territory Utilities, Inc. of Pennsylvania as follows:

Community Utilities of Pennsylvania Inc.
Average Bills

A	B	C	D	E	F	G	H	I	K	L	M	N	O	P	Q	
Line	Co	Name	W/WW	Class	Meter Size	12/31/18 Average Usage	BFC	Usage Rate	PWAC Surcharge	Average Bill	12/31/20 Average Usage	Proposed BFC*	Proposed Usage*	Proposed Average Bill	Proposed Increase	Increase %
1.	316	316 - Utilities, Inc. of Pennsylvania	WW	RES	5/8"	-	\$ 52.59	\$ -	\$ -	\$ 52.59	-	\$ 59.55	\$ -	\$ 59.55	\$ 6.96	13.23%
2.	317	317 - Penn Estates Utilities, Inc.	WW	RES	5/8"	-	\$ 46.56	\$ -	\$ -	\$ 46.56	-	\$ 59.55	\$ -	\$ 59.55	\$ 12.99	27.90%

A billing analysis at present rates was prepared for the twelve months ended December 31, 2018, December 31, 2019, and December 31, 2020. The calculations are contained in supporting Schedule No. 1. The results of that analysis were used to prepare proof of revenues for the proposed rates contained in supporting Schedule No. 2. The allocation of the proposed revenues is shown in response to tariff Regulation (b) (4).

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General Comments

Since the last rate case in each of the Community Utilities of Pennsylvania wastewater service territories have invested nearly \$2 million in system upgrades and improvements. The company is forecasting to invest an additional \$2 million for system improvements and anticipates operating and maintenance expenses to increase 12% through the December 31, 2020 fully projected future test year. The proposed level of operating revenue will allow the Company enough revenue to meet debt obligations and recover reasonable levels of operating cost and capital investments. The increased revenue for Community Utilities of Pennsylvania Inc.'s wastewater division will also ensure continued safe and adequate service to its customers.

CERTIFICATE OF SERVICE

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

BY FIRST CLASS MAIL

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Office of Small Business Advocate
Commerce Building, Suite 202
300 North 2nd Street
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Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
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Thomas J. Sniscak
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Dated this 2nd day of April, 2019