



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
COMMONWEALTH KEYSTONE BUILDING  
400 NORTH STREET, HARRISBURG, PA 17120

IN REPLY PLEASE  
REFER TO OUR FILE

May 15, 2019

Secretary Rosemary Chiavetta  
Pennsylvania Public Utility Commission  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, PA 17120

Re: Application of Pennsylvania-American Water Company for approval of the transfer, by sale, of substantially all the Steelton Borough Authority's assets, properties and rights related to its water treatment, transportation, and distribution facilities to Pennsylvania-American Water Company; and the rights of Pennsylvania-American Water Company to begin to offer or furnish water service to the public in the Borough of Steelton and a portion of the Township of Swatara, Dauphin County, Pennsylvania.  
Docket Nos. A-2019-3006880 et al

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E) **Prehearing Memorandum** in the above-captioned proceeding.

Copies are being served on all active parties of record as evidenced in the attached Certificate of Service. If you have any questions, please do not hesitate to contact me at (717) 425-7593.

Sincerely,

A handwritten signature in black ink that reads "Scott B. Granger".

Scott B. Granger  
Prosecutor

Bureau of Investigation and Enforcement  
PA Attorney ID No. 63641

SBG/ac  
Enclosure

cc: Hon. Benjamin J. Myers (ALJ, PUC Harrisburg)  
Hon. Steven K. Haas (ALJ, PUC Harrisburg)  
Per Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

|  |   |                |
|--|---|----------------|
| In Re: Application of Pennsylvania-American Water            | : | A-2019-3006880 |
| Company for approval of the transfer, by sale, of            | : | A-2019-_____   |
| substantially all the Steelton Borough Authority's assets,   | : | P-2019-_____   |
| properties and rights related to its water treatment,        | : | U-2019-_____   |
| transportation, and distribution facilities to Pennsylvania- | : |                |
| American Water Company; and the rights of                    | : |                |
| Pennsylvania-American Water Company to begin to offer        | : |                |
| or furnish water service to the public in the Borough of     | : |                |
| Steelton and a portion of the Township of Swatara,           | : |                |
| Dauphin County, Pennsylvania.                                | : |                |

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**PREHEARING MEMORANDUM  
OF THE  
BUREAU OF INVESTIGATION AND ENFORCEMENT**

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**TO: ADMINISTRATIVE LAW JUDGES STEVEN K. HAAS  
AND BENJAMIN A. MYERS:**

The Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission") respectfully submits the following Prehearing Memorandum in the above-captioned consolidated proceedings.

The Bureau of Investigation and Enforcement Prosecutor in these proceedings will be Scott B. Granger. Contact information is as follows:

By mail: Scott B. Granger  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

By e-mail: [sgranger@pa.gov](mailto:sgranger@pa.gov)  
By telephone: (717) 425-7593  
By fax: (717) 772-2677

## I. INTRODUCTION

On January 2, 2019, Pennsylvania-American Water Company (“PAWC” or “Company”) filed an Application requesting that the Pennsylvania Public Utility Commission (“Commission”) issue such Certificates of Public Convenience as necessary to evidence its approval under Section 1102(a) of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1102(a), of: (a) the transfer, by sale, of substantially all of the Steelton Borough Authority's (“Steelton”) assets, properties and rights related to Steelton's water treatment, transportation, and distribution facilities (the “Steelton System”) to PAWC; and, (b) PAWC's right to begin to offer, render, furnish or supply water service in the areas served by Steelton in the Borough of Steelton and in a portion of Swatara Township, Dauphin County, Pennsylvania.

PAWC is also requesting that the Commission approve, pursuant to Code Section 1329, 66 Pa. C.S. § 1329: (a) the use for ratemaking purposes of the lesser of the fair market value or the negotiated purchase price of Steelton's assets related to the Steelton

System; (b) collection of a distribution system improvement charge ("DSIC") related to the Steelton System prior to the first base rate case in which the Steelton System plant-in-service is incorporated into rate base; (c) the accrual of Allowance for Funds Used During Construction ("AFUDC") for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes; and, (d) the deferral of depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes, as well as other related and necessary regulatory approvals.

PAWC's filing was ultimately accepted by the Commission's Secretary's Bureau on April 16, 2019.

The Steelton Borough Authority filed a Petition to Intervene on January 22, 2019.

I&E filed its Notice of Appearance regarding this proceeding on January 23, 2019.

The Office of Consumer Advocate ("OCA") filed a Protest and Public Statement in this proceeding on February 5, 2019. Also note that the OCA filed a Petition for Appeal of Staff Action and/or a Determination of Finality on January 24, 2019 regarding the Commission's initial Secretarial Letter, dated January 17, 2019, conditionally accepting the initial filing.

The Office of Small Business Advocate ("OSBA") filed its Notice of Appearance, Intervention and Public Statement on February 6, 2019.

A Prehearing Conference is scheduled for May 17, 2019, at 10:00 am before Administrative Law Judges Haas and Myers.

## II. ISSUES

The following list represents I&E's preliminary determination of the potential issues in these proceedings. The listing is as complete as can be made at this time. I&E specifically reserves the right to address other issues, as it deems appropriate if any such relevant issues arise. The issues are as follows:

- Section 1329, with reference to Section 1102, acquisition of municipal water system by regulated public utility with continued provision of services and the public interest.
- Demonstration of the required substantial public benefit to justifying the proposed acquisition. *McCloskey v. Pa. PUC*, 1624 C.D. 2017 (Pa. Cmwlth).
- Fair market valuation of acquired municipal utility for ratemaking purposes.
- Applicable ratemaking rate base for the acquired Steelton municipal water system.
- Distribution system improvement charges (DSIC).
- Allowance for funds used during construction (AFUDC) for post-acquisition improvements.
- Depreciation related to post-acquisition improvements.
- Rate stabilization plan.
- Filing of contracts between public utilities and municipalities.
- Cost of Service for future base rate proceedings.

## III. WITNESSES

It is currently expected that I&E may call the following expert witnesses without being limited thereto:

Anthony Spadaccio, Fixed Utility Financial Analyst  
Ethan Cline, Fixed Utility Valuation Engineer

The I&E witnesses may be contacted through the information listed above for Prosecutor Granger. The witness list is provided without the benefit of complete discovery or analysis of the positions of potential other parties to this proceeding.

Accordingly, I&E reserves the right to call additional witnesses or withdraw the name of the witnesses listed above.

#### **IV. EVIDENCE**

I&E expects to present all written direct, rebuttal and surrebuttal testimony and accompanying exhibits at the evidentiary hearing. Moreover, I&E intends to rely on the Company's filing, answers to data requests and interrogatories, and other documents submitted to the Commission, other relevant Commission filings, any other relevant Commonwealth agency letters or reports, general financial market information sources and other public documents and reports.

#### **V. DISCOVERY**

Discovery in these proceedings will be conducted according to 52 Pa. Code §§5.321 et. seq. as modified according to the modifications set forth in paragraph 8 of the April 18, 2019 Prehearing Conference Order issued by ALJs Haas and Myers. Further, pursuant to 52 Pa. Code §§5.322 and 5.331(b), discovery has begun and is ongoing.

#### **VI. SCHEDULE**

I&E is working with the parties to develop a schedule in this proceeding. As of

this date, I&E understands that the parties have agreed to the following schedule.

|                                     |                |
|-------------------------------------|----------------|
| Filing Accepted                     | April 16, 2019 |
| Direct Testimony                    | May 22, 2019   |
| Rebuttal Testimony                  | May 29, 2019   |
| Surrebuttal Testimony               | June 6, 2019   |
| Rejoinder Outlines                  | June 7, 2019   |
| Hearings (including Oral Rejoinder) | June 10, 2019  |
| Main Brief                          | July 2, 2019   |
| Reply Brief                         | July 12, 2019  |

## **VII. PUBLIC INPUT HEARINGS**

I&E is not aware of any requests or consumer interest with respect to public input hearings. I&E, therefore, does not propose that any public input hearings be held absent substantial public interest in the Company filing. Should public input hearings be deemed necessary, I&E recommends that the use of “smart hearings” be considered.

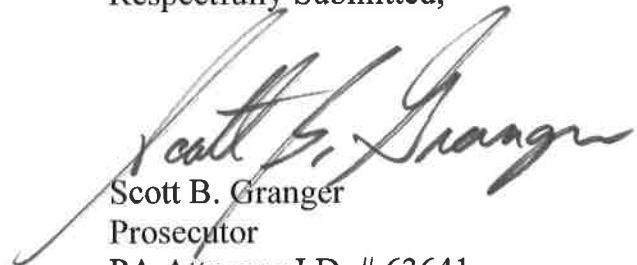
## **VIII. SERVICE OF DOCUMENTS**

For purposes of satisfying in-hand requirements for discovery responses, prepared testimony and briefs, I&E will accept electronic delivery of documents with a follow-up hard copy provided by regular first class mail.

**IX. SETTLEMENT**

I&E will maintain an open dialogue and is willing to make good faith efforts to successfully resolve this matter through settlement. In the event settlement discussions fail to result in a full and complete resolution of the matter, I&E is prepared to fully or partially litigate this proceeding.

Respectfully Submitted,



Scott B. Granger  
Prosecutor  
PA Attorney I.D. # 63641

Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, Pennsylvania 17120  
(717) 425-7593

Dated: May 15, 2019



**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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American Water Company; and the rights of :  
Pennsylvania-American Water Company to begin to offer :  
or furnish water service to the public in the Borough of :  
Steelton and a portion of the Township of Swatara, :  
Dauphin County, Pennsylvania. :

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Prehearing Memorandum** dated May 15, 2019, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

**Served via First Class and Electronic Mail**

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Scott B. Granger  
Prosecutor

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