

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 25, 2013

Honorable Angela T. Jones
Honorable Darlene Davis Heep
Administrative Law Judges
PA Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107

Re: Pa. Public Utility Commission, et al.
v. Pennsylvania-American Water Co.
Docket No. R-2013-2355276, et al.

Dear Judge Jones and Judge Heep:

Enclosed is the Prehearing Memorandum of the Office of Consumer Advocate which was electronically filed with the Secretary's Office today in the above referenced proceeding. Two additional copies are being included for your Court Reporter.

Copies have been served upon the parties as indicated on the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script that reads "Candis A. Tunilo".

Candis A. Tunilo
Assistant Consumer Advocate
PA Attorney I.D. #89891

Enclosures

cc: Secretary's Office of the PUC
Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	
v.	:	Docket No. R-2013-2355276
	:	
PENNSYLVANIA-AMERICAN	:	
WATER COMPANY	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa.C.S. § 333, and in response to the Prehearing Conference Notice issued in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On April 30, 2013, Pennsylvania-American Water Company (PAWC or Company) filed Tariff Supplement No. 279 to Tariff Water - Pa. P.U.C. No. 4 (Supplement No. 279) and Original Tariff Wastewater Pa. PUC No. 15 (Tariff Wastewater No. 15) with the Public Utility Commission, to become effective June 29, 2013. Through Supplement No. 279 and Tariff Wastewater No. 15, PAWC requests that the Commission approve changes in water and wastewater rates, based upon a net overall operating revenue increase of approximately \$58.6 million per year or 10.1% over the amount of annual revenues at present rates.

PAWC provides water service to more than 641,000 customers in portions of Adams, Allegheny, Armstrong, Beaver, Berks, Bucks, Butler, Centre, Chester, Clarion, Clearfield, Clinton, Columbia, Cumberland, Dauphin, Fayette, Indiana, Jefferson, Lackawanna, Lancaster,

Lawrence, Lebanon, Luzerne, McKean, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Susquehanna, Union, Washington, Warren, Wayne, and York Counties. The Company provides wastewater service to over 17,000 customers in portions of Chester, Clarion, Monroe, Pike, and Washington Counties.

The case proposes to implement two provisions of Act 11. First, the Company utilizes a fully forecasted future test year in its filing. The second provision, as enacted at 66 Pa.C.S. §1311(c) and effective on April 15, 2012, enables a water and wastewater operation under a single corporate ownership to petition this Commission for permission to allocate a portion of the wastewater cost of service to the combined water and wastewater customer base where it has demonstrated to do so is in the public interest. PAWC has proposed to shift a portion of the wastewater cost of service (approximately \$9.1 million) to the entire water and wastewater customer base through this filing. This shift will generate varying changes in wastewater rates for the Company's five different wastewater service territories.

According to the Company's proposal, a residential water customer in Zone 1 using 3,960 gallons of water per month will see the monthly bill increase from \$52.51 to \$58.63, an increase of \$6.12 per month, exclusive of future surcharges. Because of the shift in revenue requirement pursuant to Act 11, residential wastewater customers with the same usage (3,960 gallons per month) will see varying changes in the monthly bills depending on the particular part of the service territory. Wastewater customers with average usage will see rate decreases in the Claysville, Northeast, Coatesville, and Pocono Divisions, while a wastewater customer with average usage in the Clarion Division will see an increase from \$34.78 to \$47.63, or 36.9%.

II. STATEMENT OF INTEREST

The Consumer Advocate is empowered to represent the interests of consumers before the Commission, pursuant to Act 161 of the General Assembly, as amended, 71 P.S. §§ 309-1, *et seq.* The Consumer Advocate filed a formal complaint in this proceeding to insure that the Commission fully and fairly adjudicates issues pertaining to whether the Company's existing and proposed rates—and all rate policy changes—are not unjust, unreasonable, unduly discriminatory, or otherwise unlawful.

III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of PAWC's base rate filing, the OCA has compiled a list of issues and sub-issues, which it anticipates will be included in its investigation of PAWC's rate request. It is anticipated that other issues may arise and may be pursued once the answers to all of the OCA's interrogatories have been received and analyzed.

The OCA has ten sets of interrogatories to date. The OCA has not yet received responses to all of those interrogatories. The OCA notes that there are a substantial number of interrogatory responses outstanding, many of which are more than two weeks outstanding, at the time of filing this Prehearing Memo. As soon as the OCA has received all of this information, and has had the opportunity to review it, the OCA anticipates that additional discovery and/or informal discovery meetings can be scheduled and potential settlement discussions can take place. At those meetings and discussions, the OCA will narrow the scope of additional information requests. Once the discovery process is complete, the OCA will file direct testimony which will set forth the specific issues it will address in this proceeding. At that time the OCA will also make and quantify its specific recommendations.

The issues and sub-issues set forth below will be analyzed and presented as appropriate by the OCA with the assistance of its expert witnesses:

A. Rate of Return

1. The OCA will perform a detailed analysis of the 11.25% cost of common equity claimed by PAWC. Also, the OCA will carefully examine the Company's methodologies and supporting data used to develop its final cost of common equity claim.

2. The OCA will examine whether the capital structure claimed by PAWC is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes.

3. The OCA will examine the embedded cost of debt and preferred stock claimed by PAWC.

4. The OCA will examine whether any company-specific adjustments proposed by PAWC are justified, including, but not limited to the leverage adjustment to the cost of equity capital.

B. Rate Base/Measures of Value

1. The OCA will examine the reasonableness and accuracy of the projections of PAWC related to the water/wastewater utility plant in service at the time relevant to this proceeding including, but not limited to, whether the test year plant will be completed as claimed and whether retirements are accurately reflected.

2. The OCA will review the Company's claim for plant additions during the future test year to determine if the Company has demonstrated that all such costs are prudently incurred.

3. The OCA will investigate whether the Company's adjustment to rate base for depreciation reserve is appropriate.

4. The OCA will examine the Company's projections of non-investor supplied funds, including but not limited to, customer deposits, customer advances for construction, and contributions in aid of construction.

5. The OCA will examine the Company's claim for materials and supplies.

6. The OCA will examine the Company's calculation and amount of cash working capital.

7. The OCA will examine issues related to the acquisitions of the Company.

8. The OCA intends to examine the reasonableness and accuracy of the Company's claimed valuation of its investment.

9. The OCA will examine the reasonableness and lawfulness of amounts paid to affiliates for goods and services, in accordance with Section 2101 of the Public Utility Code. 66 Pa. C.S. § 2101 et seq.

10. The OCA will examine the Company's use of a fully forecasted future test year in its filing.

11. The OCA will examine the costs being claimed for the American Water Works "Business Transformation" projects.

12. The OCA will examine the Company's Accumulated Deferred Income Tax balances and the Company's proposed treatment for "uncertain" income tax positions.

C. Revenues and Expenses

1. The OCA will examine whether the number of customers projected on the Company's system at the time periods relevant to this proceeding is reasonable and accurate.

2. The OCA will examine whether the Company's estimates of the volume of water to be sold during future periods is reasonable and accurate.

3. The OCA will examine whether the Company's projection of revenues in the future test year and fully forecasted future test year are reasonable and accurate including, but not limited to, its billed days adjustments, metered water sales and the impact of conservation measures, and miscellaneous revenue adjustments.

4. The OCA will examine whether the Company's projection of employees, overtime, and incentive pay is reasonable and accurate.

5. The OCA will examine whether the Company's projected inflation adjustment is just and reasonable.

6. The OCA will examine the costs being claimed for the American Water Works "Business Transformation" projects.

7. The OCA will examine the Company's claim for income tax expense and its calculation of consolidated tax savings.

8. The OCA will examine the justness and reasonableness of the Company's claims for:

- Pro forma purchased power expense;
- Pro forma chemical expense;
- Pro forma leased vehicle expense;
- Regulatory expense;
- Rate Case expense;
- Fines in the claimed cost of service;
- Service company charitable contributions and trade shows in the claimed cost of service;

- Claimed Injuries & Damages expense;
- Consolidated Income Tax Adjustment;
- Expenses for penalties in the claimed cost of service;
- Claimed Conference Registration expense;
- Service Company charges;
- Acquisition adjustments; and
- Incentive pay.

D. Rate Structure/Cost of Service/Rate Design

1. The OCA will examine the reasonableness of PAWC's proposed distribution of the revenue increase among customer classes, ratemaking regions, and types of utility service.

2. The OCA will examine PAWC's cost of service study, including the methodology used and the reasonableness of the allocations.

3. The OCA will examine PAWC's proposal to allocate a portion of the wastewater cost of service to the combined water and wastewater customer base to ensure that it is consistent with Act 11 of 2012 and that it is reasonable and consistent with the public interest.

4. The OCA will examine the reasonableness and appropriateness of the Company's proposed tariff changes, including all proposed surcharges and revenue adjustment mechanisms.

5. The OCA will examine whether changes in PAWC's DSIC tariff are required in order to ensure that it is consistent with PAWC's use of a fully forecasted test year.

E. Quality of Service/Main Extensions

1. The OCA will review the Company's quality of service to ensure that it is providing safe, adequate, and reliable service, and water that is usable for all household purposes, and that its wastewater plants and collections systems are operating as required.

2. The OCA will review the main extensions undertaken by the Company and proposed main extensions.

F. Miscellaneous

1. The OCA will investigate to ensure that the Company is complying with all prior orders.

IV. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. Each witness will present testimony in written form and will also attach various exhibits, documents, and explanatory information which will assist in the presentation of the OCA's case. In order to expedite the resolution of this proceeding, the OCA requests that, in addition to mailing copies to OCA counsel, Parties send copies of all interrogatory answers and testimony directly to the expert witness(es) responsible for the appropriate area of the case. The OCA also requests that CDs containing any interrogatory responses be mailed directly to the applicable consultant.

Accounting/Regulatory Policy:

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Rate of Return/Capital Structure:

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Quality of Service/Main Extensions:

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The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as the OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case, all parties of record will be notified.

V. EVIDENCE

The OCA will rely on the direct, rebuttal, and surrebuttal testimony of its expert witnesses as well as the testimony of other parties to the proceeding. The OCA will also present relevant exhibits to support its own testimony, including but not limited to, materials obtained from the Company through discovery and cross-examination.

VI. PUBLIC INPUT SESSIONS

Because of the magnitude of the proposed changes and the public interest in these proceedings, the Office of Consumer Advocate respectfully requests that public input sessions be held in PAWC's service territories. To develop its proposed public input hearing locations, the OCA performed a zip code analysis of applicable Rate Protests and Formal Complaints, and

considered legislative and consumer requests for public input hearings. A proposed schedule and location of proposed public input hearings based off that analysis is attached as Appendix A.

The OCA also requests that the Company be directed to extensively advertise these public input hearings. Newspaper notice must be advertised in the general readership sections of local newspapers, not in the legal section. In addition, the OCA requests the other parties involved in the proceeding be permitted to review these public input announcements prior to their publication and distribution and have input into which publications the ads are placed.

VII. SERVICE ON OCA

The OCA will be represented in this case by Senior Assistant Consumer Advocate Christine M. Hoover and Assistant Consumer Advocates Christy M. Appleby, Candis A. Tunilo, and Brandon J. Pierce. Note the group email address. This is the only email address that is required for service on the OCA; it will provide the emailed materials to all members of the OCA team including the consultants listed above. Two copies of all documents should be served on the OCA as follows:

Christine M. Hoover
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OCAService-PAWC2013-EXTERNAL@paoca.org

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555 Walnut Street, 5th Floor Forum Place
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(717) 783-5048 (telephone)
(717) 783-7152 (facsimile)

VIII. PROPOSED SCHEDULE

The OCA's proposed schedule is attached as Appendix B. The parties have all cooperated in formulating this proposed schedule.

IX. DISCOVERY

Appendix C contains proposed amendments to the Commission's discovery regulations. The OCA believes that these amendments will assist the parties in clarifying issues and to bring this proceeding to conclusion.

Respectfully submitted,



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DATED: June 25, 2013

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Appendix A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	Docket No. R-2013-2355276
v.	:	
	:	
PENNSYLVANIA-AMERICAN	:	
WATER COMPANY	:	

PROPOSED SCHEDULE OF PUBLIC INPUT HEARINGS

	Date	Place	Time
1.	July 24	Pittsburgh area	Evening
2.	July 25	Washington	Day
3.	July 29	Scranton	Day
4.	July 29	Stroudsburg	Evening
5.	July 31	Reading	Day
6.	July 31	Camp Hill ¹	Evening
7.	August 1	West Chester	Day

The OCA proposes that, to the extent possible, public input hearings be grouped by region to facilitate travel.

¹ Tentative location.

Appendix B

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. R-2013-2355276
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY	:	
	:	

PROPOSED PROCEDURAL SCHEDULE
OF THE
OFFICE OF CONSUMER ADVOCATE

Public Input Hearings	7/24 through 8/1
Direct Testimony Of non-Company Parties ²	Tuesday 8/6
Rebuttal Testimony	Thursday 8/29
Surrebuttal Testimony	Wednesday 9/11
Evidentiary Hearings	Monday 9/16 to Friday 9/20 ³
Due Date for Main Briefs	Tuesday 10/8 (alternate Thursday 10/10)
Due Date for Reply Briefs	Friday 10/18 (alternate Tuesday 10/22)

² The OCA proposes that the schedule dates be “in-hand” by 4:30pm (electronic service or fax service on the due date will satisfy the “in-hand” requirement), followed by hard copy via first class mail.

³ The OCA requests that Accounting testimony be presented first, on Monday 9/16 and Tuesday 9/17, due to witness availability.

Appendix C

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
v.	:	Docket No. R-2013-2355276
	:	
PENNSYLVANIA-AMERICAN	:	
WATER COMPANY	:	

PROPOSED AMENDMENTS TO DISCOVERY REGULATIONS

In conjunction with its proposed schedule, the OCA would propose to amend the Commission's discovery regulations in accord with the following.

- A. Answers to written interrogatories to be served in-hand within ten (10) calendar days of service of the interrogatories.
- B. Objections to interrogatories to be communicated orally within three (3) days of service; unresolved objections be served in writing within five (5) days of service of interrogatories.
- C. Motions to dismiss objections and/or direct the answering of interrogatories to be filed with the ALJ within three (3) days of service of written objections.
- D. Answers to motions to dismiss objections and/or direct the answering of interrogatories to be filed within three (3) days of service of such motions.
- E. Rulings over such motions to be issued, if possible, within seven (7) days of filing of the motion.
- F. Responses to requests for document production, entry for inspection, or other purposes to be served in-hand within ten (10) calendar days.
- G. Requests for admission be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service.
- H. Answers to on-the-record data requests to be served in-hand within seven (7) calendar days of the request.

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission
v.
Pennsylvania-American Water Company
Docket No. R-2013-2355276

I hereby certify that I have this day served a true copy of the foregoing document, Prehearing Memorandum of the Office of Consumer Advocate, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 25th day of June 2013.

SERVICE BY EMAIL and HAND DELIVERY

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SERVICE BY EMAIL and/or FIRST CLASS MAIL, POSTAGE PREPAID

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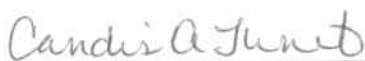
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