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November 30, 2020

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2020-3019369 and R-2020-3019371**

Dear Secretary Chiavetta:

Enclosed for filing is **Pennsylvania-American Water Company's Reply to the Comments on the Joint Petition for Non-Unanimous Settlement** (the "Reply") in the above-referenced matters. As evidenced by the enclosed Certificate of Service, copies of the Reply have been served on Administrative Law Judge Conrad A. Johnson and all parties of record.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Kenneth M. Kulak

KMK/tp
Enclosures

c: Per Certificate of Service (w/encls.)

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	Docket No. R-2020-3019369
	:	Docket No. R-2020-3019371
	:	
v.	:	
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served copies of **Pennsylvania-American Water Company's Reply to the Comments on the Joint Petition for Non-Unanimous Settlement** in the above-referenced proceedings on the following persons, in the manner specified below, in accordance with the requirements of 52 Pa. Code § 1.54:

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Dated: November 30, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**PENNSYLVANIA-AMERICAN WATER
COMPANY**

**Docket Nos. R-2020-3019369
R-2020-3019371**

**REPLY OF
PENNSYLVANIA-AMERICAN WATER COMPANY
TO COMMENTS ON THE JOINT PETITION FOR NON-UNANIMOUS SETTLEMENT**

**Before Administrative Law Judge
Conrad A. Johnson**

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I. INTRODUCTION

In this base rate proceeding, Pennsylvania-American Water Company (“PAWC”) or “the Company”), the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“PUC” or “Commission”), the Pennsylvania-American Water Large Users Group (“PAWLUG”), and PAWC customer AK Steel (collectively, the “Joint Petitioners”) agreed to a comprehensive settlement (the “Settlement”) of the issues in this case.¹

The Company is keenly aware that this case – its first base rate case filed since April 2017 – has taken place during the COVID-19 emergency. As I&E explained in its Statement of Support for the Settlement, “[t]he revenue increase agreed to by I&E and the Company recognizes that while PAWC may be entitled to a rate increase, the COVID-19 pandemic is still occurring and, thus, steps must be put in place to ease the burden on ratepayers.”² The Settlement therefore includes key terms that provide both a necessary rate increase and expanded assistance to customers, including:

- A rate increase of \$70 million that is roughly half of that requested by the Company;
- Implementing that rate increase in three installments over two years with substantial (\$10.5 million) bill credits in those years, resulting in an annualized net increase in 2021 of only \$40 million that will not commence until March 2021;
- Increased water and wastewater bill discounts for low-income customers;
- Increased the Company’s contribution to the H2O Help to Others Hardship Fund;
- Expanded outreach efforts to communities in need to increase awareness of and enrollment in the Company’s low-income programs, specifically targeting those communities impacted by the COVID-19 emergency;

¹ See generally *Joint Petition for Non-Unanimous Settlement of Rate Investigation* (filed Oct. 30, 2020) (“Joint Petition”).

² Bureau of Investigation and Enforcement Statement of Support of Joint Petition for Settlement of Rate Investigation (included as Attachment C to the Joint Petition) (“I&E Statement of Support”), p. 7.

- A proposed arrearage management plan, to be developed with stakeholders and submitted to the Commission within six months after a final order in this proceeding; and
- A variety of additional program changes to assist low-income customers during the pandemic, including income self-certification for PAWC's H2O Help to Others Hardship Fund, a waiver of reconnection fees, and a waiver of a good faith payment requirement for individuals participating in PAWC's hardship fund.³

In response to the Joint Petition, the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") filed comments and objections to the Settlement. The filings largely repeat those parties' contention in their Main Briefs in this proceeding that PAWC should not receive any rate increase (or, in the case of the OCA, even have its rates reduced) because of the COVID-19 pandemic.

The Company addressed these arguments in its Main and Reply Briefs and an extensive reanalysis of the non-settling parties' claims is not necessary here. As an aid to the Administrative Law Judge (the "ALJ"), the Company will revisit certain areas of disagreement, including the OCA's claim that the Settlement rates are not just and reasonable.⁴

II. ARGUMENT

A. Legal Standards For Consideration Of The Settlement

In the Joint Petition, the Joint Petitioners explicitly agreed that the Joint Petition is consistent with the Commission's rules and practices encouraging negotiated settlements and identified several reasons why the Settlement was in the public interest, including the level of the agreed-upon rate increase and the robust commitments to protect the Company's customers

³ See Joint Petition, Sections II.A. and II.C.

⁴ See OCA Comments of the Office of Consumer Advocate in Opposition to the Joint Petition for Non-Unanimous Settlement ("OCA Comments"), pp. 7-11.

during the COVID-19 pandemic.⁵ Both the Company and I&E provided detailed discussion of the Commission’s standards for approval of settlements, as well as the Commission’s long-standing support for “black box” settlements.⁶

The OCA responds by agreeing that the Commission’s policy is to encourage settlements with terms and conditions that are in the public interest. The OCA further observes that, in the event of a non-unanimous settlement, the Commission’s standards for review are the same as those for deciding a fully contested case.⁷ However, the OCA neglects to include what the Commission then states with respect to that standard in the context of a non-unanimous settlement, namely, that “[a]ccordingly, substantial evidence consistent with the statutory requirements must support the proposed settlement.”⁸ Here, the Joint Petitioners are in full agreement that the Joint Petition and the proposed revenue increase is supported by the substantial record in this proceeding.⁹

B. The Settlement Revenue Increase Is Necessary And Justified

PAWC’s distribution rate customers have experienced no increase in distribution rates in three years.¹⁰ In its Statement in Support of the Settlement, the Company summarized the evidence in this proceeding demonstrating that between the end of the fully projected future test year in PAWC’s last base rate case (December 31, 2018) through the end of what had been the proposed “Rate Year 2” in PAWC’s original filing (December 31, 2022), the Company will have invested over \$1.64 billion in new plant and equipment. The majority of this investment is in

⁵ Joint Petition, ¶ 75.d.

⁶ PAWC Statement in Support, pp. 9-14 & I&E Statement in Support, pp. 5-7.

⁷ OCA Comments, p. 2.

⁸ Compare *id.* and *Joint Application of West Penn Power Co. d/b/a Allegheny Power, Trans-Allegheny Interstate Line Co. and FirstEnergy Corp.*, Docket Nos. A-2010-2176520 and A-2010-2176732 (Opinion and Order entered Mar. 8, 2011), p. 20

⁹ Joint Petition, ¶¶ 16 & 75.d; *see also* PAWC Statement in Support, p. 2 (noting settlement achieved only after extensive discovery and testimony).

¹⁰ PAWC Statement in Support, p. 16.

source of supply, treatment, distribution and collection assets, and includes new plant and equipment to improve service to small, troubled water and wastewater systems that PAWC has acquired in furtherance of the Commission's policy to have larger, viable utilities acquire and upgrade smaller, less viable and service-troubled systems. PAWC has been making these substantial investments even as it has been experiencing – and will continue to experience – declining per-customer residential and commercial consumption due to increasing use of water-efficient plumbing fixtures and appliances mandated by federal law that will be unaffected by the COVID-19 pandemic.¹¹

The evidence also demonstrates that increased investment and declining load growth have compromised the Company's ability to earn a fair return on its investment absent rate relief, notwithstanding its efforts to control its O&M expenses. On a pro forma basis, PAWC's water and wastewater operations are projected to produce an inadequate overall return on invested capital of 6.31% and 5.62%, and a return on common equity ("ROE") of only 7.85% and 6.70%, as of December 31, 2021 and 2022, respectively.¹²

The OCA asserts that, if its recommendation for no increase were adopted, PAWC should still be able to achieve *overall* rates of return of 7.70% and 2.84% for its water and wastewater operations, respectively.¹³ However, those return rates were calculated by the OCA and reflect *all* of its proposed adjustments to rate base, expenses and incomes taxes. As explained in PAWC's Main and Reply Briefs, the OCA's adjustments have no merit. In fact, they are entirely contrary to settled law established by recent PUC and appellate court precedent. PAWC's revenue requirement under existing rates for the year ending December 31, 2021, properly

¹¹ *Id.*, pp. 16-18.

¹² *Id.*, p. 19.

¹³ OCA Comments, p. 5.

calculated to eliminate the specious adjustments included by the OCA, would leave PAWC with overall rates of return far lower than those alleged by the OCA.

Moreover, even based on the OCA's own overstated returns, the OCA-calculated *overall* return rate for PAWC's wastewater operations of 2.84% is 163 basis points *below* the Company's cost of long-term debt (4.47% at December 31, 2021).¹⁴ Yet, the OCA makes the facially erroneous claim that its "no increase" position would allow PAWC to recover all of its expenses and still be able to realize a "fair rate of return." It can hardly be possible to realize a "fair rate of return" when the OCA (even including its erroneous rate base, expense and tax adjustments) is proposing to allow PAWC an opportunity to earn an overall rate of return on its wastewater operations that is below its actual cost of long-term debt.

While the OCA continues to dispute the Company's revenue requirement by clinging to its discredited rate base, expense and tax adjustments, even the rates of return calculated by the OCA in support of its "no increase" recommendation would leave PAWC with an authorized return that is well below that of virtually all water utilities in the United States for the last decade. The OCA's recommended ROEs (8.00%) is also well below the 9.90% ROE authorized by the Commission for water utility distribution system improvement charges based on data through September 28, 2020.¹⁵ For its part, the OSBA asserts that substantial evidence does not exist to support the increase agreed upon in the Settlement, but it relies only upon selected general economic statistics and did not address the Company's actual revenue requirements in

¹⁴ See PAWC Exhibit No. 13-A, Sch. 9, p. 1.

¹⁵ PAWC Statement in Support, p. 19 & PAWC Reply Br. ("R.B."), pp. 36-37.

this proceeding.¹⁶ Similarly, CAUSE-PA focuses on the alleged effects of any increase only on low-income customers, without addressing utility revenue requirements.¹⁷

As PAWC explained in its Reply Brief, and as summarized below, the arguments offered by these parties provide no basis for concluding that the Settlement is not in the public interest or inconsistent with law.

The COVID-19 Emergency Does Not Preclude Utility Rate Increases. The Commission has made clear that the COVID-19 emergency is not a basis for a general denial of rate increases. The Commission recently approved a rate case settlement for UGI Utilities, Inc. – Gas Division (“UGI Gas”),¹⁸ which followed closely on a prior \$30 million distribution base rate increase the PUC approved for UGI Gas effective October 29, 2019.¹⁹ On November 19, 2020, the Commission also approved a \$35 million base rate increase for Philadelphia Gas Works (“PGW”) following a non-unanimous settlement.²⁰ In approving that settlement, the Commission rejected modifications to the partial settlement by the ALJs in the proceeding that would have delayed the increase for six months due to the COVID-19 pandemic,²¹ specifically noting that “it is in the public interest to provide a public utility with the financial ability to proffer safe, efficient and adequate service to its customers.”²² The approval of these settlements also does not reflect Commission agreement with the OCA’s general concern that future test year projections in current rate cases are unreliable as a result of the pandemic.²³

¹⁶ See OSBA Comments of the Office of Small Business Advocate to the Non-Unanimous Settlement (“OSBA Comments”), p. 4.

¹⁷ See generally Objections of CAUSE-PA to the Joint Petition for Non-Unanimous Settlement of Rate Investigation (“CAUSE-PA Objections”).

¹⁸ *Pa. P.U.C. v. UGI Utils., Inc. – Gas Div.*, Docket No. R-2019-3015162 (Oct. 8, 2020).

¹⁹ *Pa. P.U.C. v. UGI Utili., Inc. – Gas Div.*, Docket No. R-2018-3006814 (Oct. 29, 2019).

²⁰ Opinion and Order, *Pa. P.U.C. v. Philadelphia Gas Works*, R-2020-3017206 (Order entered Nov. 19, 2020).

²¹ *Id.*, p. 43.

²² *Id.*, p. 64.

²³ OCA Comments, p. 4.

The Reasons for Rejecting the Settlement Are Inconsistent with Long-Standing Ratemaking Principles and Will Increase Harm to Customers. In opposing the Settlement, both the OCA and CAUSE-PA cite to their briefs and witness testimony regarding alternative theories of ratemaking, while the OSBA references its own briefs citing selected economic statistics.²⁴ As summarized in PAWC’s Main and Reply Briefs, which the Company respectfully requests that the Commission also consider, PAWC witness and former Commission Chair James Cawley explained in detail how the long-standing principles of ratemaking consistently applied by the Commission require a proper balancing of customer interests and the interests of utility investors even during times of economic stress.²⁵

Under the approaches of the parties opposing the Settlement, a utility commission could determine – without any clear standard or objective criterion to guide it – that because some unspecified number of customers are adversely affected by economic conditions and may have difficulty paying their bills, rates should not be increased for any customer (regardless of the customer’s ability to pay).²⁶ This is not how ratemaking is done, as Mr. Cawley explained:

Ratemaking methodology should be constant, not changing to reach a desired result in distressed economic conditions while remaining “traditional” during more prosperous economic conditions. It is permissible, however, especially during the rate design phase of rate cases, to lower rates for customers of lesser means by raising rates for others. Because government must protect all its citizens, such subsidization within reasonable bounds is entirely proper.

Patently impermissible and shortsighted, however, is reducing shareholder (or bondholder) returns below the otherwise appropriate level to subsidize customers of lesser means. If that occurs, investors raise the cost of capital to compensate for the increased risk of obtaining a fair return. If reducing returns is done

²⁴ OCA Comments, p. 2; CAUSE-PA Objections, p. 2; OSBA Comments, p. 3.

²⁵ See PAWC Main Brief (“M.B.”), pp. 7-10; PAWC R.B., pp. 7-18.

²⁶ PAWC R.B., p. 14; PAWC St. 14-R, p. 6.

in a substantial manner, confiscation occurs, and investors take their money elsewhere leaving the utility in ever more serious financial straits.²⁷

Mr. Cawley also explained that while the denial of a rate increase may be seen as an immediate “harm” only to PAWC, the eventual harm to customers is well understood:

If consistently reasonable, rational, and carefully balanced (between ratepayers and investors) ratemaking is abandoned by, for example, adopting one-sided measures like [OCA’s] approach, the result for PAWC and its customers will be (1) a loss of confidence by the investment community in the Commission’s willingness to provide PAWC with the financial wherewithal to persevere with its facilities improvement efforts; (2) a perception that investing in PAWC is riskier; and (3) therefore a demand for a greater yield on any investments made in PAWC’s securities, the costs of which would be borne by PAWC’s customers in higher rates. Instead of seeing progression and hard-fought momentum maintained, investors would see regression and backsliding.

Thus, in the end, PAWC’s ratepayers and their communities are the ones who will unnecessarily suffer if PAWC does not receive the financial resources necessary to invest in its construction programs as well as PAWC’s other programs and investments in advanced metering infrastructure, water source protection, water treatment, and operational efficiency.²⁸

Notably, despite its concerns about the economic effects of the COVID-19 emergency, the OCA argues that there is no need for a rate increase because PAWC could reduce its investment if it is “concerned” about available operating revenues.²⁹ Such an approach is clearly not in the public interest, as PAWC’s investments will benefit customers and support significant economic activity and jobs in Pennsylvania. The economic benefits were quantified by PAWC’s witness Toby Bishop employing a methodology widely used and accepted by governments and

²⁷ PAWC St. 14-R, pp. 14-15.

²⁸ *Id.*, pp. 12-13 (citing PAWC St. 2, pp. 5-12, 15-22, and 27-41).

²⁹ OCA Comments, p. 5.

private industry across the country. Mr. Bishop’s testimony was not rebutted by any opposing party in this case.

Mr. Bishop’s detailed calculations demonstrated PAWC’s capital expenditures would produce economic benefits that total approximately \$540 million in 2020 and \$460 million in each of 2021 and 2022. That increase in economic activity would create over \$286 million (in 2020) and \$245 million (in each of years 2021 and 2022) in incremental gross regional product in the Company’s service territory, including between \$17 million and \$20 million in additional state and municipal tax revenue. On an annual basis, the economic activity flowing from the Company’s capital expenditures has also been shown, by detailed economic modeling, to support 4,400 jobs in 2020 and over 3,700 jobs in each of 2021 and 2022.³⁰ Increased capital expenditures are exactly the stimulus needed to drive a depressed economy upward,³¹ clearly needed to assure continued safe and reliable service, and provide a “lifeline” to the contractors and vendors the Company engages to construct and supply its capital projects.³²

The Settlement Properly Addresses Amortization of Accumulated Deferred Income Taxes. The OCA concedes, as it must, that the Settlement commits PAWC to a 20-year amortization of unprotected Excess Accumulated Deferred Income Taxes (“EADIT”)³³ – thus reducing by half the approximately 40-year amortization period calculated under the average rate assumption method (“ARAM”) originally proposed by the Company.³⁴ Nonetheless, the OCA

³⁰ PAWC St. 15-R, pp. 20-21.

³¹ See PAWC St. 15-R.

³² PAWC St. 3-R, p. 14.

³³ Joint Petition ¶ 30.

³⁴ See PAWC’s M.B. pp. 31-34, and R.B., pp. 30-31, explaining why, in light of the prior normalization of repair deductions for ratemaking purposes, representing the vast majority of PAWC’s unprotected EADIT, using ARAM to determine the amortization period would be entirely appropriate, just as the Commission itself found by approving similar treatment for EADIT attributable to repair deductions for Duquesne Light Company. *Pa. P.U.C. v. Duquesne Light Co.*, Docket No. R-2018-3000124 et al. (Opinion and Order entered Dec. 20, 2018), p. 42. PAWC’s agreement to a 20-year amortization period is a significant compromise, which the OCA tries to minimize.

contends that even this substantial concession is not enough and continues to advocate a steeply-accelerated three-year amortization period, which has never been approved by this Commission. To the contrary, the only guidance the Commission has provided on this issue, by approving the terms of the settlement of Duquesne Light Company's 2018 base rate case, validates the Company's originally proposed ARAM-based amortization.³⁵

Additionally, the OCA's Comments do not even mention that its witness, Mr. Smith, in prior PAWC base rate cases since 2011, strongly supported the normalization of repair deductions – the bulk of PAWC's EADIT. As explained in PAWC's Main Brief (pp. 30-34), by voluntarily agreeing to normalize repair deductions, PAWC preserved for the benefit of customers \$213 million in tax benefits that it otherwise could have retained for itself. For that reason, the settlement of PAWC's 2011 base rate case incorporated the agreement by the settling parties, which included the OCA, that PAWC's repair deductions would be treated for ratemaking purposes as if the tax laws required them to be normalized. In this case, the OCA wants to renege on that prior agreement and treat EADIT attributable to repair deductions as if – contrary to fact – they had *not* been normalized in all prior base rate proceedings since 2011 with the OCA's support and the PUC's approval.

In its Comments (p. 6), the OCA tries to characterize the EADIT at issue as “ratepayer-supplied capital” that PAWC is seeking to “retain” for “an excessive period of time.” Every element of the OCA's characterization is incorrect.

Customers did not supply the “capital” represented by EADIT. Customers paid depreciation expenses related to the property that generated ADIT and, in the ratemaking process, customers received the entire benefit of tax deductions that matched the depreciation

³⁵ *Id.*

expense they paid. The federal government provides utilities the opportunity to defer certain tax payments through the mechanism of accelerated methods of depreciation, a form of which includes repair deductions.³⁶ Thus, it is the federal government – not customers – that supplied “capital” to utilities in the form of a federal tax loan equal to the amount of taxes “deferred” (the sum of which represents ADIT). The federal government’s tax loan bears a zero interest rate.³⁷ The benefit of the government’s zero-cost tax loan is given to customers by deducting the amount of the loan (ADIT) from rate base, which is the equivalent of including ADIT in a utility’s capital structure as debt with a zero cost.

Accelerating the amortization of EADIT is the equivalent of accelerating the repayment of the federal government’s zero cost tax loan.³⁸ When the zero-cost tax loan is eliminated (under the OCA’s proposal, in three years), the capital represented by that loan must be replaced with funds obtained from investors. Those replacement funds bear a cost equal to the Company’s weighted average cost of capital. Thus, funds supplied by the federal government at zero cost must be replaced with investment from other sources that bears a substantial cost. Using a reasonable period to amortize EADIT does not “retain” a benefit for the Company; it retains a benefit – a zero-cost tax loan – for the benefit of customers. The OCA’s contentions to the contrary are not correct.

The OCA also errs (Comments, p. 6) in contending that “PAWC utilizes a three-year amortization for other impacts of the TCJA [Tax Cuts and Jobs Act] that also are not subject to IRS normalization requirements.” The OCA based this representation on Mr. Smith’s testimony

³⁶ Mr. Smith acknowledged this fact in his direct testimony in PAWC’s 2011 base rate case, stating that repair deductions should be treated for ratemaking purposes “similar to what is done for book-tax timing differences related to accelerated depreciation.” PAWC M.B., pp. 33-35.

³⁷ See PAWC M.B., pp. 25-26.

³⁸ This is reflected by the fact that as EADIT is amortized, a utility’s rate base increases. See PAWC M.B., p. 17.

that a proposed three-year amortization is consistent with the manner in which PAWC allegedly proposed to pass through to customers EADIT that it amortized (or will have amortized) for financial reporting purposes from January 1, 2018 through the effective date of new base rates. That statement is entirely incorrect. As explained in PAWC’s Reply Brief (p. 34), Mr. Smith (and the OCA) confused two different kinds of amortizations. In fact, the underlying amortization of the EADIT to which Mr. Smith referred was made in accordance with ARAM – not a three-year amortization as he alleged. The OCA’s Comments simply repeat that error.

The OCA’s reliance on decisions of regulatory commissions in other jurisdictions (OCA Comments, p. 7) is misplaced for reasons discussed in detail in the Company’s Reply Brief (pp. 32-34). In fact, the New Jersey Bureau of Public Utilities (“BPU”) decision cited by the OCA supports the Company’s Settlement position.³⁹ Buried in a footnote on page 7 of its Comments, the OCA acknowledges that the BPU approved a fifteen-year amortization of all unprotected EADIT of PAWC’s affiliate New Jersey-American Water Company. That period is just five years less than the 20-year amortization period agreed to in the Settlement in this case, but is *five times longer* than the three-year amortization the OCA proposes.

*Application of California-American Water Co.*⁴⁰ does not stand for the proposition for which the OCA cited it. That case also supports the Company’s position. As the record in that case reveals, the California Public Utilities Commission actually approved the use of an ARAM-determined amortization period for all of the plant-related EADIT (protected *and unprotected*) of PAWC’s affiliate California-American Water Company.

³⁹ *In the Matter of the Petition of New Jersey-American Water Co., with Calculation of Rates Under the Tax Cuts and Jobs Act of 2017*, Docket Nos. AX-18010001, WR18030233 (N.J. BPU, Oct. 28, 2020).

⁴⁰ 2018 Cal. PUC LEXIS 628, *194-197 (Cal. P.U.C. Dec. 20, 2018).

The OCA also misstates the New York Public Service Commission’s (“NY PSC”) order⁴¹ it tries to rely upon. Contrary to the proposition for which the OCA cited it, the NY PSC’s order did *not* establish amortization periods for unprotected Excess ADIT.⁴² Instead, it directed jurisdictional utilities, including PAWC’s affiliate New York-American Water Company, to “establish regulatory liabilities for the excess amounts, until the reversal of the protected excess [ADIT] is reflected in rates and the amortization of the unprotected excess amounts are [sic] addressed in a utility’s next general rate change or in a sur-credit filing.”⁴³ As of this date, New York-American Water Company’s EADIT balances continue to be deferred in compliance with the NY PSC’s order, are not being amortized, and, in fact, no amortization period for unprotected EADIT has been established by the NY PSC.

The OCA cites only one decision, from Tennessee, that adopted a three-year amortization of “unprotected” Excess ADIT.⁴⁴ Yet, it did not disclose two other decisions, from the Indiana Utility Regulatory Commission (“Ind. URC”) and the Kentucky Public Service Commission (“Ky. PSC”), that adopted and approved the use of ARAM to amortize “unprotected” Excess ADIT by PAWC’s affiliates in those states. The Ind. URC approved a rate case settlement for PAWC’s affiliate, Indiana-American Water Company, providing that Excess ADIT – both protected and unprotected – will be amortized pursuant to ARAM, which approximated 41.5

⁴¹ *Proceeding on Motion of the Comm’n on Change in Law that May Affect Rates*, Case 17-M-0815, 2018 N.Y. PUC LEXIS 393, *82-84 (Aug. 9, 2018).

⁴² The OCA claims that the order “directed New York American Water Co. to implement a sur-credit which utilizes a three-year amortization period for deferred tax savings, including unprotected ADIT.” That is not a true statement. The three-year amortization cited by the OCA does not include Excess ADIT, nor does the NY PSC’s order say that it does. Rather, the three-year amortization applies to the reduction in *current* taxes (generated by the Tax Cuts and Jobs Act’s reduction in the federal tax rate) for the period from January 1, 2018 through September 30, 2018 (i.e., before the effective date of the sur-credit): “The sur-credit calculation shall include both the annual ongoing savings as of October 1, 2018, and a three-year amortization of the deferred *savings* for the period January 1, 2018 through September 30, 2018” (emphasis added). *Id.* at *83-84

⁴³ *Id.* at *46-47.

⁴⁴ *In Re Tennessee-American Water Co.’s Response to the Comm’n’s Investigation on the Impact of Fed. Tax Reform on the Pub. Util. Revenue Requirements*, 2020 Tenn. PUC LEXIS 101, *4-10 (Aug. 3, 2020).

years in that case.⁴⁵ Similarly, the Ky. PSC authorized PAWC's affiliate, Kentucky-American Water Company, to amortize EADIT related to repair deductions pursuant to ARAM.⁴⁶

For all the reasons set forth above and in the Company's Main (pp. 25-37) and Reply (pp. 30-36) Briefs, PAWC has established that amortizing unprotected EADIT over a period determined by ARAM (approximately 40 years) is appropriate, supported by PUC precedent and consistent with the PUC-approved agreement to use normalization for repair deductions in prior rate case settlements. Nonetheless, the Company has agreed to a substantial compromise under the Settlement, which, if approved, provides that the Company will amortize unprotected EADIT over twenty years.

The Expansion of PAWC Low-Income Programs Will Mitigate the Effects of Necessary Rate Increases. As reflected in the Settlement and the stipulations entered into by PAWC in this proceeding, PAWC is taking significant steps to provide assistance to customers, particularly low-income customers, during the COVID-19 pandemic and in the future. The Company agreed to adopt interim measures suggested by other parties to this proceeding to assist customers in the immediate wake of the pandemic, including waiving the good faith payment requirement for PAWC's H2O Help to Others Hardship Fund for one year from the date of a final order in these proceedings,⁴⁷ waiving reconnection fees for customers at or below 200% of the federal poverty level ("FPL") for one year from a final order in these proceedings,⁴⁸ and permitting customers to self-certify income for purposes of qualifying for PAWC's H2O Help to

⁴⁵ *In the Matter of the Indiana Util. Regulatory Comm'n Investigation into the Impacts of the Tax Cuts and Jobs Act of 2017 and Possible Rate Implications under Phase 1 and Phase 2 for Indiana-American Water Co.*, Cause No. 45032 S4 (Ind. URC June 24, 2020).

⁴⁶ *In the Matter of Elec. Application of Kentucky-American Water Co. for an Adjustment of Rates*, Case No. 2018-00358, slip op. at 36 (Ky. PSC June 27, 2019).

⁴⁷ CEO Stip. ¶ 2, Joint Petition ¶ 35.

⁴⁸ CEO Stip. ¶ 1, Joint Petition ¶ 34.

Others Hardship Fund for a period of time.⁴⁹ Furthermore, the Company proposed to increase the Company's low-income bill discount for customers at or below 150% of the FPL to include, in addition to the existing 85% discount on the water service charge and 20% total wastewater bill discount, an additional 10% discount off the volumetric portion of their water bill and increasing the 20% total wastewater bill discount to 30%.⁵⁰

The Company also agreed to undertake various permanent actions, including creating a low-income advisory group,⁵¹ expanding community outreach to communities in need within PAWC's service territories to include target areas of significant need,⁵² increasing the Company's annual contribution to the Hardship Fund from \$400,000 to \$500,000 for water and \$50,000 to \$100,000 for wastewater,⁵³ and identifying new sources of funding for the Hardship Fund.⁵⁴ The cumulative impact of these and other actions taken by the Company to bolster its low-income programs will mitigate the impact of the necessary rate increase on the Company's low-income customers.

While CAUSE-PA "recognizes and appreciates" these provisions, CAUSE-PA nevertheless objects to the Settlement on the ground that it believes the proposals are "wholly inadequate" to mitigate the rate increase under the Settlement, particularly during the COVID-19 pandemic.⁵⁵ In support of its objection, CAUSE-PA relies upon its projected number of low-income individuals in PAWC's service territory as well as its "affordability" analysis. The Company has already explained that these analyses were problematic due to the methodologies used in estimating the number of individuals in various income levels and the water usage of

⁴⁹ CEO Stip. ¶3, Joint Petition ¶ 36.

⁵⁰ PAWC M.B., p. 60. *See also* PAWC St. 4, pp. 46-47.

⁵¹ CEO Stip. ¶ 9, Joint Petition ¶ 43.

⁵² CEO Stip. ¶ 4, Joint Petition ¶ 37.

⁵³ PAWC M.B., p. 61. *See also* Joint Petition ¶38; CEO Stip. ¶ 5.

⁵⁴ Joint Petition ¶ 43.

⁵⁵ CAUSE-PA Objections, p. 13.

those individuals, and also noted the inherent contradiction in CAUSE-PA opposing any rate increase at the same time as it emphasizes the critical need for PAWC to ensure continued safe and reliable water and wastewater service during the COVID-19 emergency to all of its customers.⁵⁶

CAUSE-PA relies upon its “water burden” calculations in its opposition to the Settlement,⁵⁷ but the Commission has not made any determination regarding the appropriate level of a “water burden” as it has for electric and natural gas utilities in its most recent Customer Assistance Program (“CAP”) Policy Statement.⁵⁸ As PAWC witness Cawley testified, the low-income and universal service protections offered by many electric and natural gas utilities evolved over many years and after extensive consideration of different utility approaches, as well as the result of stakeholder collaboratives.⁵⁹ Consistent with the Commission’s consideration of such issues on a statewide basis in the CAP Policy Statement proceedings, the Company has agreed, as part of the approval of this Settlement, to request that the Commission initiate a proceeding to consider whether to extend the CAP Policy Statement to Commission-regulated water and wastewater utilities.⁶⁰

In short, as I&E concluded in its Statement of Support with respect to the Settlement’s proposed revenue increase:

PAWC is under obligation to provide customers with safe and reliable service at reasonable rates. As such, I&E submits that the revenue increase agreed to is in the public interest as it allows PAWC to implement the provisions of the settlement while mitigating the impact on customers, and still allowing for protections related to COVID-19 and low-income concerns. Based

⁵⁶ PAWC St. No. 1-R, pp. 61-84.

⁵⁷ CAUSE-PA Objections, pp. 7-10.

⁵⁸ See 52 Pa. Code § 69.261 *et seq.*

⁵⁹ PAWC St. No. 14-R, p. 33.

⁶⁰ Joint Settlement, ¶ 44.

on the current caselaw and statutes, I&E has found nothing that would prevent a utility from implementing a rate increase during a pandemic. It is important that utilities are able at all times to provide safe and reliable service and the efforts a utility puts forth to provide this service are not without costs. I&E acknowledges the need for a mitigated rate increase, while also noting that financially healthy utilities are beneficial to customers who rely on them to provide safe and reliable service. The rate increase agreed upon in the instant settlement balances those interests.⁶¹

C. The Settlement Rates Are Just and Reasonable

PAWC submitted eight separate cost of service studies, two for its water operations and six for its wastewater operations.⁶² OCA witness Rubin did not propose changes to the cost of service studies Ms. Heppenstall prepared and was in general agreement that they were an appropriate guide in allocating revenues among customer classes in order to move all classes closer to their indicated cost of service, recognizing that such movement should be tempered by the concept of gradualism.⁶³ PAWC's Main Brief and Statement in Support described the proposed rate structure under the Settlement, explained that it achieved the PUC-endorsed goal of facilitating rate zone consolidation while producing reasonable movement toward the system average rate of return by the various customer classes, as measured by PAWC's cost of service study.⁶⁴ Additionally, PAWC's Reply Brief discussed each of Mr. Rubin's rate design proposals and explained the extent to which each of his recommendations was reflected in the Settlement rates.⁶⁵ In short, the OCA's vague and unsubstantiated claim that the Joint Petitioners did not

⁶¹ I&E Statement of Support, pp. 9-10.

⁶² PAWC St. 12, pp. 3-5.

⁶³ See OCA St. 1, pp. 35-40; OCA St. 1-SR, pp. 17 and 21. The OCA disagrees with the way PAWC witness, Constance E. Heppenstall, allocated stormwater costs to rate classes in the cost of service studies she prepared for the Company's combined sewer system ("CSS") operations in Scranton, McKeesport and Kane, but OCA witness Rubin has not recommended any revisions to those costs of service studies. See *id.*, pp. 40 and 51.

⁶⁴ PAWC M.B., pp. 53-55; PAWC St. in Support, pp. 31-34.

⁶⁵ PAWC R.B., pp. 54-57.

explain the basis for the rate structure and revenue allocation reflected in the Settlement rates is simply not correct.

The OCA's Comments do not address the Company's Reply Brief that catalogued each of Mr. Rubin's recommendations and set forth whether and to what extent each was reflected in the proposed rate structure, rate design and allocation of revenues among customer classes and districts. Significantly, the OCA's Comments do not even acknowledge that many of Mr. Rubin's recommendations have been accepted and are already reflected in the Settlement rates. Instead, the OCA generally objects to the Settlement rates based on a claim that the proposed tariffs and proofs of revenues appended to the Joint Petition do not provide sufficient information to determine whether the Settlement rates are "just and reasonable."⁶⁶ As explained below, contrary to the OCA's claim, the record evidence shows that the revenue allocation and rate design effected by the Settlement is consistent with the Commonwealth Court's decision in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Cmwlth. 2006).

1. The Settlement Rates Comport With Well-Accepted Ratemaking Principles

a. Revenue Allocation

Appendix A to this Reply shows class revenues (for both total Company and by district) as a percentage of total revenues under PAWC's existing rates, under its proposed rates and under the Settlement rates for 2021. Contrary to the OCA's Comments, the ratios shown in Appendix A can readily be derived from the data already presented by the Company (Schedule A of PAWC Exhibits CEH-1R and 12-B through 12-H) and the Settlement proof of revenues (Appendix C to the Joint Petition). As shown on Appendix A, the Settlement rates would scale back PAWC's proposed volumetric charges for Rate Year 1 (2021) to achieve the target revenue

⁶⁶ OCA Comments, pp. 8-10.

percentage for each rate class as measured by the applicable cost of service study with one adjustment. In fact, as explained in the Company's Reply Brief (p. 57), the Settlement rates employ the OSBA's alternative methodology to allocate wastewater and Steelton water revenue requirements to water customers instead of the individual class cost of service study results as PAWC originally proposed. The Settlement rates thus substantially reflect the same class revenue allocation percentages and movement toward the cost of service for each classification in PAWC's original proposed rates for 2021. The OCA's claim that it is not possible to compare the revenue allocation and rate structure under the Settlement rates and the proposed rates is, therefore, demonstrably incorrect.

b. Water Rate Design

As shown in Appendix A to the Joint Petition, the Settlement rates provide for an increase in PAWC's residential water service charge (\$17.00 per month (2021) for a 5/8-inch meter), but in a lesser amount than the \$18.00 (RY1) service charge PAWC proposed in its initial filing. The Settlement rates also reflect the same customer charge structure for Rate Zone 1 and Rate Zone 5 as Mr. Rubin proposed.⁶⁷

Mr. Rubin did not take issue with the Company's original rate design proposal for Water Operations Excluding Steelton, but recommended that the \$18.00 residential service charge be reduced in proportion to the final revenue increase approved in this case. As explained in PAWC's Reply Brief, the undisputed costs identified in Ms. Heppenstall's cost of service study (\$17.06 to \$21.05 per month (2021) for a 5/8-inch meter) support customer charges higher than

⁶⁷ Compare Joint Petition, Appendix A, Tariff Water-PA P.U.C. No. 5, Revised Pages 16 and 16.7 with OCA St. 1, pp. 81-82. For the reasons discussed in PAWC's Reply Brief (p. 56) and Ms. Heppenstall's rebuttal testimony (PAWC St. 12-R, p. 12), the Settlement rates do not reflect Mr. Rubin's recommendation that PAWC maintain the 5/8-inch customer charge for Water Rate Zone 5 (Steelton) and reduce the minimum usage allowance from 1,700 to 1,000 gallons per month.

those reflected in the Settlement rates.⁶⁸ Accordingly, the Settlement reflects a scale-back of customer charges but not proportional to the 50% reduction in PAWC's original requested revenue increase provided in the Settlement. The proposed \$17.00 charge represents an increase of 3% over PAWC's existing Zone 1 charge of \$16.50 and is in line with the customer charges of Aqua Pennsylvania (\$18.00) and The York Water Company (\$16.50), based on their respective current tariffs. The kind of scale back of the PAWC's proposed residential customer charge that Mr. Rubin recommended would move those charges further away from the indicated cost of service. The fundamental error in Mr. Rubin's proposed scale back approach is exhibited by the fact that, if it were applied, it would produce customer charges *below* PAWC's *existing* customer charges of \$16.50 per month for a 5/8-inch customer in Rate Zone 1.

c. Wastewater Rate Design

The Company's Main and Reply Briefs fully addressed the wastewater rate design issues that remain contested by the OCA. Mr. Rubin's recommendations that have been reflected in Settlement rates are summarized below.

Wastewater Rate Zone 3 (Scranton). Mr. Rubin proposed a higher overall increase in Scranton rates in RY1 and RY2⁶⁹ and a corresponding reduction in the allocation of wastewater revenue requirement to water customers. As explained in PAWC's Reply Brief (p. 56), the Settlement rates reflect a 33.5% overall increase in Scranton rates phased in over two years,⁷⁰ which is higher than Mr. Rubin's recommendation (20%).

⁶⁸ PAWC R.B., p. 54; PAWC St. 12-R, pp. 5-7.

⁶⁹ Compare PAWC Exhibit 12-J, Schedule A (proposing an overall increase of 9.1% (2021) and 9.9% (2022) for residential customers in Rate Zone 3) with OCA St. 1, pp. 87-88 (proposing a 20% increase in Scranton rates).

⁷⁰ See Joint Petition, Appendix B, Tariff Wastewater PA P.U.C. No. 16 ("Wastewater Tariff"), Revised Page 11.4 and Appendix H.

Wastewater Zone 4 (Koppel). Mr. Rubin proposed a 20% reduction to the Rate Zone 4 customer charge with a 50% increase to the volumetric charge to avoid greater than 33% bill increases for most residential customers.⁷¹ As explained in the Company's Reply Brief (p. 56), the Settlement rates will produce a 33.6% overall Step 1 increase (2021) for Koppel wastewater customers consistent with the OCA's proposal.⁷²

Wastewater Rate Zone 6 (McKeesport). Mr. Rubin opposed PAWC's original proposal to merge Port Vue customer rates in Rate Zone 6 with Rate Zone 1 and recommended that Port Vue customers receive a lesser increase than PAWC proposed to ensure that no customer bill would increase by more than 46%.⁷³ As explained in the Company's Reply Brief (pp. 56-57), under the Settlement, Settlement rates will *not* equalize the Port Vue rates with the comparable Rate Zone 1 rates (thus accepting Mr. Rubin's approach) and will produce a 38% increase in the typical residential customer bill, which is comparable to what the OCA proposed.⁷⁴

In sum, for the reasons set forth above and in PAWC's Statement in Support, Main Brief and Reply Brief, the Settlement rates make appropriate progress in moving all classes closer to their cost of service consistent with the principle of gradualism. The Settlement rates also reflect the need to recover the customer component of total cost of service in the service charge, while recognizing that increases in the service charges can impact low-usage customers. Accordingly, the Settlement rates fairly and reasonably allocate the increase in water and wastewater revenues among PAWC's customer rate classes.

⁷¹ Compare OCA St. 1, pp. 89-90 with PAWC St. 12, p. 41 and PAWC St. 12-R, p. 13.

⁷² See Joint Petition, Appendix B, Wastewater Tariff, Revised Page 11.5 and Appendix H.

⁷³ Compare OCA St. 1, pp. 91-94 with PAWC St. 12, p. 41 and PAWC St. 12-R, p. 14.

⁷⁴ See Joint Petition, Appendix B, Wastewater Tariff, Revised Page 11.8 and Appendix H.

2. The Settlement's Combined Water and Wastewater Revenue Requirement is Reasonable and in the Public Interest

OCA also opposes the Settlement because it seeks Commission approval to allocate a portion of PAWC's wastewater revenue requirement to water customers pursuant to 66 Pa.C.S. § 1311(c). Although the amount of this allocation in the Settlement is *less* than what PAWC proposed in its initial filing, OCA continues to oppose the allocation in its Comments (pp. 10-11).⁷⁵

OCA appears to be attempting to use this case to establish precedent regarding specific criteria the Commission should use to determine the amount of the wastewater revenue requirement that can be allocated to water customers pursuant to 66 Pa.C.S. § 1311(c). The adoption of such criteria would unnecessarily limit the discretion of the Commission in future cases.

Section 1311(c) permits a utility that provides both water and wastewater service to allocate a portion of its wastewater revenue requirement to its water customers if the Commission finds such an allocation "in the public interest." The Commission has broadly construed "in the public interest" in the context of acquisitions, and stated that the Commission's public interest determination is "based on our consideration of the impact of the acquisition on all affected parties."⁷⁶ A similar interpretation should be used in ratemaking proceedings. The proposed allocation of the wastewater revenue requirement to water operations as provided in the

⁷⁵ While the OCA observes that the Section 1311(c) allocation comprises about 76% of the Step 1 rate increase, it acknowledges that such allocation represents approximately 45% of the cumulative Step 1 and Step 2 rate increase, which is comparable to the Company's original proposal.

⁷⁶ *Joint Application of Pennsylvania-American Water Co. and the Sewer Auth. of the City of Scranton for Approval of (1) the Transfer, by Sale, of Substantially All of the Sewer Auth. of the City of Scranton's Sewer Sys. and Sewage Treatment Works Assets, Properties and Rights Related to its Wastewater Collection and Treatment Sys. to Pennsylvania-American Water Co., and (2) the Rights of Pennsylvania-American Water Co. to Begin to Offer or Furnish Wastewater Serv. to the Pub. in the City of Scranton and the Borough of Dunmore, Lackawanna County, Pennsylvania*, Docket No. A-2016-2537209 (Final Order entered Oct. 19, 2016) at 45. See PAWC St. 1 pp. 35-36.

Settlement is “in the public interest” using this broad interpretation because it will mitigate the rate increase for wastewater customers without significantly increasing rates for water customers. It will also promote the policy goals of successfully implementing Section 1329 and encouraging the regionalization and consolidation of water and wastewater systems through acquisitions.⁷⁷

The OCA’s Comments simply reiterate the fallacious concept of a Section 1329 acquisition premium advanced in Mr. Rubin’s testimony.⁷⁸ There is no acquisition premium above depreciated original cost in the context of a Section 1329 acquisition. The ratemaking rate base is the fair market value of the acquired assets, as finally set by the Commission in compliance with the requirements of Section 1329 at the time of acquisition application approval. OCA’s argument, which is based on faulty statutory construction, should be rejected for the reasons set forth in PAWC St. 1-R (pp. 55-60).

3. The Settlement Reasonably Addresses the OCA’s Concerns Regarding Allocation of Stormwater Costs in PAWC’s CSS Rate Zones

The OCA contends that PAWC’s commitment under the Settlement to propose potential allocation and recovery mechanisms for stormwater costs of combined sewer systems in its next rate case is unreasonable solely because the Company has not agreed to request PUC approval of specific rates and charges in that filing.⁷⁹ However, the OCA and other parties are free to propose separate stormwater rates in the Company’s next rate case based on PAWC’s detailed analysis of the recovery of stormwater costs through various methodologies. In addition, PAWC has agreed to meet with parties to this case at specific intervals after the entry of the Commission’s final Order approving the Settlement to discuss the results of PAWC’s data collection and analysis needed to develop possible approaches to recover stormwater costs from

⁷⁷ See PAWC M.B., pp. 55-56; PAWC R.B., p. 58.

⁷⁸ See OCA St. 1, pp. 64-70.

⁷⁹ See OCA Comments, pp. 11-12.

customers in its CSS rate zones. In light of the challenges in implementing stormwater fees in communities with CSSs discussed in the Company's rebuttal testimony,⁸⁰ PAWC believes Paragraph No. 71 e. of the Joint Petition is in the public interest and appropriately addresses the OCA's concerns about collecting stormwater costs based on water consumption.

D. The Proposed Limitation of Liability Provision Is Consistent With Commission-Approved Provisions

OCA opposes Joint Petitioners' request to the Commission to approve PAWC's proposed revisions to its water and wastewater limitation of liability tariff provisions.⁸¹ OCA commented that it opposed the tariff provisions for the same reasons set forth in its Main Brief and Reply Brief.⁸²

As explained in further detail in the Company's Main Brief and Reply Brief, the Company's proposed tariff provisions are reasonable under Pennsylvania law, consistent with other Commission-approved tariffs, and consistent with Commission policy.⁸³ Furthermore, as a matter of public policy, tariff provisions that limit the liability of public utilities for acts beyond their control are in the public interest and have historically been permitted by the Commission. The Joint Petitioners, including I&E, the public advocate tasked with defending the overall public interest, agree that PAWC's proposed tariff provisions are reasonable and otherwise in the public interest. The Company's proposed limitation of liability tariff provisions, therefore, should be approved without modification.

⁸⁰ See PAWC St. 3-R, pp. 4-8; PAWC St. 4-R, pp. 25-27.

⁸¹ OCA Comments, pp. 12-13.

⁸² See OCA M.B., p. 109; OCA R.B., p. 36; OCA Comments, p. 13.

⁸³ See PAWC M.B., pp. 72-74; PAWC R.B., pp. 70-71.

III. CONCLUSION

For the reasons set forth above and in the Company's Main Brief, the Commission's investigation at Docket Nos. R-2020-3019369 and R-2020-3019371 should be terminated, the various Complaints consolidated therewith dismissed, and the proposed rates, terms and conditions under the Joint Petition for Non-Unanimous Settlement filed on October 30, 2020 permitted to become effective without modification.

Respectfully submitted,



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Dated: November 30, 2020

APPENDIX A

Summary of Class Revenues

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
WATER OPERATIONS EXCLUDING STEELTON

	As Filed				Settlement - Step 1 and 2 (2)			
	Rate Year 1		Rate Year 1		Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Pro Forma Proposed Rates (1)	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 411,275,976	66.0%	\$ 465,994,024	66.2%	437,816,535	66.1%	444,079,211	66.1%
Commercial	153,439,150	24.6%	173,365,188	24.7%	163,285,645	24.6%	165,522,604	24.6%
Industrial	25,850,899	4.1%	28,290,394	4.0%	27,227,622	4.1%	27,518,819	4.1%
Public (Municipal)	19,986,305	3.2%	20,894,149	3.0%	20,398,238	3.1%	20,492,851	3.1%
Other Water Utilities - Group A	667,212	0.1%	694,619	0.1%	684,168	0.1%	689,357	0.1%
Other Water Utilities - Group B	100,640	0.0%	119,850	0.0%	110,591	0.0%	112,067	0.0%
Private Fire Protection	4,179,699	0.7%	4,821,047	0.7%	4,492,600	0.7%	4,566,264	0.7%
Public Fire Protection	8,222,893	1.3%	8,798,003	1.3%	8,798,003	1.3%	8,798,003	1.3%
Total Sales of Water	\$ 623,722,773	100.0%	\$ 702,977,272	100.0%	\$ 662,813,401	100.0%	\$ 671,779,175	100.0%
Other Water Revenues	10,596,199		10,874,802		10,754,388		10,754,388	
Contract Sales - Industrial	3,396,189		3,396,189		3,396,189		3,396,189	
Contract Sales - Resale	1,825,161		1,825,161		1,825,161		1,825,161	
Total	\$ 639,540,322		\$ 719,073,424		\$ 678,789,139		\$ 687,754,913	

(1) See Schedule A-2021, Exhibit 12-A.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
STEELTON WATER OPERATIONS

	As Filed				Settlement - Step 1 and 2 (2)			
	Rate Year 1		Rate Year 1		Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Pro Forma Proposed Rates (1)	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 883,173	32.2%	\$ 1,059,899	31.9%	1,138,329	31.5%	1,207,264	31.4%
Commercial	127,721	4.7%	153,268	4.6%	168,591	4.6%	178,809	4.6%
Industrial	1,703,892	62.2%	2,044,671	61.4%	2,249,218	61.9%	2,385,446	62.0%
Public (Municipal)	25,642	0.9%	30,770	0.9%	33,846	0.9%	35,900	0.9%
Public Fire Protection	-	0.0%	41,500	1.2%	41,500	1.1%	41,500	1.1%
Total Sales of Water	\$ 2,740,428	100.0%	\$ 3,330,107	100.0%	\$ 3,631,484	100.0%	\$ 3,848,919	100.0%
Other Water Revenues	19,035		33,809		33,674		33,674	
Contract Sales - Resale	49,106		49,786		49,786		49,786	
Total	<u>\$ 2,808,569</u>		<u>\$ 3,413,702</u>		<u>\$ 3,714,944</u>		<u>\$ 3,932,379</u>	

(1) See Schedule A-2021, Exhibit 12-B.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
WASTEWATER SSS OPERATIONS EXCLUDING SADSURY AND EXETER

	As Filed				Settlement - Step 1 and 2 (2)			
	Rate Year 1		Rate Year 1		Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Pro Forma Proposed Rates (1)	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 15,202,739	59.0%	\$ 17,879,377	60.8%	17,038,809	60.3%	19,312,415	61.7%
Non-Residential	4,596,617	17.8%	5,343,806	18.2%	5,053,138	17.9%	5,805,548	18.6%
Large Industrial	662,645	2.6%	706,879	2.4%	674,061	2.4%	674,061	2.2%
Bulk Users/VA Hospital	5,305,895	20.6%	5,481,390	18.6%	5,482,667	19.4%	5,482,667	17.5%
Total Sales	\$ 25,767,896	100.0%	\$ 29,411,453	100.0%	\$ 28,248,676	100.0%	\$ 31,274,691	100.0%
Other Revenues	826,409		1,373,558		1,375,256		1,375,256	
Total	<u>\$ 26,594,305</u>		<u>\$ 30,785,011</u>		<u>\$ 29,623,932</u>		<u>\$ 32,649,947</u>	

(1) See Schedule A-2021, Exhibit 12-C.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
EXETER WASTEWATER SSS OPERATIONS

	As Filed						Settlement - Step 1 and 2 (2)			
	Rate Year 1			Rate Year 1			Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Proposed Rates Proposed Rates (1)	Pro Forma Proposed Rates Proposed Rates (1)	Percent of Total	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 4,141,242	57.6%	\$ 6,512,699	65.0%			5,773,828	64.5%	6,973,039	64.8%
Non-Residential	2,935,648	40.9%	3,362,591	33.5%			3,049,759	34.1%	3,640,781	33.8%
Bulk Users	108,242	1.5%	151,539	1.5%			129,891	1.5%	151,539	1.4%
Total Sales	\$ 7,185,131	100.0%	\$ 10,026,829	100.0%			\$ 8,953,478	100.1%	\$ 10,765,359	100.0%
Other Revenues	1,001,221		1,044,304				1,044,216		1,044,216	
Total	\$ 8,186,352		\$ 11,071,133				\$ 9,997,694		\$ 11,809,575	

(1) See Schedule A-2021, Exhibit 12-D.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
SADSBURY WASTEWATER SSS OPERATIONS

	As Filed						Settlement - Step 1 and 2 (2)			
	Rate Year 1			Rate Year 1			Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Proposed Rates Proposed Rates (1)	Pro Forma Proposed Rates Proposed Rates (1)	Percent of Total		Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential Non-Residential	\$ 880,025 132,898	86.9% 13.1%	\$ 824,472 128,141	86.5% 13.5%			879,400 132,897	86.9% 13.1%	896,026 137,494	86.7% 13.3%
Total Sales	\$ 1,012,922	100.0%	\$ 952,612	100.0%			\$ 1,012,297	100.0%	\$ 1,033,519	100.0%
Other Revenues Total	6,324 \$ 1,019,246		7,241 \$ 959,853				6,567 \$ 1,018,864		6,793 \$ 1,040,312	

(1) See Schedule A-2021, Exhibit 12-E.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
SCRANTON WASTEWATER CSS OPERATIONS

	As Filed						Settlement - Step 1 and 2 (2)			
	Rate Year 1			Rate Year 1			Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Proposed Rates Proposed Rates (1)	Pro Forma Proposed Rates Proposed Rates (1)	Percent of Total	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 13,423,016	57.6%	\$ 14,646,246	\$ 14,646,246	56.2%	58.6%	15,945,509	58.6%	18,417,774	59.0%
Non-Residential	8,836,514	37.9%	10,197,345	10,197,345	39.1%	37.1%	10,086,446	37.1%	11,422,965	36.7%
Industrial	1,056,234	4.5%	1,231,574	1,231,574	4.7%	4.3%	1,166,620	4.3%	1,306,254	4.2%
Total Sales	\$ 23,315,764	100.0%	\$ 26,075,165	\$ 26,075,165	100.0%	100.0%	\$ 27,198,575	100.0%	\$ 31,146,994	99.9%
Other Revenues	152,010		222,100	222,100			216,545		216,545	
Total	<u>\$ 23,467,774</u>		<u>\$ 26,297,265</u>	<u>\$ 26,297,265</u>			<u>\$ 27,415,120</u>		<u>\$ 31,363,539</u>	

(1) See Schedule A-2021, Exhibit 12-F.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
MCKEESPORT WASTEWATER CSS OPERATIONS

	As Filed				Settlement - Step 1 and 2 (2)			
	Rate Year 1		Rate Year 1		Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Pro Forma Proposed Rates Proposed Rates (1)	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 5,736,969	46.8%	\$ 7,452,190	52.1%	7,151,204	52.3%	7,902,115	52.0%
Non-Residential	2,801,473	22.8%	2,685,676	18.8%	2,669,758	19.5%	2,974,390	19.6%
Bulk Users	3,736,092	30.4%	4,160,999	29.1%	3,860,449	28.2%	4,313,377	28.4%
Total Sales	\$ 12,274,534	100.0%	\$ 14,298,866	100.0%	\$ 13,681,411	100.0%	\$ 15,189,882	100.0%
Other Revenues	94,525		204,207		195,892		195,892	
Total	<u>\$ 12,369,059</u>		<u>\$ 14,503,073</u>		<u>\$ 13,877,303</u>		<u>\$ 15,385,774</u>	

(1) See Schedule A-2021, Exhibit 12-G.

(2) See Appendix C of the Settlement Agreement.

PENNSYLVANIA AMERICAN WATER
SUMMARY OF REVENUE
KANE WASTEWATER CSS OPERATIONS

	As Filed				Settlement - Step 1 and 2 (2)			
	Rate Year 1		Rate Year 1		Step 1		Step 2	
	Pro Forma Revenues Present Rates (1)	Percent of Total	Pro Forma Proposed Rates Proposed Rates (1)	Percent of Total	Pro Forma Revenues Settlement Rates	Percent of Total	Pro Forma Proposed Rates Settlement Rates	Percent of Total
Residential	\$ 1,179,875	80.4%	\$ 1,432,176	80.3%	1,539,530	80.3%	1,908,815	80.3%
Non-Residential	287,635	19.6%	350,910	19.7%	377,200	19.7%	467,693	19.7%
Total Sales	\$ 1,467,510	100.0%	\$ 1,783,086	100.0%	\$ 1,916,730	100.0%	\$ 2,376,507	100.0%
Other Revenues	9,146		20,396		19,718		19,718	
Total	<u>\$ 1,476,656</u>		<u>\$ 1,803,482</u>		<u>\$ 1,936,448</u>		<u>\$ 2,396,225</u>	

(1) See Schedule A-2021, Exhibit 12-H.

(2) See Appendix C of the Settlement Agreement.