

January 5, 2021

VIA E-File

Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission 400 North Street, Filing Room Harrisburg, PA 17120

Re: Pa. PUC v. Pennsylvania American Water Company,

Docket Nos. R-2020-3019369 (Water); R-2020-3019371 (Wastewater)

Exceptions of CAUSE-PA

Dear Secretary Chiavetta:

Enclosed, please find the Exceptions of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) in the above-noted proceeding.

Pursuant to the Commission's Emergency Order issued on March 20, 2020, and as indicated on the attached Certificate of Service, service on the parties was accomplished by email only.

Respectfully submitted,

Ria M. Pereira, Esq. Counsel for CAUSE-PA

CC: Certificate of Service

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Encl.

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

:

v. : Docket Nos. R-2020-3019369

R-2020-3019371

Pennsylvania American Water Company

Certificate of Service

I hereby certify that I have this day served copies of the Exceptions of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) upon the parties of record in the above-captioned proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party), and consistent with the Commission's Emergency Order issued on March 20, 2020, in the manner and upon the persons listed below.

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

: Docket Nos. R-2020-3019369

v. :

R-2020-3019371

Pennsylvania American Water Company

EXCEPTIONS OF THE COALITION FOR AFFORDABLE UTILITY SERVICES AND ENERGY EFFICIENCY IN PENNSYLVANIA

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I. INTRODUCTION

By Secretarial Letter dated December 22, 2020, the Office of Administrative Law Judge issued a Recommended Decision (RD) of Administrative Law Judge (ALJ) Conrad A. Johnson in the requested base rate increase of Pennsylvania American Water Company (PAWC or the Company). The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), through its counsel at the Pennsylvania Utility Law Project, files these Exceptions to the Recommended Decision.

As a preliminary matter, ALJ Johnson erred as a matter of law and sound public policy when he recommended that the Joint Petition for Non-Unanimous Settlement of Rate Investigation of PAWC, the Commission's Bureau of Investigation and Enforcement (I&E) and the Pennsylvania-American Large Users Group, with the support of AK Steel Corporation, be approved (hereinafter, Non-Unanimous Settlement). (RD at 128-129). As discussed more fully in CAUSE-PA's Main Brief (MB) and Reply Brief (RB) filed in this matter, CAUSE-PA unequivocally asserts that PAWC's request for a rate increase should be denied in its entirety and that PAWC should be required to address existing rate unaffordability and inequities in its universal service program design by adopting specific changes to its low-income programming. (MB at 16-23). In short, it is neither just nor reasonable – nor is it in the public interest – to raise rates for essential, life-sustaining water and wastewater services in the midst of the unprecedented public health and economic crisis caused by the COVID-19 pandemic.

CAUSE-PA takes exception with the RD because it fails to adopt several critically important recommendations of CAUSE-PA, as set forth by CAUSE-PA's exert witnesses Mitchell Miller, the former Director of the Commission's Bureau of Consumer Services (MB 15-16), to remediate existing unaffordability.

First, the RD errs in approving a \$70.5 million rate increase, which will increase rates for basic water and wastewater services by an average of 6.1% for residential water customers and an average of 12.15% for residential wastewater customers. (RD at 128-129; Non-Unanimous Settlement at 8-9; Appendix G; Appendix H). As Mr. Miller explained in his testimony, low-income customers already struggle to afford service even in relatively good times. But these are not good times. At the public input hearings in this matter, numerous community members and local officials testified that the proposed rate increases would be unaffordable, especially to customers with fixed incomes or who had been economically impacted as a result of the COVID-19 pandemic. (RD at 14-15). CAUSE-PA asserts that it is inappropriate to raise PAWC's rate for critical water and wastewater services during the pendency of the COVID-19 pandemic that has wrought unprecedented damage to the health and economy of Pennsylvania's communities. (MB at 13; CAUSE-PA St. 1 at 8-9).

Second, the RD fails to direct PAWC to implement meaningful improvements to the design of its H2O bill discount program to ensure that participants are able to reasonably and equitably afford service. As Mr. Miller explained in his direct testimony, current rates for H2O bill discount customers are already categorically unaffordable – often resulting in rates exceeding 10% or more of household income, especially for the largest families with the least amount of household income. (Objections of CAUSE-PA to Non-Unanimous Settlement at 6-7). This deep unaffordability must be addressed in order to ensure that PAWC's vulnerable, low-income customers are not subject to unjust and unreasonable rates for water and wastewater services. (MB at 33-42; see also CAUSE-PA St. 1 at 34-36). The urgency of this issue is even more pronounced

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¹ Note that the \$70.5 million increase will be offset by an annualized credit of \$10.5 million in 2021 and 2022 beginning on the effective date of the Settlement Rates. Joint Petition for Non-Unanimous Settlement at 8-9.

in the context of the ongoing pandemic, which has disproportionately impacted low-income communities. (See MB at 13).

Finally, the RD fails to require PAWC to develop a Universal Service Plan (USP), detailing the program rules, eligibility criteria, application process, and other key details of its existing universal service programs. As Mr. Miller explained in his direct testimony, PAWC does not currently have a written USP, memorializing the details of its existing programs. (MB at 62-64; CAUSE-PA St. 1 at 48-49). Mr. Miller recommended that PAWC be required to develop and implement a USP to allow the policies, procedures, and eligibility requirements of PAWC's low-income programs to be provided in a clear, concise, and transparent manner that allows for Commission oversight of its rate-supported universal service programming. (Id.)

II. EXCEPTIONS

1. <u>CAUSE-PA Exception 1</u>: The ALJ erred in approving PAWC to dramatically increase rates for basic water and wastewater services in the middle of an unprecedented public health and economic crisis.

In this rate case, the Commission has a "duty to set 'just and reasonable' rates, reflecting a 'balance of consumer and investor interests." (MB at 11).² In determining just and reasonable rates, the Commission has the discretion to determine the proper balance between interests of the ratepayers and utilities. (<u>Id.</u>)³ Pursuant to Section 315 of the Public Utility Code, the burden of

² Popowsky v. PUC, 665 A.2d 808, 811, 542 Pa. 99, 107-108 (1995); 66 Pa. C.S. § 1301.

³ <u>Id. citing Pa. PUC v. Philadelphia Electric Co.</u>, 522 Pa. 338, 342-43, 561 A.2d 1224, 1226 (1989); <u>Pa. PUC v. Pa. Gas & Water Co.</u>, 492 Pa. 326, 337, 424 A.2d 1213, 1219 (1980), <u>cert. denied</u>, 454 U.S. 824, 102 S. Ct. 112, 70 L. Ed. 2d 97 (1981).

proving that a rate proposal is just and reasonable rests on the public utility. (<u>Id.</u>)⁴ "[T]he PUC is obliged to consider broad public interests in the rate-making process."⁵

[T]he term "just and reasonable" was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital.⁶

In order to be just and reasonable, it is critical that rates are also affordable for those served.

(Objections of CAUSE-PA to Joint Petition for Non-Unanimous Settlement at 4). Indeed, universal accessibility is a polestar principle of ratemaking for essential life-sustaining services like water and wastewater. (Id.)

In its Main Brief, Reply Brief, and Objections to the Joint Petition to Non-Unanimous Settlement, CAUSE-PA argued that PAWC's request for a rate increase should be denied in its entirety, given the immediate and profound impact that a rate increase would have on consumers ability to afford and stay connected to life-sustaining water and wastewater services during the pendency of the COVID-19 pandemic. (See MB at 13-23).

In the Non-Unanimous Settlement, the Joint Petitioners agreed that, upon the Commission's approval of the Settlement, but no later than January 28, 2021, PAWC will be permitted to charge rates for water and wastewater services in order to produce additional annual water and wastewater operating revenue of \$70.5 million. (Joint Petition for Non-Unanimous Settlement at 8). The \$70.5 million increase will be offset by an annualized credit of \$10.5 million in 2021 and 2022 beginning on the effective date of the Settlement Rates. (<u>Id.</u> at 8-9)

⁴ 66 Pa. C.S. § 315.

⁵ <u>Popowsky v. Pa. PUC</u>, 542 Pa. 99, 107-108 (1995), <u>citing Pa. Elec. Co. v. Pa. PUC</u>, 509 Pa. 324, 331, 502 A.2d 130, 134 (1985).

⁶ Id.

In his RD, ALJ Johnson recommended that the Joint Petition for Non-Unanimous Settlement be approved. (RD at 128-129). In doing so, ALJ Johnson reasoned that the Settlement, on balance, was in the public interest and found that the Settlement terms were a "carefully crafted package representing reasonable negotiated compromises on the issues addressed therein." (RD at 126).

CAUSE-PA objects to ALJ Johnson's recommendation that the Joint Petition for Non-Unanimous Settlement is approved. For low-income customers, the rate increase proposed in the Settlement will have an immediate and profound impact on their ability to afford and stay connected to services. (Objections of CAUSE-PA to Joint Petition For Non-Unanimous Settlement at 4). As CAUSE-PA's expert witness Mitchell Miller explained in his direct testimony, low-income consumers have been particularly hard hit by the economic repercussions of the pandemic, and low-wage and hourly workers have experienced the highest level of job losses and reductions in workforce. (Id. at 4-5). Mr. Miller conservatively estimated that 20% of PAWC's residential customers – roughly 123,162 households, likely had incomes at or below 150% FPL. (Id.) With the onslaught of COVID-19, this number has undoubtedly grown, with more than 2 million Pennsylvanians having sought unemployment benefits since mid-March. (Id.)

At existing rates, PAWC's low-income customers already face steep rates for essential water and wastewater services, even with assistance through the H2O bill discount program. As Mr. Miller explained, low-income customers – especially those with the lowest level of income and the highest usage levels – already often pay upwards of 10% or more of their gross annual income for water and wastewater services at existing rates (<u>Id.</u> at 6-7). Table 3 and Table 4 of CAUSE-PA's Objections to the Non-Unanimous Settlement show the current respective water and wastewater burdens of H2O bill discount participants, assuming current average usage and federal

poverty level. (<u>Id.</u> at 9-10). As shown in these Tables, H2O participants already face significant water and wastewater burdens, with H2O participants at or below 50% FPL facing exponentially higher combined water/wastewater burdens compared to H2O participants with higher household incomes. (<u>Id.</u>)

PAWC's H2O program participants have markedly higher rates of termination compared to residential customers as whole, representing 14.9% of PAWC's total terminations, despite only comprising 3.3% of total residential water and wastewater customers. (<u>Id.</u> at 11). Increasing rates will further exacerbate this affordability crisis, and is likely to cause terminations to economically vulnerable customers, or alternatively, will cause these customers to go without other critical necessities to keep up with PAWC's inflated costs of services. (<u>Id.</u>) Mr. Miller extensively described the tangible link between water services and overall household health and well-being. (<u>Id.</u> at 11-12). In particular, he described how households face a myriad of consequences from loss of water and wastewater services, including loss of child custody, eviction, and loss of public housing. (<u>Id.</u>)

The need for safe and affordable water and wastewater services has become all the more pronounced as a result of the COVID-19 pandemic. Without running water and wastewater services, people cannot sanitize and exercise proper hygiene to protect against the further spread of COVID-19, and performing daily tasks of living such as cooking, cleaning, and flushing the toilet become impossible. (Id. at 12). Lack of consistent water and wastewater poses a health and safety risk not only for vulnerable consumers, such as seniors or those living with underlying health issues, but also communities as a whole as they continue to fight to curb further spread of the deadly virus. (Id.)

At the public input hearings in this matter, numerous community members and local officials testified that the proposed rate increases would be unaffordable, especially to customers with fixed incomes or who had been economically impacted as a result of the COVID-19 pandemic. (RD at 14-15). For example, State Senator Judith Schwank testified that few, if any ratepayers, would be able to afford a rate increase at this time given the economic toll taken by COVID-19 and expressed concerns about senior, customers living on a fixed income, and small businesses. (Id.) Similarly, State Representative Austin Davis testified about the economic hardships caused by the COVID-19 pandemic and advised "now is not the time to be increasing rates for essential water and wastewater services, which are key components to combating the pandemic." (Id.)

While CAUSE-PA appreciates that the Joint Petition contains some additional protections and customer assistance (RD at 126), the Non-Unanimous Settlement as a whole is inadequate to mitigate current unaffordability – or the additional unaffordability substantial rate increase proposed in the Settlement and pales in comparison to the overwhelming need felt by PAWC customers. As of September 2020, PAWC's residential customers owed over \$31.7 million – up from \$22.8 million year over year. (Objections of CAUSE-PA to Joint Petition For Non-Unanimous Settlement at 13).

Given the considerable rate increase proposed in the Joint Petition, the Non-Unanimous Settlement is inadequate to ensure that consumers can access and maintain water and wastewater services so critical to the health and safety of the customers and communities that PAWC serves. CAUSE-PA contends that the Non-Unanimous Settlement does not represent a "carefully crafted package" but rather an agreement by a handful of parties – and opposed by low-income, residential, and small business advocates. Approval of an aggressive, multi-year rate increase to critical water

and wastewater rates without adequately addressing long-term, pervasive issues of rate unaffordability for PAWC's most economically vulnerable customers, is not only unjust and unreasonable, but also contradictory to the public interest. As such, CAUSE-PA urges the Commission to amend the RD to reject PAWC's rate increase in its entirety and to implement the critical changes and improvements outlined in these Exceptions.

2. <u>CAUSE-PA Exception 2:</u> The ALJ erred by not directing PAWC to meaningfully improve its H2O bill discount program to provide consistent levels of affordability for low-income consumers.

In this rate case, the Commission has a "duty to set 'just and reasonable' rates, reflecting a 'balance of consumer and investor interests." (MB at 11). In determining just and reasonable rates, the Commission must determine the proper balance between interests of the ratepayers and utilities. (Id.) Pursuant to Section 315 of the Public Utility Code, the burden of proving that a rate proposal is just and reasonable rests on the public utility. (Id.)

The record in this proceeding shows that low-income consumers struggle profoundly to afford to maintain water and wastewater to their home – even with assistance through PAWC's H2O discount program. Regardless of any approved rate increase, it is both unjust and unreasonable to allow PAWC to continue charging rates that are categorically unaffordable. It is therefore critical – regardless of whether rates increase – that PAWC be required to adjust the design of its H2O program to provide equitable assistance and affordable rates to economically vulnerable consumers.

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⁷ Popowsky v. PUC, 665 A.2d 808, 811, 542 Pa. 99, 107-108 (1995); 66 Pa. C.S. § 1301.

⁸ <u>Id. citing Pa. PUC v. Philadelphia Electric Co.</u>, 522 Pa. 338, 342-43, 561 A.2d 1224, 1226 (1989); <u>Pa. PUC v. Pa. Gas & Water Co.</u>, 492 Pa. 326, 337, 424 A.2d 1213, 1219 (1980), <u>cert. denied</u>, 454 U.S. 824, 102 S. Ct. 112, 70 L. Ed. 2d 97 (1981)).

⁹ 66 Pa. C.S. § 315.

In its Main Brief, CAUSE-PA argued that PAWC should be ordered to implement a percentage of income discount rate program (PIP) that ties discount levels to customers' ability to pay. (MB at 40). Based on Mr. Miller's recommendation, CAUSE-PA proposed that PAWC target affordability for the PIP at 2, 2.5, and 3% of household income for those at 0-50%, 51-100%, and 101-150% FPL, respectively – consistent with the PIP recently implemented by the Philadelphia Water Department. (Id.; CAUSE-PA St. 1 at 63: 20-23; 64: 1-2). In recognition of system upgrades and programming that might need to be accomplished prior to implementation of a PIP, Mr. Miller recommended that a PIP be implemented within 2 years of a final order in the case – or, to the extent that a rate increase is approved, no later than the effective date of PAWC's 2022 rate increase. (MB at 40).

CAUSE-PA detailed in its Main Brief how many H2O bill discount participants face significant water and wastewater burdens, even assuming current rates. (MB at 34). As shown by Table 9 and 10 of Mr. Miller's direct testimony, many H2O bill discount participants, especially those with household income at or below 50% FPL, face water and wastewater burdens in excess of 4.5% - a percentage that Mr. Miller described to be the maximum affordability burden. (MB at 34-35; CAUSE-PA St. 1 at 34: 1-8; 35: 1-2). As an example, an H2O participant with a 4-person household and income at 50% FPL (with average usage rates) has a combined water and wastewater burden of 8.4% at current rates. (MB at 34-35; CAUSE-PA St. 1 at 34-35, T. 9 & T. 10). Even assuming the additional discount PAWC proposes in its initial rate filings, Mr. Miller noted that the discount offered to H2O participants would be insufficiently structured to target rate relief to equitably address pervasive unaffordability issues faced by low-income customers,

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¹⁰ Joanne Dahme, Roger Colton, & Robert Ballenger, <u>Managing Public Water Infrastructure with Resource Constraints</u>, <u>http://graham.umich.edu/media/pubs/Water-CS-Philidelphia-Tiered-Assistant-Program_0.pdf</u>.

especially those with higher usage levels because their systems are in need for repair or who have larger family sizes. (MB at 35-36).

Even assuming the incremental improvements to the bill discount program that PAWC proposes in its initial rate filings, low-income customers will continue to experience high levels of unaffordability in their monthly bills. (MB at 36). As shown in detail in Table 1 and Table 2 of CAUSE-PA's Main Brief, customers with household income at or below 50% FPL would experience combined water and wastewater burdens in excess of 8%, assuming the rates and discount levels in PAWC's initial filings. (Id. at 36-37). While the Non-Unanimous Settlement somewhat reduces the overall revenue increase that these customers would experience, the wide discrepancy in affordability levels is attributed to the current structure of the discount under the H2O program, which is the same regardless of whether a customer has a household income at 0% FPL, 150% FPL, or somewhere in between. (Id. at 37). As described more fully in CAUSE-PA's Main Brief and in CAUSE-PA Exhibits MM-1 through MM-6, PAWC's predominately fixed discount structure resulted in combined water/wastewater burdens in excess of 10% for those with the lowest income levels and the highest usage levels. (Id. at 38; MB at Appendix D).

Ultimately, the structure of the discount offered under the H2O program produces inequitable results, especially for customers at the lowest end of the poverty guidelines and those with larger families and correspondingly higher usage levels. (MB at 38). Significantly, the challenges faced by low-income customers as a result of the unaffordability of PAWC rates has only worsened as a result of COVID-19. (Id. at 39-40; RB at 16-21). 11 For example, half of adults

¹¹ In CAUSE-PA's Reply Brief, CAUSE-PA extensively addresses PAWC's arguments that they currently have inadequate information to implement a PIP. <u>See</u> RB at 16-21. As more fully explained in CAUSE-PA's Reply Brief, Mr. Miller recommended implementation of a PIP within 2 years of a final order in this case, assuming no rate increase is approved, or no later than the effective date of PAWC's 2022 rate increase if a rate increase is approved. This delayed implementation would provide adequate

in households with income of less than \$25,000 who lost employment as a result of COVID-19 lacked confidence that they could pay the next month's rent or mortgage on time, compared with 8.4% of adults in households with incomes of \$100,000 or more. (MB at 16). For these customers, high water and wastewater burdens only exacerbates their economic crisis and leaves very little income to pay for other critical human needs, such as rent, food, medicine, or other utilities. (Id. at 39).

For the forgoing reasons, and as explained in its Main and Reply Briefs, CAUSE-PA strongly urges the Commission to amend the RD to require PAWC to implement a PIP discount structure for its H2O customers in line with the suggestions of PAWC's expert witness Mr. Miller and as set forth in detail in CAUSE-PA's Main and Reply Briefs in this matter. (MB at 40-42; RB at 16-21). Specifically, PAWC should be required to implement a PIP no later than the effective date of PAWC's 2022 rate increase if a rate increase is ultimately approved, or within 2 years of the final order in this matter. (Id. at 40). PAWC should be required to target water affordability for the PIP at 2%, 2.5%, and 3% of household income for those at 0-50%, 51-100%, 101-150% FPL, respectively. (Id). While implementation of a PIP for H2O bill discount participants is vital to address already existing levels of unaffordability for PAWC's low-income customers, these improvements become all the more urgent if the Commission ultimately approves PAWC to raise its rates for water and wastewater services. It is neither just nor reasonable, and is contradictory to the public interest, to continue to allow PAWC's low-income customers to face pervasive rate unaffordability, especially in light of the ongoing economic toll taken by the COVID-19 pandemic.

opportunity for PAWC to upgrade its customer information systems, and other systems, in order to allow for a PIP to be implemented.

3. <u>CAUSE-PA Exception 3</u>: The ALJ erred by not requiring PAWC to develop and file with the Commission a detailed Universal Service Plan.

In approving the Non-Unanimous Settlement, ALJ Johnson failed to require PAWC to develop a comprehensive, written Universal Service Plan (USP). (See RD at 128-129). As more fully discussed in CAUSE-PA's Main Brief and Reply Brief, PAWC does not currently have a written USP, explaining – in one document – the rules, procedures, and benefits provided through its universal service programs. (MB at 62; RB at 27-30). While PAWC does have policies and procedures related to its low-income programming, CAUSE-PA recommended that PAWC be required to develop a comprehensive USP for review and approval by the Commission so that the Commission, stakeholders, and consumers are able to readily assess the conditions, eligibility criteria, and key goals and criteria. (MB at 62-64). As explained by CAUSE-PA's expert witness Mr. Miller, adopting a comprehensive USP would facilitate Commission oversight of these ratesupported programs to ensure the programs are equitably designed and administered – and would allow for periodic review and improvements. (Id. at 62). While water utilities in Pennsylvania are not strictly required by statute to submit USPs to the Commission, it is required that the Commission carefully oversee rate-supported programs. ¹² Requiring PAWC to submit a USP would provide a regular mechanism for the Commission to review whether PAWC's universal service programs are adequate to meet the needs of its low-income consumers, especially as COVID-19 continues to spread and change the communities and economies that PAWC services (See id.)

In order to ensure that PAWC's low-income programs are clear, transparent, and subject to periodic review and improvement, CAUSE-PA urges the Commission to amend the RD to require PAWC to develop a comprehensive USP for review and approval by the Commission. (MB

¹² Popowsky v. PUC, 665 A.2d 808, 811, 542 Pa. 99, 107-108 (1995); 66 Pa. C.S. § 1301.

at 63). The Plan should be drafted in consultation with interested parties and stakeholders and should memorialize the guidelines, benefits, and eligibility requirements of PAWC's low-income programs, including modifications as a result of the present case. (Id.) PAWC should be required to file a Petition for review and approval of its USP with the Commission within one year of the effective date of rates in this proceeding. (Id.) PAWC should thereafter be required to Petition for approval of any Plan revisions at least every five years, in line with the Commission's review of regulated gas and electric universal service programming. (Id.) As part of its USP, PAWC should be required to include a community outreach plan in its USP that targets the most hard-hit and atneed communities as a result of the COVID-19 pandemic. (MB at 31). The community outreach plan should be developed in consultation with interested parties and stakeholders. (Id.) Given that PAWC has committed to establishing a low-income advisory group (Joint Petition for Non-Unanimous Settlement at 13, ¶ 43), having a community outreach plan as part of a USP would allow PAWC's outreach measures for its low-income programs to be provided in a clear, concise manner that allowed for input from advisory group members.

III. CONCLUSION

For the reasons set forth above, and as more fully explained in CAUSE-PA's Main Brief,

Reply Brief, and Objections to the Joint Petition for Non-Unanimous Settlement, CAUSE-PA

urges the Commission to amend ALJ Johnson's RD consistent with these Exceptions. PAWC's

low-income customers are struggling more than ever to afford life-sustaining water and wastewater

services. The emergency of the COVID-19 pandemic has profoundly deepened already existing

inequalities in water and wastewater affordability. By ordering PAWC to take the necessary steps

outlined in these Exceptions, the Commission can help ensure that low-income customers can

afford continued access to water and wastewater services necessary to fight the spread of COVID-

19 and help address the deep unaffordability of PAWC's rates.

Respectfully submitted,

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