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File #: 153504

November 7, 2013

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission, The Office of Consumer Advocate, The Office of Small Business Advocate, Larry L. Wolfe and John C. Eline v. The York Water Company - Docket Nos. R-2012-2336379, C-2013-2367038, C-2013-2375700, C-2013-2370416 and C-2013-2374421

Dear Secretary Chiavetta:

Enclosed please find the Settlement Petition in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,


Anthony D. Kanagy

ADK/skr
Enclosures

cc: Certificate of Service
Honorable Kandace F. Melillo
Honorable Joel H. Cheskis

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL

Christine M. Hoover, Esquire
Brandon J. Pierce, Esquire
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923

Richard A. Kanaskie, Esquire
Scott B. Granger, Esquire
Bureau of Investigation & Enforcement
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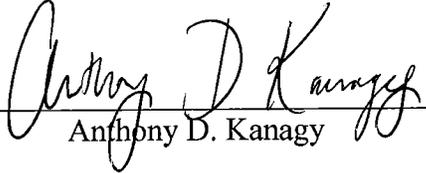
Steven Gray, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Larry L. Wolfe
2698 Forest Road
York, PA 17402

VIA FIRST CLASS MAIL

John C. Eline
1208 West Princess Street
York, PA 17404

Date: November 7, 2013


Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2012-2336379
The Office of Consumer Advocate	:		C-2013-2367038
The Office of Small Business Advocate	:		C-2013-2375700
Larry L. Wolfe	:		C-2013-2370416
John C. Eline	:		C-2013-2374421
	:		
v.	:		
	:		
The York Water Company.	:		

SETTLEMENT PETITION

TO ADMINISTRATIVE LAW JUDGES KANDACE F. MELILLO AND JOEL H. CHESKIS:

I. INTRODUCTION

The York Water Company (“York Water” or the “Company”), the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), parties in the above-captioned proceeding (hereinafter collectively referred to as the “Joint Petitioners”), hereby join in this “Settlement Petition” (“Settlement”) and respectfully request that Administrative Law Judges Kandace F. Melillo and Joel H. Cheskis (the “ALJs”) and the Commission approve this Settlement without modification.¹

As set forth and explained below, the Joint Petitioners have agreed to a settlement of all issues in the above-captioned proceeding. The Settlement provides for increases in rates, as set

¹ Two formal customer complaints were filed in this proceeding: Larry L. Wolfe at Docket No. C-2013-2370416 and John C. Eline at Docket No. C-2013-2374221. Complainant Larry Wolfe indicated that he does not oppose any issues in the settlement other than the issue of the allocation of a portion of the wastewater revenue requirement to water customers, which the parties are addressing separately in briefs. Complainant John Eline will be served with a copy of this settlement petition and, as indicated by the Administrative Law Judges in the hearing on October 22, 2013, will have ten days to comment or object to the settlement.

forth in the form of tariff supplements attached as Appendices “A” and “B” and the proof of revenues for the water increase attached as Appendix “C” to this Petition, designed to produce a total increase in annual base-rate operating revenues of \$5,000,000, which consists of an increase in water revenues of approximately \$4,972,040, and an increase in wastewater revenues of approximately \$27,960.

In support of this Settlement, the Joint Petitioners state the following:

II. BACKGROUND

1. York Water is a public utility subject to the Commission’s regulatory jurisdiction. York Water provides water service in the City of York, surrounding communities in York County and portions of Adams County. In addition, the Company provides wastewater service to one community in East Manchester Township, York County.

2. On May 29, 2013, York Water filed with the Commission Supplement No. 111 to its Tariff Water – Pa. P.U.C. No. 14 (“Supplement No. 111”) and Supplement No. 1 to Tariff Wastewater – Pa. P.U.C. No. 1 (“Supplement No. 1”), along with supporting information required by 52 Pa. Code §§ 53.52 and 53.53, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. § 1308(d). In Supplement No. 111, York Water proposed rates designed to produce an increase in water rates of \$7,116,392, and in Supplement No. 1, York Water proposed rates designed to produce an increase in wastewater rates of \$27,960.

3. In the filing, the Company proposed to allocate a portion of the wastewater revenue requirement to water customers pursuant to 66 Pa.C.S. § 1311(c). York Water previously filed a Petition with the Commission under 66 Pa.C.S. § 1311(c) to present a combined filing for both its water and wastewater requirements. The Commission granted the Petition by Order entered February 28, 2013, at Docket No. P-2012-2340409.

4. On June 4, 2013, OCA filed a Notice of Appearance, Formal Complaint, and Public Statement.
5. On June 20, 2013, I&E filed a Notice of Appearance.
6. By letter dated June 25, 2013, York Water received notice of a Formal Complaint filed by Larry L. Wolfe.
7. On July 16, 2013, the Commission entered an Order suspending Supplement No. 111 and Supplement No. 1 by operation of law until March 1, 2014, unless permitted by the Commission to become effective at an earlier date.
8. By letter dated July 19, 2013, York Water received notice of a Formal Complaint filed by John C. Eline.
9. On July 25, 2013, OSBA filed a Formal Complaint in the proceeding.
10. An initial prehearing conference was held on August 1, 2013, before the ALJs. Parties who participated in the prehearing conference filed prehearing memoranda identifying potential issues and witnesses. A schedule for hearings was established.
11. The Joint Petitioners undertook formal and informal discovery, both prior to and subsequent to the initial prehearing conference.
12. On August 19, 2013, Larry L. Wolfe submitted his direct testimony.
13. I&E, OCA and OSBA submitted direct testimony on September 4, 2013.
14. On September 30, 2013, rebuttal testimony was filed by the Company and the OSBA.
15. On October 10, 2013, Larry L. Wolfe submitted his surrebuttal testimony.
16. On October 16, 2013, surrebuttal testimony was filed by I&E, OCA, and OSBA.

17. The Joint Petitioners held several settlement conferences. As a result of these conferences and the efforts of the Joint Petitioners to examine the issues raised in the proceedings, a Settlement in Principle was achieved by the Joint Petitioners prior to the date for hearings. On October 21, 2013, the Joint Petitioners advised the ALJs of the Settlement in Principle. The parties also informed Larry L. Wolfe that a settlement among the Company and the statutory parties had been reached.

18. On October 22, 2013, a hearing was scheduled to move testimony and exhibits into the record and to discuss procedural issues relating to the conclusion of this proceeding.

19. Larry L. Wolfe reviewed the settlement agreement prior to the hearing on October 22, 2013, and indicated during the hearing that he did not agree to the settlement because it allows a portion of the wastewater revenue requirement to be allocated to water customers. He did not object to the other terms of the settlement. Parties will file briefs and reply briefs as to Mr. Wolfe's issue regarding allocation of a portion of the wastewater revenue requirement to water customers.

20. On October 23, 2013, the ALJs issued a Briefing Order, establishing the due dates and other associated procedural rules for the briefs on Mr. Wolfe's issue regarding allocation of the wastewater revenue requirement.

21. The Joint Petitioners have been able to agree to a settlement of all issues. The Joint Petitioners have agreed to a base rate increase for both water and wastewater revenues in the proceeding, and the Joint Petitioners have agreed to a revenue allocation and class rate designs to recover said increase. The Joint Petitioners are in full agreement that the Settlement is in the best interests of York Water and its customers. The Settlement is set forth in the following Section.

III. SETTLEMENT

22. The Joint Petitioners agree as follows:
- a. The Settlement Rates will be designed to produce \$5.0 million in additional annual base rate operating revenue, which consists of \$4,972,040 in additional water revenue and \$27,960 in additional wastewater revenue. The \$27,960 increase to wastewater customers is a 25% increase over current rates. York Water's water and wastewater rates will be designed to produce total revenues of approximately \$46,395,188. York Water will be permitted to file tariff supplements to become effective on the date of the end of the original suspension, that is, no earlier than February 28, 2014.
 - b. The Joint Petitioners agree that the \$4,972,040 in additional water revenue includes \$58,826 of wastewater revenue requirement. This amount was determined by: (1) scaling back the Company's proposed wastewater revenue requirement increase by the same percentage as the reduction in total revenues from the Company's original filing (*i.e.*, a reduction to 70% of the claimed increase), and (2) subtracting the \$27,960 increase in wastewater revenues from the total scaled back wastewater revenue requirement increase of \$86,786.²
 - c. That the following amortizations are specifically approved and are reflected in the Settlement's base rate allowance:

² The total increase in wastewater revenue requirement as calculated by York Water was \$123,980, which would represent a 111% increase over pro forma revenues at currently-effective base rates. The settlement increase represents a 25% increase (York Water Ex FVIII, Schedule H).

Description	Amortization Period	Annual Amortization
Spring Grove Water Company and Borough of Spring Grove Positive Acquisition Adjustment	10 Years ending September 15, 2016	\$20,129
York Starview, LP Positive Acquisition Adjustment	10 Years ending December 31, 2023	\$3,590
Section A Positive Acquisition Adjustment	10 Years ending December 31, 2023	\$3,473

- d. The Joint Petitioners agree that they will not propose, in this or any future proceeding, to amortize or otherwise pass through to ratepayers the difference between depreciated original cost and acquisition cost (“negative acquisition adjustment”) with respect to the acquisition of the Asbury Pointe wastewater system. The Joint Petitioners agree, and the Company requests the Commission to find, pursuant to Section 1327(e) of the Public Utility Code, 66 Pa.C.S. § 1327(e), that matters of “substantial public interest” exist with respect to such acquisition, which justifies this ratemaking treatment.
- e. The Joint Petitioners concur that agreement to these specific acquisitions listed in subparagraphs (c) and (d), above, cannot be construed as precedent for any future acquisitions by York Water of either water or wastewater systems, nor can this agreement be construed as precedent for any future acquisitions by any other water or wastewater utility.

- f. Rates under this Settlement will be presumed to provide for recovery of a cash contribution to pensions in the amount of \$2,300,000. York Water commits to deposit such amount into its pension trusts on an annual basis during the period that rates under this Settlement remain effective, provided that such deposit does not exceed the deductibility limits under the Internal Revenue Code. If the minimum required contribution under Code Section 430 of the Internal Revenue Code exceeds \$2,300,000, York Water will contribute the minimum required contribution under Code Section 430. Until changed by agreement of the Joint Petitioners or Commission Order, York Water will continue to account for differences between the cash contribution and the pension cost calculated pursuant to FASB ASC 715-20 and FASB ASC 715-30 as follows:

The Company has calculated and accrued on its books of account its pension liability incurred for its present employees under the terms of FASB ASC 715-20 and FASB 715-30. The Company makes cash contributions into qualified trusts to fund its pensions. The amount contributed is determined annually pursuant to actuarial studies that use criteria which may be different from criteria used under FASB ASC 715-20 and FASB 715-30. For financial reporting purposes, the Company will record the amount accrued in excess of the cash contribution as a regulatory (deferred) asset in accordance with FASB ASC 980 until the cash amount equals or exceeds the accrual. When the cash contribution exceeds the accrual amount, the Company will correspondingly reduce the regulatory (deferred) asset. For ratemaking purposes in the future, the Company will continue to use cash contributions plus pension administrative costs as the basis for its ratemaking claim for pension expense.

- g. Appendix "C" is the proof of revenues for the increase in water revenues, which reflects the allocation of the increase to base rates among the rate

classes as agreed to by the Joint Petitioners. The rate design for water customers includes a 5/8" meter customer charge of \$16.00/month.

- h. Sewer rates will continue to be a flat rate per residential dwelling unit for the Asbury Pointe Subdivision. The flat rate will increase by 25% from \$40.00 per month to \$50.00 per month, as proposed by York Water. A proof of revenues for the sewer increase was included as Schedule H to Exhibit No. FVIII and is also provided as Appendix D hereto.
- i. In accordance with the provisions of 52 Pa. Code § 69.55, the STAS for York Water shall be established at 0% effective with the effective date of settlement rates in this proceeding.
- j. The Settlement reflects a compromise of the Joint Petitioners' positions regarding rate base and rate of return. York Water will be eligible to include plant additions in the Distribution System Improvement Charge ("DSIC") once eligible account balances exceed the levels projected by York Water as of February 28, 2015 adjusted downward by 8.96% for the fully projected future test year ("FPFTY") plant additions as agreed to in the Company's rebuttal testimony. The foregoing provision is included solely for purposes of calculating the DSIC, and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing.
- k. The Company agrees that it will not file another base rate case before March 1, 2016; provided however, that the foregoing provision shall not prevent York Water from filing a tariff or tariff supplement proposing a

general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting York Water's rates. In addition, after informing the Commission and the signatory parties at least 30 days prior to any required notice, York Water may file a tariff or tariff supplement proposing a general increase in rates prior to March 1, 2016 in the event that the Department of Environmental Protection ("DEP") directs the Company to undertake capital improvements to enhance either or both of its dams and directs that such enhancements be completed prior to June 30, 2016. York Water agrees that it will provide the order from DEP to the signatory parties at the time it is issued by DEP.

1. York Water agrees to provide the Commission's Bureau of Technical Utility Services, I&E, OCA and OSBA, on or before June 30, 2014, an update to Exhibit No. FV-12-4 to include actual plant additions and retirements by month for the twelve months ending February 28, 2014. On or before February 28, 2015, York Water will update Exhibit No. FV-12-4 for the twelve months ending August 31, 2014. In York Water's next base rate proceeding, the Company will prepare and submit a comparison of its actual expenditures and rate base additions for the twelve months ending February 28, 2015, to its projections in this case as adjusted in its Rebuttal Testimony. It is recognized by the Joint Petitioners that this is a black box settlement that is a compromise of the Joint Petitioners' positions on various issues.

23. The effect upon the average residential customer's monthly water bill as a result of the Settlement is as follows:

	Effective on Date of Rate Filing	Proposed	As Settled
Residential Gravity (4,872 gal./mo.)	\$33.39/mo.	\$39.46/mo.	\$37.61/mo.
Residential Repumped (3,928 gal./mo.)	\$39.71/mo.	\$46.91/mo.	\$44.76/mo.

IV. CONDITIONS OF SETTLEMENT

24. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission modifies the Settlement, then any Joint Petitioner may elect to withdraw from this Settlement and may proceed with litigation and, in such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an order modifying the Settlement. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding and that the rates established hereunder are Commission-made, just and reasonable rates.

25. This Settlement is proposed by the Joint Petitioners to settle certain issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue to further hearings, the Joint Petitioners reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument. The Settlement is made without any admission against, or prejudice to, any position which any Joint Petitioner may adopt in the event of any subsequent litigation of this proceeding.

26. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

27. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Settlement. This Settlement does not preclude the parties from taking other positions in proceedings of other public utilities under Section 1308 of the Public Utility Code, 66 Pa.C.S. § 1308, or any other proceeding.

28. Attached as Appendices E through H are Statements of Support submitted by York Water, I&E, OCA and OSBA, setting forth the bases upon which they believe the Settlement is fair, just and reasonable and is, therefore, in the public interest.

29. If the ALJs adopt the Settlement without modification, the Joint Petitioners waive their rights to file Exceptions; provided, however, that the Joint Petitioners do not waive rights to file Briefs, Reply Briefs, Exceptions, and Reply Exceptions with respect to Mr. Wolfe's issue regarding the allocation of a portion of the wastewater revenue requirement to water customers.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That the Honorable Administrative Law Judges Kandace F. Melillo and Joel H. Cheskis and the Commission approve this Settlement including all terms and conditions thereof;

2. That the Commission's Investigation at R-2012-2336379 be marked closed;

3. That the complaint of OCA at C-2013-2367038 be marked closed;

4. That the complaint of OSBA at C-2013-2375700 be marked closed;

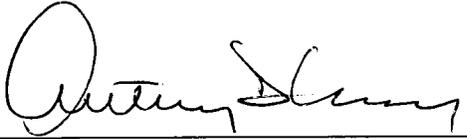
5. That the complaint of Larry L. Wolfe at C-2013-2370416 be denied;

6. That the complaint of John C. Eline at C-2013-2374421 be marked closed;

and

7. That the Commission enter an order consistent with this Settlement, terminating the proceeding and authorizing The York Water Company to file the tariff supplements attached as Appendices "A" and "B" to become effective on or after February 28, 2014.

Respectfully submitted,



Date: 11/7/13

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Date: 11/7/13

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Attorney for Office of Small Business Advocate

Date: 11/7/13

Appendix A

Supplement No.
To
Water-Pa. P.U.C. No. 14

THE YORK WATER COMPANY

RATES, RULES AND REGULATIONS

GOVERNING THE DISTRIBUTION OF WATER

IN

THE CITY OF YORK

BOROUGHS OF EAST PROSPECT, GLEN ROCK, HALLAM, JACOBUS, JEFFERSON, LOGANVILLE, MANCHESTER, MOUNT WOLF, NEW FREEDOM, NEW SALEM, NORTH YORK, RAILROAD, SEVEN VALLEYS, SHREWSBURY, SPRING GROVE, WEST YORK, YORK HAVEN AND YORKANA, AND TOWNSHIPS OF CODORUS, CONEWAGO, EAST MANCHESTER, HELLAM, HOPEWELL, JACKSON, LOWER WINDSOR, MANCHESTER, NEWBERRY, NORTH CODORUS, NORTH HOPEWELL, PARADISE, SHREWSBURY, SPRINGGETTSBURY, SPRINGFIELD, SPRING GARDEN, WEST MANCHESTER, WEST MANHEIM, WINDSOR AND YORK, IN YORK COUNTY, PENNSYLVANIA, AND THE BOROUGHS OF ABBOTTSTOWN AND CARROLL VALLEY, AND TOWNSHIPS OF BERWICK, OXFORD, HAMILTON, READING, MOUNT PLEASANT AND UNION IN ADAMS COUNTY, PENNSYLVANIA

ISSUED:

EFFECTIVE: February 28, 2014

By: Jeffrey R. Hines
President and CEO
130 East Market Street
York, Pennsylvania

 **NOTICE**

THIS TARIFF MAKES INCREASES AND DECREASES IN EXISTING RATES

(See One Hundred First Revised Page No. 2)

The York Water Company
York, Pennsylvania

Supplement No.
To
Water-Pa. P.U.C. No. 14
One Hundred First Revised Page No. 2
Cancelling
One Hundredth Revised Page No. 2

LIST OF CHANGES MADE BY THIS SUPPLEMENT

INCREASES

Base rates for water service are increased by approximately 12.0% overall. Average residential customer base rates are increased by approximately 12.7%, average commercial customer base rates are increased by approximately 12.4%, average industrial customer base rates are increased by approximately 13.7%, public fire service rates are increased by approximately 4.7%, and private fire service rates in the repumped service area are increased by approximately 9.3%.

The State Tax Adjustment Surcharge is increased to 0.00% from (0.35%) on page 40.

DECREASES

The Distribution System Improvement Charge is decreased to 0.00% from 4.11% on page 66.

ISSUED:

EFFECTIVE: February 28, 2014

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(C) Indicates Change

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This page left blank intentionally for future use	50 Original	
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(I) Indicates Increase
(D) Indicates Decrease

12. State Tax Adjustment Surcharge

- 12.1 In addition to the charges provided in this tariff, a surcharge of (0.00%) will apply to all charges for service rendered on or after February 28, 2014. (I)

The above surcharge will be recomputed, using the same elements prescribed by the Commission.

- a. Whenever any of the tax rates used in the calculation of the surcharge are changed; and
- b. Whenever the utility makes effective any increased or decreased rates.

The above recalculation will be submitted to the Commission within 10 days after the occurrence of the event or date which occasions such recomputation; and, if the recomputed surcharge is less than the one then in effect, the Company will, and if the recomputed surcharge is more than the one then in effect, the Company may, submit with such recomputation a tariff or supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

(I) Indicates Increase

13. Rate Schedules (Continued)

Schedule "A" - Meter Rates (Continued)

Gravity System (Continued)

RATES

Customer Charges

Size of Meter	All Classes	
5/8"	\$16.00	(I) ↓
3/4"	22.00	
1"	31.00	
1-1/2"	47.80	
2"	62.00	
3"	149.50	
4"	222.40	
6"	247.00	
8"	474.00	
10"	610.00	
12"	751.00	

Output Charges

	Rate per 1,000 Gallons					
	Residential		Commercial		Industrial	
Up to 5,000 Gallons Per Month	\$4.435	(I)	\$4.111	(I)	\$4.111	(I)
Next 45,000 Gallons Per Month	4.435	(I)	2.944	(I)	2.944	(I)
Next 1,950,000 Gallons Per Month	4.435	(I)	2.294	(I)	2.588	(I)
Over 2,000,000 Gallons Per Month	4.435	(I)	2.294	(I)	2.228	(I)

(I) Indicates Increase

The York Water Company
York, Pennsylvania

Supplement No.
to
Water-Pa. P.U.C. No. 14
Twenty-third Revised Page No. 44
Canceling
Twenty-second Revised Page No. 44

13. Rate Schedules (Continued)

Schedule "B" – Meter Rates (Continued)

Repumping System (Continued)

RATES

Customer Charges

Size of Meter	All Classes	
5/8"	\$16.00	(I)
3/4"	22.00	↓
1"	31.00	
1-1/2"	47.80	
2"	62.00	
3"	149.50	
4"	222.40	
6"	247.00	
8"	474.00	
10"	610.00	
12"	751.00	

Output Charges

	Rate per 1,000 Gallons					
	Residential		Commercial		Industrial	
Up to 5,000 Gallons Per Month	\$7.321	(I)	\$6.828	(I)	\$6.828	(I)
Next 45,000 Gallons Per Month	7.321	(I)	5.801	(I)	5.801	(I)
Next 1,950,000 Gallons Per Month	7.321	(I)	3.124	(I)	5.257	(I)
Over 2,000,000 Gallons Per Month	7.321	(I)	3.124	(I)	3.226	(I)

(I) Indicates Increase

ISSUED:

EFFECTIVE: February 28, 2014

13. Rate Schedules (Continued)

Schedule "D" - Fire Service Rates

Gravity System

Applicable for water service for fire purposes, from the gravity system in the City of York, Boroughs of Hallam, North York, West York, Townships of Hellam, Springettsbury, Spring Garden, Manchester and West Manchester, in York County, Pennsylvania.

RATES

	Per Month
Public:	
Public Fire Hydrant (billed to a municipality or other Customer)	\$21.21 (I)
Private:	
Sprinkler or Fire Service Systems:	
2-inch Connection	26.68
3-inch Connection	35.53
4-inch Connection	44.40
6-inch Connection	88.96
8-inch Connection	177.93
10-inch Connection	266.94
12-inch Connection	397.03
Fire Hydrant, Private:	
Direct Connection to Company Owned Mains:	35.53
Direct Connection to Customers Owned Mains:	
First Hydrant	35.53
Each Additional Hydrant	26.68

(I) Indicates Increase

ISSUED:

EFFECTIVE: February 28, 2014

13. Rate Schedules (Continued)

Schedule "F" - Fire Service Rates

Repumping System

Applicable for water service for fire purposes, in the City of York, Boroughs of East Prospect, Glen Rock, Jacobus, Jefferson, Loganville, New Freedom, New Salem, North York, Railroad, Seven Valleys, Shrewsbury, Spring Grove, West York, Manchester, Mount Wolf and Yorkana, and Townships of Codorus, Conewago, Hellam, Hopewell, Jackson, North Hopewell, Paradise, Shrewsbury, Springettsbury, Springfield, Spring Garden, Manchester, North Codorus, West Manchester, East Manchester, West Manheim, Windsor, York and Lower Windsor, York County, Pennsylvania, and the Boroughs of Abbottstown and Carroll Valley, and the Townships of Berwick, Oxford, Hamilton, Reading, Mount Pleasant and Union in Adams County, Pennsylvania where water is repumped.

RATES

	Per Month	
Public:		
Public Fire Hydrant (billed to a municipality or other Customer)	\$30.76	(l)
Private:		
Sprinkler or Fire Service Systems:		
2-inch Connection	37.73	(l)
3-inch Connection	50.28	
4-inch Connection	62.89	
6-inch Connection	125.76	
8-inch Connection	251.64	
10-inch Connection	377.54	
12-inch Connection	563.19	
Fire Hydrant, Private:		
Direct Connection to Company Owned Mains:	45.67	
Direct Connection to Customers Owned Mains:		
First Hydrant	45.67	
Each Additional Hydrant	34.28	

(l) Indicates Increase

The York Water Company
York, Pennsylvania

Supplement No.
to
Water-Pa. P.U.C. No. 14
Sixtieth Revised Page No. 66
Canceling
Fifty-ninth Revised Page No. 66

15. Distribution System Improvement Charge (DSIC)

- 15.1 In addition to the charges provided in this tariff, a distribution system improvement charge of (0.0%) will apply to all charges for service on or after February 28, 2014. (D)

(D) Indicates Decrease

ISSUED:

EFFECTIVE: February 28, 2014

Appendix B

The York Water Company
York, Pennsylvania

Supplement No.
To
Wastewater – PA P.U.C. No. 1

THE YORK WATER COMPANY

**RATES, RULES AND REGULATIONS GOVERNING
THE PROVISION OF WASTEWATER COLLECTION, TREATMENT
AND/OR DISPOSAL SERVICE TO THE PUBLIC IN
ASBURY POINTE RESIDENTIAL SUBDIVISION IN
EAST MANCHESTER TOWNSHIP, YORK COUNTY, PENNSYLVANIA**

ISSUED:

EFFECTIVE: February 28, 2014

By: Jeffrey R. Hines
President and CEO
130 East Market Street
York, Pennsylvania



NOTICE

THIS TARIFF MAKES INCREASES IN EXISTING RATES

(See Second Revised Page No. 2)

Issued:

Effective: February 28, 2014

The York Water Company
York, Pennsylvania

Supplement No.
To
Wastewater – PA P.U.C. No. 1
Third Revised Page No. 2
Canceling
Second Revised Page No. 2

LIST OF CHANGES

INCREASES

The flat rate per residential dwelling unit is increased by 25% from \$40.00 per month to \$50.00 per month.

The York Water Company
York, Pennsylvania

Supplement No.
To
Wastewater – PA P.U.C. No. 1
Second Revised Page No. 3
Canceling
First Revised Page No. 3

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(C) Indicates Change
(I) Indicates Increase

Issued:

Effective: February 28, 2014

PART I: SCHEDULE OF RATES AND CHARGES

Section A – Rates for Metered Service

1. Customer Charge: Each customer will be assessed a customer service charge based upon the size of the customer's meter as follows:

Customer Charge

<u>Meter Size</u>	<u>Per Month</u>	<u>Per Quarter</u>
5/8 inch	\$ _____	\$ _____
3/4 inch	\$ _____	\$ _____
1 inch	\$ _____	\$ _____
1 1/4 inch	\$ _____	\$ _____
1 1/2 inch	\$ _____	\$ _____
2 inch	\$ _____	\$ _____

2. Consumption Charge: In addition to the customer charge, the following water consumption charges will apply:

Consumption

	<u>Per Month</u>	<u>Per Quarter</u>	<u>Rate per 1000 gals.</u>
First	Gals.	Gals.	\$ _____
Next	Gals.	Gals.	\$ _____
Over	Gals.	Gals.	\$ _____

Section B – Flat Rates

The charge per residential dwelling unit is a flat rate either per month or per quarter as follows: \$50.00 per month per dwelling unit. (I)

(I) Indicates Increase

Appendix C

THE YORK WATER COMPANY

**COMPARISON OF PRO FORMA COST OF SERVICE WITH REVENUES UNDER PRESENT AND SETTLEMENT RATES
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015**

Customer Classification (1)	Pro Forma Revenues, 12 Months Ending 2/28/2015			Settlement Increase		
	Under Present Rates* Amount (Schedule J) (4)	Percent of Total (5)	Under Settlement Rates Amount (Schedule K) (6)	Percent of Total (7)	Amount (8)	Percent Increase (9)
Residential						
Gravity	\$ 7,909,716	19.5%	\$ 8,917,932	19.5%	\$ 1,008,216	12.7%
Repumped	17,755,213	43.6%	20,017,603	43.8%	2,262,390	12.7%
Total	25,664,929	63.1%	28,935,535	63.3%	3,270,606	12.7%
Commercial						
Gravity	3,132,259	7.7%	3,520,891	7.7%	388,632	12.4%
Repumped	5,725,966	14.1%	6,434,258	14.1%	708,292	12.4%
Total	8,858,225	21.8%	9,955,149	21.8%	1,096,924	12.4%
Industrial						
Gravity	850,041	2.1%	966,375	2.1%	116,334	13.7%
Repumped	2,411,670	5.9%	2,741,538	6.0%	329,868	13.7%
Total	3,261,711	8.0%	3,707,913	8.1%	446,202	13.7%
Private Fire						
Gravity	696,074	1.7%	696,074	1.5%	-	0.0%
Repumped	1,009,087	2.5%	1,102,938	2.4%	93,851	9.3%
Total	1,705,161	4.2%	1,799,012	3.9%	93,851	5.5%
Public Fire						
Gravity	252,226	0.6%	256,090	0.6%	3,864	1.5%
Repumped	951,153	2.3%	1,004,376	2.2%	53,223	5.6%
Total	1,203,379	2.9%	1,260,466	2.8%	57,087	4.7%
Total Sales	\$ 40,693,405	100.0%	\$ 45,658,075	99.9%	\$ 4,964,670	12.2%
Other Revenue	590,242		597,492		7,250	1.2%
Total	\$ 41,283,647		\$ 46,255,567		\$ 4,971,920	12.0%

* Present base rate revenue from Schedule J (excludes DSIC and STAS surcharges).

THE YORK WATER COMPANY

**APPLICATION OF SETTLEMENT RATES TO CONSUMPTION ANALYSIS
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015**

<u>Rate Block, 100 Gallons</u> (1)	<u>Pro Forma Number of Bills</u> (2)	<u>Pro Forma Consumption, 100 Gallons</u> (3)	<u>Settlement Base Rates</u> (4)	<u>Revenue at Settlement Base Rates</u> (5)
<u>RESIDENTIAL GRAVITY</u>				
Customer Charges				
5/8	230,522		\$16.00	\$3,688,352
3/4	9,601		22.00	211,222
1	2,400		31.00	74,400
1-1/2	638		47.80	30,496
2	24		62.00	1,488
	<u>243,185</u>	<u>0</u>		<u>4,005,958</u>
All Usage		<u>11,075,476</u>	0.4435	<u>4,911,974</u>
Subtotal Gravity	243,185	11,075,476		8,917,932
<u>RESIDENTIAL REPUMPED</u>				
Customer Charges				
5/8	447,081		16.00	7,153,296
3/4	8,065		22.00	177,430
1	2,796		31.00	86,676
1-1/2	276		47.80	13,193
2	60		62.00	3,720
3	0		149.50	0
	<u>458,278</u>	<u>0</u>		<u>7,434,315</u>
All Usage		<u>17,187,936</u>	0.7321	<u>12,583,288</u>
Subtotal Repumped	<u>458,278</u>	<u>17,187,936</u>		<u>20,017,603</u>
Total Residential	<u><u>701,463</u></u>	<u><u>28,263,412</u></u>		<u><u>28,935,535</u></u>

THE YORK WATER COMPANY

**APPLICATION OF SETTLEMENT RATES TO CONSUMPTION ANALYSIS
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015**

<u>Rate Block, 100 Gallons</u> (1)	<u>Pro Forma Number of Bills</u> (2)	<u>Pro Forma Consumption, 100 Gallons</u> (3)	<u>Settlement Base Rates</u> (4)	<u>Revenue at Settlement Base Rates</u> (5)
<u>COMMERCIAL GRAVITY</u>				
Customer Charges				
5/8	906		\$16.00	\$14,496
3/4	16,153		22.00	355,366
1	5,908		31.00	183,148
1-1/2	3,621		47.80	173,084
2	2,482		62.00	153,884
3	672		149.50	100,464
4	454		222.40	100,970
6	108		247.00	26,676
	<u>30,304</u>	<u>0</u>		<u>1,108,088</u>
First 50		1,414,559	0.4111	581,525
Next 450		2,728,067	0.2944	803,143
Over 500		<u>4,481,842</u>	0.2294	<u>1,028,135</u>
Subtotal Gravity	30,304	8,624,468		3,520,891
<u>COMMERCIAL REPUMPED</u>				
Customer Charges				
5/8	957		\$16.00	\$15,312
3/4	9,434		22.00	207,548
1	4,716		31.00	146,196
1-1/2	4,300		47.80	205,540
2	2,921		62.00	181,102
3	992		149.50	148,304
4	473		222.40	105,195
6	120		247.00	29,640
8	24		474.00	11,376
10	12		610.00	7,320
	<u>23,949</u>	<u>0</u>		<u>1,057,533</u>
First 50		2,717,818	0.6828	1,855,726
Next 450		2,619,476	0.5801	1,519,558
Over 500		<u>6,406,662</u>	0.3124	<u>2,001,441</u>
Subtotal Repumped	<u>23,949</u>	<u>11,743,956</u>		<u>6,434,258</u>
Total Commercial	<u>54,253</u>	<u>20,368,424</u>		<u>\$9,955,149</u>

THE YORK WATER COMPANY

**APPLICATION OF SETTLEMENT RATES TO CONSUMPTION ANALYSIS
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015**

<u>Rate Block, 100 Gallons</u> (1)	<u>Pro Forma Number of Bills</u> (2)	<u>Pro Forma Consumption, 100 Gallons</u> (3)	<u>Settlement Base Rates</u> (4)	<u>Revenue at Settlement Base Rates</u> (5)
<u>INDUSTRIAL GRAVITY</u>				
Customer Charges				
5/8	0		\$16.00	\$0
3/4	380		22.00	8,360
1	314		31.00	9,734
1-1/2	371		47.80	17,734
2	540		62.00	33,480
3	199		149.50	29,751
4	192		222.40	42,701
6	103		247.00	25,441
12	<u>12</u>		751.00	<u>9,012</u>
	2,111	<u>0</u>		<u>176,213</u>
First 50		82,972	0.4111	34,110
Next 450		326,884	0.2944	96,235
Next 19,500		2,219,091	0.2588	574,301
Over 20,000		<u>383,826</u>	0.2228	<u>85,516</u>
Subtotal Gravity	2,111	3,012,773		966,375
<u>INDUSTRIAL REPUMPED</u>				
Customer Charges				
5/8	12		16.00	192
3/4	180		22.00	3,960
1	325		31.00	10,075
1-1/2	356		47.80	17,017
2	349		62.00	21,638
3	144		149.50	21,528
4	60		222.40	13,344
6	96		247.00	23,712
8	<u>24</u>		474.00	<u>11,376</u>
	1,546	<u>0</u>		<u>122,842</u>
First 50		68,212	0.6828	46,575
Next 450		289,220	0.5801	167,777
Next 19,500		2,264,146	0.5257	1,190,262
Over 20,000		<u>3,763,429</u>	0.3226	<u>1,214,082</u>
Subtotal Repumped	1,546	6,385,007		2,741,538
Total Industrial	<u>3,657</u>	<u>9,397,780</u>		<u>3,707,913</u>

THE YORK WATER COMPANY

**APPLICATION OF SETTLEMENT RATES TO CONSUMPTION ANALYSIS
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015**

<u>Rate Block, 100 Gallons</u> (1)	<u>Pro Forma Number of Bills</u> (2)	<u>Pro Forma Consumption, 100 Gallons</u> (3)	<u>Settlement Base Rates</u> (4)	<u>Revenue at Settlement Base Rates</u> (5)
---	---	--	---	--

PRIVATE FIRE PROTECTION GRAVITY

Private Fire Lines:				
2-inch Connection	15		\$26.68	\$4,856
3-inch Connection	5		35.53	2,132
4-inch Connection	132		44.40	70,063
6-inch Connection	289		88.96	308,691
8-inch Connection	116		177.93	246,967
10-inch Connection	4		266.94	12,813
12-inch Connection	2		397.03	9,529
Private Fire Hydrant:				
First Fire Hydrant	89		35.53	38,088
Each Additional	<u>9</u>		26.68	<u>2,935</u>
Subtotal Gravity	<u>661</u>			<u>696,074</u>

PRIVATE FIRE PROTECTION REPUMPED

Private Fire Lines:				
2-inch Connection	5		37.73	2,264
3-inch Connection	7		50.28	4,324
4-inch Connection	78		62.89	58,865
6-inch Connection	178		125.76	269,126
8-inch Connection	150		251.64	452,952
10-inch Connection	36		377.54	164,607
12-inch Connection	4		563.19	27,033
Private Fire Hydrant:				
First Fire Hydrant	223		45.67	122,122
Each Additional	<u>4</u>		34.28	<u>1,645</u>
Subtotal Repumped	<u>686</u>			<u>1,102,938</u>
Total Private Fire Protection	<u>1,347</u>			<u>1,799,012</u>

PUBLIC FIRE PROTECTION

Fire Hydrants - Gravity	1,006		\$21.21	\$256,090
Fire Hydrants - Repumped	<u>2,721</u>		30.76	<u>1,004,376</u>
Total Public Fire Protection	<u>3,727</u>			<u>1,260,466</u>

Appendix D

APPENDIX D

PROOF OF REVENUE WASTEWATER

Number of Wastewater Bills (233 customers x 12 months)	2,796
Settlement Base Rate	<u>\$50.00</u>
Revenue at Settlement Rate	<u>\$139,800.00</u>
Current Wastewater Revenues (See Schedule H of Exhibit No. FVIII)	\$111,840.00
Increase in Wastewater Revenues per Settlement	<u>27,960.00</u>
Total Wastewater Revenues per Settlement	<u>\$139,800.00</u>

Appendix E

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2012-2336379
The Office of Consumer Advocate	:		C-2013-2367038
The Office of Small Business Advocate	:		C-2013-2375700
Larry L. Wolfe	:		C-2013-2370416
John C. Eline	:		C-2013-2374421
	:		
v.	:		
	:		
The York Water Company.	:		

**THE YORK WATER COMPANY'S
STATEMENT IN SUPPORT OF SETTLEMENT PETITION**

TO ADMINISTRATIVE LAW JUDGES KANDACE F. MELILLO AND JOEL H. CHESKIS:

I. INTRODUCTION

The York Water Company (“York Water” or the “Company”) hereby submits this Statement in Support of the Settlement Petition (“Settlement”) entered into by York Water, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), parties in the above-captioned proceeding (hereinafter collectively referred to as the “Joint Petitioners”). York Water respectfully requests that the Commission approve the Settlement, including the terms and conditions thereof, without modification.

In this base rate proceeding, York Water presented a combined water and wastewater revenue requirement, which included an allocation of a portion of the wastewater revenue requirement increase to water customers. A Formal Complaint was filed by Larry L. Wolfe (“Mr. Wolfe”) alleging, in part, that the allocation of a part of the wastewater revenue

requirement increase to water customers is not in the public interest. While the Company was able to reach a settlement on this issue with I&E, OCA, and OSBA, Mr. Wolfe maintained his complaint that the allocation of a portion of the wastewater revenue requirement to water customers is not in the public interest.¹ Therefore, the parties have agreed to brief this one outstanding issue. On October 23, 2013, the ALJs issued a Briefing Order, which set forth the requirements for briefing the lone remaining issue raised by Mr. Wolfe. Pursuant to the Briefing Order, York Water submitted its Main Brief on November 6, 2013 and will submit its Reply Brief on November 14, 2013.

The Settlement, if approved, will resolve all issues raised by the Joint Petitioners. Given the diverse interests of the Joint Petitioners and the active role they have taken in this proceeding, the fact that they have resolved their respective issues in this proceeding, in and of itself, provides strong evidence that the Settlement is reasonable and in the public interest. The Settlement was achieved after a thorough review of York Water's proposal in this proceeding. The Company responded to numerous interrogatories, and all parties filed multiple rounds of testimony. The Joint Petitioners participated in a number of settlement discussions which ultimately led to the Settlement.

It is to be further emphasized that the Joint Petitioners, through their counsel and experts, have considerable experience in rate proceedings. I&E, OCA and OSBA are all tasked with representing the public interest. This responsibility, combined with their and the Company's knowledge, experience and ability to evaluate the strengths and weaknesses of their respective litigation positions, provided a strong base upon which to build a consensus resolving the disparity between the parties' positions on the revenue requirement for York Water. The

¹ Although Mr. Wolfe's Formal Complaint raised other issues, Mr. Wolfe indicated that he does not object to the remaining provisions of the Settlement Petition, and reserved only the issue of the allocation of wastewater revenue requirement for briefing.

revenue increase in the Settlement falls within the range of outcomes bounded by the Company's proposed increase and the revenue requirements identified in the testimony of I&E and OCA.

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements reduce the time and expense the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. P.U.C. v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. P.U.C. v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the reasons explained in this Statement in Support of Settlement, York Water believes that the Petition for Settlement is just, reasonable, and in the public interest and, therefore, should be approved without modification.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners in this proceeding. For the reasons set forth herein, the Settlement is just and reasonable and should be approved. In support thereof, York Water states as follows:

II. DISCUSSION

A. REVENUE REQUIREMENT

On May 29, 2013, York Water filed with the Commission Supplement No. 111 to its Tariff Water – Pa. P.U.C. No. 14 (“Supplement No. 111”) and Supplement No. 1 to Tariff Wastewater – Pa. P.U.C. No. 1 (“Supplement No. 1”), along with supporting information required by 52 Pa. Code §§ 53.52 and 53.53, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. § 1308(d). In Supplement No. 111, York Water proposed rates designed to produce an increase in water base rate revenues of \$7,116,392, and in Supplement No. 1, York

Water proposed rates designed to produce an increase in wastewater base rate revenues of \$27,960.

The Company's revenue deficiency increased in rebuttal testimony due to the adoption of certain of the other parties' positions, corrections to the Company's filing, and an increased projected cost of long-term debt. In its direct testimony I&E proposed a capital structure of 45.69% debt and 54.31% equity. I&E St. No. 1, p. 10. The OCA's capital structure was substantially similar. OCA St. No. 2, p. 21. York Water agreed to the I&E's capital structure in its rebuttal testimony. York Water St. No. 3-R, p. 3. Also in its rebuttal testimony, the Company explained that an anticipated future refinancing for one of its debt issues at a lower rate would no longer occur, due to rising interest rates subsequent to the Company's filing. York Water St. No. 3-R, p. 3. As a result, the Company's projected weighted average debt cost rate was revised in rebuttal from 6.20% to 6.50%. York Water St. No. 3-R, p. 3. The impact of these adjustments, and other corrections to the Company's filing, increased the Company's revenue deficiency by approximately \$980,000. York Water St. No-3R, p. 44.

The Settlement rates reflect a compromise between the parties' positions. The Settlement rates will be designed to produce \$5.0 million in additional annual base rate operating revenue, which consists of \$4,972,040 in additional water base rate revenue and \$27,960 in additional wastewater base rate revenue. York Water's water and wastewater base rates will be designed to produce total revenues of approximately \$46,395,188.² In light of the adjustments to the Company's capital structure proposed by the OCA and I&E, and adopted by York Water, and the revised debt costs which caused the Company's revenue requirement to increase by almost \$1.0 million over what it originally filed, this agreed upon revenue requirement represents a

² As noted later in this Statement in Support, York Water's Distribution System Improvement Charge and State Tax Adjustment Surcharge will be reset to 0% as of the effective date of rates under the Settlement.

significant compromise for the Company. However, the amount agreed upon will allow the Company to continue to provide reliable service to its customers and provide an opportunity to earn a reasonable return.

It is important to note that under the Settlement, with only a few select exceptions further explained below, the Settlement revenue requirement is a “black box” amount. Under a “black box” settlement, parties do not specify adjustments that are allowed or disallowed. “Black box” settlements facilitate agreements as parties are not required to agree on all, or in many cases, any specific ratemaking adjustments. A “black box” settlement may lead parties to agree on an overall revenue requirement, without, for example, agreeing to a specific return on equity or identifying specific revenues and/or expenses that are allowed or disallowed. *See, Statement of Commissioner Robert F. Powelson, Pennsylvania Public Utility Commission v. Wellsboro Electric Company*, Docket No. R-2010-2172662 (January 13, 2011); *Statement of Commissioner Robert F. Powelson, Pennsylvania Public Utility Commission v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2010-2172665 (January 13, 2011)

The amount of the Settlement increase is greater than the increase agreed to in the most recent base rate proceeding for York Water.³ Part of this is due to the fact that the Company went three years between rate cases, rather than filing after two years, as had been its practice prior to the last rate case. Importantly, the revenue deficiency in this proceeding is higher because York Water used the fully projected future test year (“FPFTY”) authorized by Act 11 of 2012 (“Act 11”). Under Act 11, rates may be determined by a FPFTY, which is the 12 month period beginning with the first month after the full statutory suspension period. 66 Pa. C.S. § 315. This rate case includes the revenue requirement associated with the capital invested prior to

³ The Settlement of York Water’s 2010 base rate case at Docket No. R-2012-2157140 resulted in an increase in annual base rate operating revenues of \$3.4 million.

the rate effective date as well as the capital invested during the FPFTY ending February 28, 2015, whereas prior rate cases included only the capital invested prior to the rate effective date.

In addition the revenue requirement in this case is increased because the Company presented a combined water and wastewater case pursuant to 66 Pa. C.S. § 1311(c). Pursuant to the Settlement, the Joint Petitioners have agreed that the \$4,972,040 in additional water revenue includes \$58,826 of wastewater revenue requirement. This amount was determined by: (1) scaling back the Company's proposed wastewater revenue requirement increase by the same percentage as the reduction in total revenues from the Company's original filing (*i.e.*, a reduction to 70% of the claimed increase), and (2) subtracting the \$27,960 increase in wastewater revenues from the total scaled back wastewater revenue requirement increase of \$86,786. As explained above, the issue of the allocation of water revenues to the wastewater revenue requirement increase has been reserved for litigation by a customer complainant. This issue is addressed in the Company's Main Brief, which was filed on November 6, 2013 and is incorporated herein by reference in its entirety. As described in the Company's Main Brief, the allocation of \$58,826 of the revenue requirement for the Asbury Pointe wastewater system to water customers is in the public interest and should be approved by the Commission.

Viewed in the context of the entire Settlement, York Water believes that the revenue requirement is reasonable and will provide the Company with the additional revenues necessary to provide reliable services to customers. As such, the Settlement appropriately balances the need for the Company to have an opportunity to earn a reasonable rate of return with its customers' need for reasonable rates.

B. PENSION CONTRIBUTION

The Settlement includes key provisions concerning the amount of York Water's ongoing pension contributions. In particular, the Settlement specifies, subject to certain exceptions, that

York Water will annually contribute \$2,300,000 to its defined benefit plan pension trusts. This represents a compromise between the Company's claim of \$3,399,097 and the proposals from OCA and I&E of \$1,650,000. York Water Statement No. 3-R, pp. 7-10; OCA St. No. 1, p. 37; I&E St. No. 2, p. 11.

In a series of settlements, York Water and the parties have agreed to provisions that commit York Water to make a specified level of pension contributions, subject to IRS and ERISA restrictions. This approach has served effectively to provide assurance of adequate pension funding in exchange for rate allowances that support funding above minimum required levels. In York Water's last rate case in 2010, York Water agreed to contribute \$1,592,601 annually to its pension trusts, which was in excess of the then current minimum contribution level. Despite contributing more than the 2010 minimum required contribution level for the past three years, the unfunded portion of the Company's pension future liability has increased since the 2010 rate proceeding. York Water St. No. 3-R, pp. 7-8. Recognizing this experience, and in an effort to both reduce the future unfunded pension liability as well as to try to avoid a large increase in the required pension contribution in the future, the Settlement compromise is reasonable. The Settlement pension contribution amount is important because it ensures that additional funds will be contributed to York Water's pension plans, benefitting both York Water's employees and customers by appropriately funding York Water's ultimate pension liability.

C. SETTLEMENT AMORTIZATIONS

Although the overall Settlement amount is a "black-box" number, the Settlement does provide for certain specific amortizations. The Settlement continues to allow York Water to

amortize the positive acquisition adjustment⁴ for the acquisitions of Spring Grove Water Company and the Borough of Spring Grove water systems and also allows the Company to amortize the positive acquisition adjustments associated with the acquisition of the York Starview, LP (“York Starview”), and Section A Water Corporation (“Section A”) water systems. The amortization for Spring Grove Water Company and Borough of Spring Grove was established in York Water’s 2006 base rate proceeding. As explained in that case, the former Spring Grove system had considerable water quality problems which were corrected when York Water acquired the system. The amortization for York Starview and Section A are being established in this proceeding.

York Water began providing water service to customers in York Starview, a mobile home park, in August of 2012. Starview was not certificated, and did not wish to continue to provide water service due to numerous problems. York Starview’s distribution system was inadequate to provide safe and reliable service. These inadequacies included limited water storage, insufficient valves throughout the system, lack of fire protection, and concerns about the level of water treatment for well water supplies. York Water connected the York Starview distribution system with its system, took the wells out of service, installed meters, and increased the number of valves. These actions have ensured that the customers in the York Starview community will receive reliable service at reasonable prices. The positive acquisition adjustment for York Starview is \$35,897. York Water St. No. 1, p. 13. The parties have agreed to amortize the positive acquisition adjustment over ten years, resulting in an annual amortization of \$3,590.

The Section A system was also acquired in 2012. Section A was a non-certificated corporation providing water service to approximately 100 customer/shareholders. Section A was

⁴ A positive acquisition adjustment results when the acquisition cost of assets exceeds the depreciated original cost of the acquired assets.

no longer willing to provide service to its customers because it had experienced problems maintaining proper water reliability throughout its system and had outstanding violations with the Department of Environmental Protection (“DEP”) regarding disinfection, monitoring, and reporting. York Water resolved the DEP issues, and has also undertaken system upgrades in order to ensure adequate service is provided to customers at all times. The positive acquisition adjustment for Section A is \$34,728. York Water St. No. 1, pp. 14-15. The parties have agreed to amortize the positive acquisition adjustment over ten years, resulting in an annual amortization of \$3,473.

The Settlement also provides that York Water is not required to amortize or otherwise pass through to ratepayers the negative acquisition adjustment with respect to the acquisition of the Asbury Pointe wastewater system (“Asbury Pointe”). A negative acquisition adjustment results when the depreciated original cost of acquired property is greater than the acquisition price.

In *PA PUC v. York Water Company*, 77 PA PUC 367, 385, Docket No. R-922168 (Order entered November 18, 1992), the Commission held that under the provisions of Section 1327(e) of the Public Utility Code, 66 Pa.C.S. § 1327(e), water companies are not required to amortize negative acquisition adjustments when “matters of substantial public interest” are involved. The Commission in that case defined “matters of substantial public interest” to include such factors as “unsafe and inadequate water supplies, inadequate fire flows and the inability to meet Safe Drinking Water Act requirements.” *Id.* Under the Settlement, the Joint Petitioners agree that matters of substantial public interest exist with respect to the Asbury Pointe wastewater acquisition, and that York Water should not be required to amortize the negative acquisition adjustment.

Specifically, York Water explained in its direct testimony that the owner of the Asbury Pointe wastewater system did not wish to continue to provide service due to compliance problems. York St. No. 1, p. 10. The previous owner had received a Notice of Violation from the DEP for having reporting, and improper operation and maintenance violations. To address the noncompliance issues, the previous owner had entered into a Consent Order and Agreement (“COA”) with DEP. Since the acquisition, York Water has remedied a storm damaged detention pond, and has installed an effluent flow meter, as well as other improvements. These have brought the Asbury Point wastewater facilities into compliance with the DEP COA. York Water Statement No. 1, p. 11.

D. REVENUE ALLOCATION AND RATE DESIGN

York Water believes that the revenue allocation and rate design incorporated in the Settlement reflects a reasonable compromise of this issue. In the Company’s original filing, the Company proposed to move all classes to or substantially to cost of service under the Company’s cost of service study. The Company did not propose to move industrial customers to the full cost of service, as that would have involved a higher increase than the Company believed was reasonable for industrial customers.

In this proceeding, the OCA and OSBA disagreed with the Company’s proposed revenue allocation. The OSBA agreed with the cost of service study used by the Company. OSBA St. No. 1, pp. 5-6. The OSBA proposed a revised revenue allocation which would move the Company to full cost of service for all customer classes, which would allocate more of the increase to industrial customers and less to small commercial customers. OSBA St. No. 1, pp. 5-6. The OCA disagreed with the Company’s cost of service study, and proposed that the Company revise the customer demand factors under the cost of service study. OCA St. No. 3, pp. 6-14. Based on OCA’s proposed cost of service study, the OCA proposed a revised revenue

allocation which would allocate less of the increase to residential customers and more of the increase to commercial and industrial customers. OCA St. No. 3, p. 16.

The revenue allocation for the water revenue requirement under the Settlement reflects a compromise of the parties' positions. Under the Settlement, commercial customers will receive a lower percentage increase (12.4%) than residential customers (12.7%) and industrial customers (13.7%). This is generally consistent with how the Company proposed to increase rates in its original filing. *See* Exhibit No. FVIII, Schedule A (Commercial 17.3%, Residential 18.4%, and Industrial 19.8%). Therefore, York Water believes that the settlement revenue allocation reasonably reflects the cost of service study and is a reasonable compromise by the parties.

In addition, customer charges reflect a compromise that the 5/8" meter customer charge (the principal meter size for residential customers) will increase to \$16.00 per month. This is lower than originally proposed by the Company, and the Company was willing to agree to this lower customer charge for settlement purposes. All other customer charges were scaled back from the Company's as-filed proposed rates, consistent with the scale-back of the proposed rate increase.

The settlement also provides that the sewer rate will continue to be a flat rate per residential dwelling unit for Asbury Pointe. The flat rate will increase by 25% from \$40.00 per month to \$50.00 per month, as proposed by York Water. While the increase to wastewater customers is significant, it does not cover the entire revenue requirement for Asbury Pointe. Therefore, the parties have agreed to allocate \$58,826 of the wastewater revenue requirement to the water revenue requirement. None of the Joint Petitioners opposed the Company's allocation of a portion of the wastewater revenue requirement increase. As described previously in this Statement in Support, the Asbury Pointe wastewater system required significant modifications in

order to comply with regulatory requirements. The appropriateness of the revenue allocation has been addressed in greater detail in the Company's Main Brief that was filed on November 6, 2013, responding to Mr. Wolfe's formal complaint.

The Settlement revenue allocation and rate design proposals represent a compromise of the Joint Petitioners. York Water notes, as the Commission has recognized many times, that cost allocation is not a precise science. *Application of Metropolitan Edison Co.*, Docket No. R-00974008 (June 30, 2008); *Pa. Pa. Util. Comm'n v. Pennsylvania Power & Light Co.*, 55 PUR 4th 185 (1983). York Water considers the resulting class allocation to be reasonable in light of its prior rate design, issues raised in other Joint Petitioners' testimony and the fact that the resulting class allocations were a result of compromise and agreed to by all of the Joint Petitioners.

E. STAY-OUT

The Settlement contains a stay-out provision whereby York Water agrees not to file for a general rate increase earlier than March 1, 2016, unless in response to a Commission order or in response to fundamental changes in regulatory policies or federal tax policies affecting York Water's rates. In addition, after informing the Commission and the other parties at least 30 days prior to any required notice, York Water may file a tariff or tariff supplement proposing a general increase in rates prior to March 1, 2016 in the event that the Department of Environmental Protection ("DEP") directs the Company to undertake capital improvements to enhance either or both of its dams and directs that such enhancements be completed prior to June 30, 2016. This provision will provide customers with considerable rate stability over the next several years, and will also allow the Company flexibility in the event it experiences certain cost increases.

F. STAS AND DSIC CHARGES

In accordance with the provisions of 52 Pa. Code § 69.55, the State Tax Adjustment Surcharge (“STAS”) for York Water shall be established at 0% effective with the effective date of settlement rates in this proceeding. Further, the Distribution System Improvement Charge (“DSIC”) for York Water shall be established at 0% effective with the effective date of settlement rates in this proceeding, and shall be subject to change once eligible account balances exceed the levels projected by York Water as of February 28, 2015 adjusted downward by 8.96% for the FPPTY plant additions as agreed to in the Company’s rebuttal testimony. Thus, when the DSIC goes into effect it will reflect plant additions after those reflected in the FPPTY and in rates. The foregoing provision is included solely for purposes of calculating the DSIC, and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPPTY filing.

York Water also agreed to provide the Commission’s Bureau of Technical Utility Services, I&E, OCA and OSBA with updates to Exhibit No. FV-12-4 to include actual plant additions and retirements by month for the twelve months ending February 28, 2014 and for the twelve months ending August 31, 2014. In York Water’s next base rate proceeding, the Company will prepare and submit a comparison of its actual expenditures and rate base additions for the twelve months ending February 28, 2015, to its projections in this case as adjusted in its Rebuttal Testimony. Reporting requirements were originally proposed in the direct testimony of I&E. I&E Statement No. 3, pp. 19-20. Both I&E and OCA indicated that these reporting requirements were important to resolving this case, and therefore the Company agreed, in order to facilitate settlement.

III. CONCLUSION

The Settlement resolves all issues raised during this proceeding. For the reasons explained above, and those set forth in the proposed findings in the Settlement, the resolution of this proceeding in accordance with the terms of the Settlement is in the public interest.

Respectfully submitted,



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Appendix F

interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E's analysis of the Company's base rate filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that the Administrative Law Judges and the Commission approve the Settlement in its entirety.

2. On May 29, 2013, York Water filed with the Commission Supplement No. 111 to its Tariff Water – Pa. P.U.C. No. 14 (Supplement No. 111) and Supplement No. 1 to Tariff Wastewater – Pa. P.U.C. No. 1 (Supplement No. 1), along with supporting information required by 52 Pa. Code §§ 53.52 and 53.53, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d). In Supplement No. 111, York Water proposed rates designed to produce an increase in water rates of \$7,116,392, and in Supplement No. 1, York Water proposed rates designed to produce an increase in wastewater rates of \$27,960.

3. In the filing, the Company proposed to allocate a portion of the wastewater revenue requirement to water customers pursuant to 66 Pa. C.S. § 1311(c). York Water previously filed a Petition with the Commission under 66 Pa. C.S. § 1311(c) to present a combined filing for both its water and wastewater requirements. The Commission granted the Petition by Order entered February 28, 2013, at Docket No. P-2012-2340409.

4. I&E entered its Notice of Appearance on June 20, 2013.

5. By Order entered July 16, 2013, the Pennsylvania Public Utility Commission instituted a formal investigation at Docket No. R-2012-2336379 to

determine the lawfulness, justness, and reasonableness of the Company's existing and proposed rates, rules, and regulations. The filing was suspended by operation of law until March 1, 2014, unless permitted by Commission order to become effective at an earlier date.

6. Administrative Law Judges Kandace F. Melillo and Joel H. Cheskis (ALJs) were assigned to this proceeding for purposes of conducting hearings and issuing a Recommended Decision.

7. The ALJs held a prehearing conference on August 1, 2013, during which the parties agreed to a schedule for the conduct of the case, including the service of testimony among the parties and the dates for evidentiary hearings. As no evidence of the need for public input hearings was presented nor a request for one made, none was scheduled or held.

8. All statutory parties undertook comprehensive discovery in this proceeding. I&E commenced discovery within the first two weeks after the filing was made and continued to conduct discovery up until the time service of its direct case to the parties was submitted.

9. In accordance with the established procedural schedule, I&E served on all active parties the following pieces of testimony and accompanying exhibits addressing rate of return, operating and maintenance expenses, customer cost analysis, customer charges, rate base – water, wastewater rates, and scale-back of rates.

I&E Witness Rachel Maurer	Rate of Return
Direct Testimony	I&E Statement No. 1 I&E Exhibit No. 1
Surrebuttal Testimony	I&E Statement No. 1-SR I&E Exhibit No. 1-SR
I&E Witness Christine Wilson	Operating and Maintenance Expenses
Direct Testimony	I&E Statement No. 2 I&E Exhibit No. 2
Surrebuttal Testimony	I&E Statement No. 2-SR I&E Exhibit No. 2-SR
I&E Witness Kokou Apetoh	Customer Cost Analysis, Customer Charges, Rate Base – Water, Wastewater Rates, Scale-Back of Rates
Direct Testimony and Exhibit	I&E Statement No. 3 I&E Exhibit No. 3
Surrebuttal Testimony and Exhibit	I&E Statement No. 3-SR I&E Exhibit No. 3-SR

10. In accordance with Commission policy favoring settlements at 52 Pa. Code §5.231, I&E participated in multiple in-person and telephonic settlement discussions with the Company and other parties to the proceeding. Following extensive settlement negotiations, the parties reached a full and complete settlement of all issues.

II. TERMS AND CONDITIONS OF SETTLEMENT

11. I&E submits that the Settlement balances the interests of the Company and its customers in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest. Accordingly, and for the

specific reasons articulated below and in order to achieve the full scope of benefits addressed in the Settlement, I&E requests that the Settlement be approved by the ALJs and the Commission without modification.

12. The instant rate case was filed on May 29, 2013, and over the past five months, the parties engaged in extensive formal and informal discovery, preparation of testimony, and lengthy settlement discussions. All signatories to the Joint Settlement Petition actively participated in and vigorously represented their respective positions during the course of the settlement process. As such, all of the issues raised by I&E have been satisfactorily resolved through discovery and discussions with the parties and are incorporated in the Settlement Petition. I&E represents that the Settlement satisfies all applicable legal standards and results in terms that are preferable to those that may have been achieved at the end of a fully litigated proceeding.

“The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”¹ The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”² The Settlement Agreement in the instant proceeding protects the public interest in that a comparison of the original filing submitted by the Company and the negotiated agreement demonstrates that compromises are evident throughout the Joint Petition.

¹ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

² *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

A. Overall Base Rate Operating Revenue (Settlement Petition ¶ 22.a.):

13. Through settlement the parties agreed to rates that are designed to produce \$5.0 million in additional annual base rate operating revenue, which consists of \$4,972,040 in additional water revenue and \$27,960 in additional wastewater revenue. York Water's water and wastewater rates will be designed to produce total revenues of approximately \$46,395,188. York Water will be permitted to file tariff supplements to become effective on the date of the end of the original suspension, that is, no earlier than February 28, 2014. This represents a reduction in the requested additional water revenue from \$7,116,392 down to \$4,972,040; and no change in the requested additional wastewater revenue of \$27,960.

14. I&E analyzed the ratemaking claims contained in the Company's filing including operating and maintenance expenses, rate base, projected revenues, proposed rate structure, and the cost of common equity. After this review and engaging in extensive discovery and settlement discussions, I&E fully supports the levels of revenue compromised upon in the Settlement. I&E individually, and the joint petitioners collectively, considered, discussed, and negotiated all issues of import in this Settlement Petition. The overall revenue levels are well within the levels advanced on the evidentiary record and reflect a full compromise of all revenue related issues raised by the parties. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Ratepayers will continue to receive safe and reliable service at reasonable rates while allowing York Water sufficient additional revenues to meet its operating expenses and address its infrastructure needs while providing the opportunity to earn a

reasonable rate of return. Therefore, I&E submits that the Settlement balances the interests of the Company and its customers in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest.

I&E also notes that the agreed to additional base rate revenue, as set forth in the Settlement Agreement, has been agreed to in the context of a "Black Box" settlement with limited exceptions. A "Black Box" agreement does not specifically identify the resolution of any disputed issues. Instead, an overall increase to base rates is agreed to and parties retain all rights to further challenge all issues in subsequent proceedings. A "Black Box" settlement benefits ratepayers as it allows for the resolution of a proceeding in a timely manner while avoiding significant additional expenses. I&E is of the opinion that an agreement as to the resolution of each and every disputed issue in this proceeding would not have been possible without judicial intervention. The involvement of the ALJ would have added time and expense to an already cumbersome proceeding. Avoiding this necessity will benefit ratepayers by keeping the expenses associated with this filing at a reasonable level. The Chairman of the Commission has commented on "Black Box" settlements in his statement that the "[d]etermination of a company's revenue requirement is a calculation that involves many complex and interrelated adjustments affecting revenue, expenses, rate base and the company's cost of capital. To reach an agreement on each component of a rate increase is an undertaking that in many cases would be difficult, time-consuming, expensive and perhaps impossible. Black box

settlements are an integral component of the process of delivering timely and cost-effective regulation.”³

B. Scale-Back of Wastewater Revenue Requirement (Settlement Petition ¶ 22.b.):

15. Through settlement, the parties agree that the \$4,972,040 in additional water revenue includes \$58,826 of wastewater revenue requirement. This amount was determined by: (1) scaling back the Company’s proposed wastewater revenue requirement increase by the same percentage as the reduction in total revenues from the Company’s original filing (i.e., a reduction to 70% of the claimed increase), and (2) subtracting the \$27,960 increase in wastewater revenues from the total scaled back wastewater revenue requirement increase of \$86,786.

16. The revenue shift from wastewater customers to water customers as proposed in this Settlement is allowable under the recently enacted Act 11. Historically, Section 1311(c) of the Public Utility Code required a utility that provides more than one type of utility service to segregate the property used and useful in providing each type of service for ratemaking purposes. However, Act 11, signed into law by Governor Tom Corbett on February 14, 2012, amended that section of the Code and now exempts a utility that provides water and wastewater service from this requirement. Section 1311(c) of the Code states:

³ See, Statement of Commissioner Robert F. Powelson, *Pennsylvania Public Utility Commission v. Wellsboro Electric Company*, Docket No. R-2010-2172662. See also, Statement of Commissioner Robert F. Powelson, *Pennsylvania Public Utility Commission v. Citizens’ Electric Company of Lewisburg, PA*, Docket No. R-2010-2172665.

Segregation of property. --When any public utility furnishes more than one of the different types of utility service, the commission shall segregate the property used and useful in furnishing each type of such service, and shall not consider the property of such public utility as a unit in determining the value of the rate base of such public utility for the purpose of fixing base rates. A utility that provides water and wastewater service shall be exempt from this subsection upon petition of a utility to combine water and wastewater revenue requirements. The commission, when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest.

66 Pa. C.S. § 1311(c).

Act 11 does not specify how the Commission should determine rates or dictate the amount of revenue that should be allocated or shifted. However, the statute states that it must be in the public interest in order for the utility to allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base.

66 Pa. C.S. § 1311(c).

17. I&E believes that the proposal to scale back wastewater revenue requirements as set forth above and as allowed by Act 11 is in the public interest because it significantly moderates the rate impact in a way that is reasonable for both the Company's water and wastewater customers. Otherwise, the wastewater customers necessarily would have suffered an unsustainable rate increase.

**C. Amortization of Positive Acquisition Adjustments
(Settlement Petition ¶ 22.c.):**

18. The parties agree to the amortization of the acquisition adjustments set forth in the Settlement Petition at page 5, paragraph 22(c). An acquisition adjustment is

the ratemaking treatment that occurs when there is a difference between the purchase price of an acquired system and the value of the net plant of the system being acquired. If the purchase price is greater than the value of the net plant, the utility records the value of the net plant acquired on its books and reflects the difference as a positive acquisition adjustment in rate base, which is amortized over a period of time as an amortization expense. In order to include an acquisition adjustment in rate base, the utility must satisfy the criteria outlined in Section 1327(a) of the Public Utility Code, 66 Pa. C.S. § 1327(a). York Water claimed several positive acquisition adjustments in this proceeding, which I&E did not challenge because the criteria outlined in the Commission regulations appeared to be satisfied. Specifically, I&E did not object to the acquisition adjustments related to Spring Grove Water Company; York Starview, LP; and Section A. Accordingly, the Settlement Petition rates appropriately reflect the amortization of these acquisition adjustments, which I&E maintains are consistent with the Public Utility Code and in the public interest.

D. Negative Acquisition Adjustments (Settlement Petition ¶ 22.d.):

19. The Company proposes and the parties agree that the Company will not propose, in this or any future proceeding, to amortize or otherwise pass through to ratepayers the difference between depreciated original cost and acquisition cost (“negative acquisition adjustment”) with respect to the acquisition of the Asbury Pointe wastewater system.

20. The Joint Petitioners agree, and the Company requests the Commission to find, pursuant to Section 1327(e) of the Public Utility Code, 66 Pa. C.S. § 1327(e), that

matters of “substantial public interest” exist with respect to such acquisition, which justifies this ratemaking treatment. I&E submits that this Settlement Petition provision balances the interests of the Company and its customers in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest.

E. Treatment of Future York Water Acquisitions (Settlement Petition ¶ 22.e.):

21. The Company proposes and I&E and the parties agree that the specific acquisitions listed in the Settlement Petition at pages 5-6, paragraphs 22(c) and (d), cannot be construed as precedent for any future acquisitions by York Water of either water or wastewater systems, nor can this agreement be construed as precedent for any future acquisitions by any other water or wastewater utility.

22. I&E submits that this Settlement Petition provision balances the interests of the Company and its customers in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest.

F. Company Pension Contributions (Settlement Petition ¶ 22.f.):

23. The Company proposes that rates under this Settlement will provide for recovery of a cash contribution to pensions in the amount of \$2,300,000. York Water commits to deposit such amount into its pension trusts on an annual basis during the period that rates under this Settlement remain effective, provided that such deposit does not exceed the deductibility limits under the Internal Revenue Code. If the minimum

required contribution under Code Section 430 of the Internal Revenue Code exceeds \$2,300,000, York Water will contribute the minimum required contribution under Code Section 430. Until changed by agreement of the Joint Petitioners or Commission Order, York Water will continue to account for differences between the cash contribution and the pension cost calculated pursuant to FASB ASC 715-20 and FASB ASC 715-30 as follows:

The Company has calculated and accrued on its books of account its pension liability incurred for its present employees under the terms of FASB ASC 715-20 and FASB 715-30. The Company makes cash contributions into qualified trusts to fund its pensions. The amount contributed is determined annually pursuant to actuarial studies that use criteria which may be different from criteria used under FASB ASC 715-20 and FASB 715-30. For financial reporting purposes, the Company will record the amount accrued in excess of the cash contribution as a regulatory (deferred) asset in accordance with FASB ASC 980 until the cash amount equals or exceeds the accrual. When the cash contribution exceeds the accrual amount, the Company will correspondingly reduce the regulatory (deferred) asset. For ratemaking purposes in the future, the Company will continue to use cash contributions plus pension administrative costs as the basis for its ratemaking claim for pension expense.

24. I&E analyzed the actuarial reports submitted by the Company and the Company's Direct and Rebuttal Testimony regarding the proposed cash contributions to the Company's pension trusts. After this review and engaging in extensive discovery and settlement discussions, I&E supports this proposed level of recovery of cash contributions to Company pension trusts. I&E individually, and the Joint Petitioners collectively, considered, discussed, and negotiated all issues of import regarding this Settlement Petition provision. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Therefore, I&E submits that this Settlement

Petition provision balances the interests of the Company and its customers in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest.

**G. Water Revenue Allocation and Rate Design
(Settlement Petition ¶ 22.g.):**

25. The Company proposes, as set forth in Appendix "C" attached to the Settlement Petition, the proof of revenues for the increase in water revenues, which reflects the allocation of the increase to base rates among the rate classes as agreed to by the joint petitioners. The rate design for water customers includes a 5/8" meter customer charge of \$16.00/month.

26. All parties agree to the settled upon allocation of the proposed increases among the water customer classes. I&E maintains that the Settlement allocation is just, reasonable, and non-discriminatory. The agreed to allocation of the rate increase strikes a fair balance between the Company and the ratepayers impacted by the increase. The mitigated level of increase to this classification allows for the proper movement of rates toward the actual cost of providing service while protecting impacted ratepayers from an exorbitant increase. The allocation of the rate increase for this classification in this proceeding is based on negotiated compromises; is in accordance with sound regulatory principles; is in the public interest; and, therefore, should be approved without modification.

**H. Wastewater Revenue Allocation and Rate Design
(Settlement Petition ¶ 22.h.):**

27. The Company proposes that sewer rates will continue to be a flat rate per residential dwelling unit for the Asbury Pointe Subdivision. The flat rate will increase by 25% from \$40.00 per month to \$50.00 per month, as proposed by York Water. A proof of revenues for the sewer increase is attached to the Settlement Petition as Schedule H to Exhibit No. FVIII and is also attached as Appendix D.

28. All parties agree to the settled upon allocation of the proposed increases among the wastewater customer classes. I&E reasonably believes that, as a result of the wastewater revenue requirement allocation and rate design contained in the Settlement, the wastewater customers will experience rate relief as envisioned by Act 11, but the wastewater revenue requirement recovered from water customers is appropriately moderated so as not to unfairly burden the Company's water customers. Therefore, I&E reasonably believes that the proposed Settlement allocation of the wastewater revenue requirement is just, reasonable, in the public interest, and should be approved.

I. STAS Reset (Settlement Petition ¶ 22.i.):

29. The Company proposes that in accordance with the provisions of 52 Pa. Code § 69.55, the STAS for York Water shall be established at 0% effective with the effective date of settlement rates in this proceeding.

30. All parties agree that the proposed STAS reset is in compliance with the applicable provisions of the Pennsylvania Code, is in the public interest, and should be approved.

J. Projected DSIC Eligible Plant Additions (Settlement Petition ¶ 22.j.):

31. The Company proposes that York Water will be eligible to include plant additions in the Distribution System Improvement Charge (“DSIC”) once eligible account balances exceed the levels projected by York Water as of February 28, 2015 adjusted downward by 8.96% for the fully projected future test year (“FPFTY”) plant additions as agreed to in the Company’s rebuttal testimony. The foregoing provision is included solely for purposes of calculating the DSIC, and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing.

32. The use of a Fully Projected Future Test Year (FPFTY) as permitted under Act 11 of 2012 is a dramatic change from the standard ratemaking process. Although previously allowing for use of a Future Test Year, Section 315 of the Public Utility Code, 66 Pa. C.S. § 315, traditionally required that utility investment be used and useful in the provision of service before the investment was reflected in rates. However, as amended under Act 11, Section 315 now allows a utility to project investment and include it in the claimed revenue requirement through the twelve-month period beginning with the first month that the new rates will be placed in effect. By allowing this extended projection, the FPFTY essentially allows a utility to require ratepayers to pay a return on its projected investment in future facilities that are not in place and providing service at the time the new rates take effect and that are not subject to any guarantee of being completed and placed into service.

Nevertheless, all parties agree that this proposed Settlement provision regarding proposed DSIC eligible plant provisions is in the public interest, and should be approved.

**K. Company Base Rate Case Stay Out Provision
(Settlement Petition ¶ 22.k.):**

33. The Company agrees that it will not file another base rate case before March 1, 2016; provided however, that the foregoing provision shall not prevent York Water from filing a tariff or tariff supplement proposing a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting York Water's rates.

34. Furthermore, the Company proposes that, in addition, after informing the Commission and the signatory parties at least 30 days prior to any required notice, York Water may file a tariff or tariff supplement proposing a general increase in rates prior to March 1, 2016 in the event that the Department of Environmental Protection ("DEP") directs the Company to undertake capital improvements to enhance either or both of its dams and directs that such enhancements be completed prior to June 30, 2016. York Water agrees that it will provide the order from DEP to the signatory parties at the time it is issued by DEP.

35. All parties agree that this proposed Settlement provision regarding the base rate stay out provision is in the public interest, and should be approved. This "stay-out" provision will benefit ratepayers by providing a level of stability in their rates for at least the next twenty-four (24) months. Stability in rates is a benefit to all impacted parties. The Company can make operational plans based on planned rates while customers can

budget their activities knowing that the cost of their water and wastewater use is within their control for the next two years.

L. Required Company Notification of Plant Additions and Retirements (Settlement Petition ¶ 22.1.):

36. York Water agrees to provide the Commission's Bureau of Technical Utility Services, I&E, OCA and OSBA, on or before June 30, 2014, an update to Exhibit No. FV-12-4 to include actual plant additions and retirements by month for the twelve months ending February 28, 2014. On or before February 28, 2015, York Water will update Exhibit No. FV-12-4 for the twelve months ending August 31, 2014. In York Water's next base rate proceeding, the Company will prepare and submit a comparison of its actual expenditures and rate base additions for the twelve months ending February 28, 2015, to its projections in this case as adjusted in its Rebuttal Testimony. It is recognized by the Joint Petitioners that this is a black box settlement that is a compromise of the Joint Petitioners' positions on various issues.

37. All parties agree that this proposed Settlement provision regarding the required Company notification of plant additions and retirements is in the public interest, and should be approved. This notification requirement ensures that the statutory parties will remain fully informed and will be fully equipped to represent the public interest in this and future York Water base rate cases. This provision will also assist the Company in continuing to maintain the necessary plant in order to provide safe and reliable service to its customers.

M. After Settlement Effect on Average Residential Customer's Monthly Water Bill (Settlement Petition ¶ 23.):

38. The effect upon the average residential customer's monthly water bill as a result of the Settlement is as follows:

	Effective on Date of Rate Filing	Proposed	As Settled
Residential Gravity (4,872 gal./mo.)	\$33.39/mo.	\$39.46/mo.	\$37.61/mo.
Residential Repumped (3,928 gal./mo.)	\$39.71/mo.	\$46.91/mo.	\$44.76/mo.

39. All parties agree to the effect the Settlement will have upon the average residential customer's monthly water bill. I&E maintains that the Settlement's effect on the average residential customer's monthly bill is just, reasonable, and non-discriminatory. The proposed Settlement is in the public interest and should be approved.

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

40. I&E has signed on to this Settlement after an exhaustive investigation of the Company's filing, extensive formal and informal discovery, and the submission and review of multiples pieces of direct, rebuttal, and surrebuttal testimony by all Joint Petitioners.

41. All issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires

compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what initially may appear to be irreconcilable differences. Joint Petitioners have carefully discussed and negotiated all issues and further delineation of issues beyond those presented in the Settlement is not necessary. I&E believes that the settled outcome maintains a proper balance of the interests of all parties, is satisfied that no further action is necessary, and considers its investigation of this rate filing complete.

42. Based upon I&E's analysis of the filing, acceptance of this Settlement is in the public interest. Resolution of this case by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty.

43. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all parties agree benefits their discrete interests.

44. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise

modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Joint Petitioner.

45. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any other parties to the Settlement.

46. If the ALJs recommend that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by the ALJs in their Recommended Decision. I&E also does not waive the right to file Replies in the event any party files Exceptions.

47. Finally, I&E recognizes that party Larry L. Wolfe has retained the right to file a Main Brief regarding the specific issue of the transfer of a certain percentage of the wastewater revenue requirement to the water customers as discussed in the Settlement Petition at page 5, paragraph 22(b). I&E therefore reserves the right to file a Reply Brief to address only the issues raised in Larry L. Wolfe's Main Brief.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the Joint Settlement Petition as being in the public interest and respectfully requests that Administrative Law Judges Kandace F. Melillo and Joel H. Cheskis recommend, and the Commission approve, the terms and conditions contained in the Settlement without modification.

Respectfully submitted,



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Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
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Dated: November 6, 2013

Appendix G

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2012-2336379
The Office of Consumer Advocate	:		C-2013-2367038
The Office of Small Business Advocate	:		C-2013-2375700
Larry L. Wolfe	:		C-2013-2370416
John C. Eline	:		C-2013-2374421
	:		
v.	:		
	:		
The York Water Company	:		

STATEMENT IN SUPPORT OF SETTLEMENT PETITION
ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA), one of the signatory Parties to the Settlement Petition (Settlement), finds that the terms and conditions of the proposed settlement are in the public interest. The OCA respectfully requests that the Pennsylvania Public Utility Commission (PUC or Commission) approve the Petition without modification for the following reasons:

I. INTRODUCTION

On May 29, 2013, York Water Company (York or the Company) filed Tariff Supplement No. 111 to Tariff Water - Pa. P.U.C. No. 14 (Supplement No. 111) and Tariff Wastewater - Pa. P.U.C. No. 1 (Tariff Wastewater No. 1), with the Public Utility Commission, to become effective August 1, 2013. Through Supplement No. 111, York requested that the Commission approve a general increase in water rates of approximately \$7.1 million per year, or 17.2% over the amount of annual revenues at present rates. Through Tariff Wastewater No. 1, York requested that the

Commission approve a general increase in wastewater rates for the Asbury Pointe Subdivision of \$27,960 per year, or 25%.

York provides utility service to approximately 63,500 water customers in portions of York and Adams Counties. The Company provides wastewater service to 233 customers in portions of York County.

The Company proposes to implement two provisions of Act 11. First, the Company utilizes a fully projected 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 that to do so is in the public interest. York has proposed to shift a portion of the wastewater cost of service (\$96,020) to the water customer base through this filing.

According to the Company's proposal, a residential gravity water customer using 4,872 gallons of water per month would see a monthly bill increase from \$34.41 to \$39.46, an increase of \$5.05 per month, or 14.7%. A residential repumped water customer using 3,928 gallons of water per month would see a monthly bill increase from \$40.91 to \$46.91, an increase of \$6.00 per month, or 14.7%. A residential wastewater customer would see a monthly bill increase from \$40.00 to \$50.00, an increase of \$10.00 per month, or 25%.

On June 4, 2013, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement against the proposed increase in rates. The Bureau of Investigation and Enforcement (I&E) entered a Notice of Appearance on June 19, 2013. The Office of Small Business Advocate (OSBA) filed a Notice of Appearance and Complaint on July 25, 2013. Two Formal

Complaints—by Mr. Larry L. Wolfe and Mr. John C. Eline¹—and several informal complaints were filed by York Water customers.

The proceeding was assigned to Administrative Law Judges (ALJs) Kandace F. Melillo and Joel H. Cheskis. By Order entered July 16, 2013, the Commission suspended the implementation of the Tariff Filings until March 1, 2014, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in the Tariff Filings. A Prehearing Conference was held on August 1, 2013.

On September 4, 2013, the OCA submitted the direct testimony of Michael A. Bleiweis, OCA Statement 1, Charles W. King, OCA Statement 2, and Jerome D. Mierzwa, OCA Statement 3. On October 16, 2013, the OCA submitted the surrebuttal testimony of Michael A. Bleiweis, OCA Statement 1S, Charles W. King, OCA Statement 2S, and Jerome D. Mierzwa, OCA Statement 3S. The Joint Petitioners agreed to stipulate to the admission of the OCA's testimony into the record, which was admitted at the evidentiary hearing on October 22, 2013.

Pursuant to the Commission's policy of encouraging settlements that are in the public interest, the Joint Petitioners met on numerous occasions to discuss settlement. These discussions resulted in this proposed comprehensive Settlement. As discussed below, the OCA submits that the proposed Settlement is in the interests of the Company's ratepayers and is in the public interest.

II. RATES

A. Revenue Requirement (Settlement ¶ 22.a)

The proposed Settlement provides that York may collect \$5,000,000 in additional annual operating revenue, which consists of \$4,972,020 in water revenue and \$27,960 in wastewater revenue. Settlement ¶ 22.a. The Settlement revenue increase is a \$2.1 million reduction to

¹ Of the *pro se* complainants, Mr. Larry Wolfe elected to be an active party.

PAWC's original request. This amounts to a 12% overall increase in rates, as compared to the 17.2% increase originally proposed by the Company. The Company originally proposed to shift \$96,020 of the wastewater cost of service to water customers. The Settlement provides for a shift of \$58,826 as discussed in more detail later.² Settlement ¶ 22.b. The parties have agreed to an allocation of the combined water and wastewater revenue requirement as reflected in Appendices C and D. The Settlement of the combined water and wastewater revenue requirement allocation is in the public interest because the Settlement provides for the originally proposed 25% increase to wastewater customers, which represents a substantial increase, yet recognizes the principle of gradualism. The amount of wastewater allocation to water customers is not unreasonable and reflects the reduction of the overall revenue requirement that was allocated to the water customers. The OCA addresses the allocation of the wastewater revenue requirement in more detail in its Main Brief, filed on November 6, 2013.

Based on the OCA's analysis of the Company's filings, testimony by all parties, and discovery responses, the rate increase under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The increase is not inappropriate and, when accompanied by other important conditions contained in the Settlement, yields a result that is just and reasonable.

B. Fully Projected Future Test Year (Settlement ¶ 22.l)

The Company utilized a fully projected future test year (FPFTY) in this proceeding. The Parties have agreed that the Company will provide to the Commission's Bureau of Technical Utility Services, I&E, OCA, and OSBA an update to Exhibit No. FV-12-4 to include actual plant

² The ALJs established a briefing schedule for the remaining issue raised by *pro se* complainant Larry L. Wolfe, who filed Direct and Surrebuttal testimony. Mr. Wolfe objects to York's proposed use of section 1311(c), which permits a utility providing both water and wastewater service to combine revenue requirements if found to be in the public interest. 66 Pa. C.S. § 1311(c).

additions and retirements on or before June 30, 2014 for the twelve months ending February 28, 2014, and on or before February 28, 2015 for the twelve months ending August 31, 2014. Settlement ¶ 22.i. Further, the Company will provide in its next base rate proceeding a comparison of actual expenses and rate base additions to its projections in this case. *Id.* The OCA submits that this provision is in the public interest because it is consistent with section 315 of the Public Utility Code, 66 Pa. C.S. § 315(e), and it permits parties to compare the accuracy of York's projections to its actual expenses.

C. Distribution System Improvement Charge (Settlement ¶ 22.j)

The proposed Settlement provides that the Company will not be entitled to include plant additions in the DSIC until eligible account balances exceed the levels projected by York at February 28, 2015, adjusted downward by 8.96% for the FPFTY plant additions as agreed to in the Company's rebuttal testimony. Settlement ¶ 22.j. This provision relates solely to the calculation of the DSIC due to the Company's use of a fully projected future test year in this case. The provision does not have any impact for future ratemaking purposes of the projected plant additions to be included in rate base in a fully projected future test year filing.

D. Amortizations Specifically Approved and Negative Acquisition Adjustments (Settlement ¶ 22.c,d,e)

The Parties also agreed that certain amortizations are approved and reflected in the Settlement's base rate analysis. See Settlement ¶ 22.e. Regarding the Asbury Pointe wastewater system, the Parties agree that they will not propose, in this or any future rate proceeding, to amortize or otherwise pass through to ratepayers the negative acquisition adjustment (that is, the difference between the depreciated original cost and the acquisition cost) associated with the Company's acquisition of the Asbury Pointe wastewater system. Settlement ¶ 22.d. The Parties recognize that agreement to these specific acquisitions cannot be construed as precedent for any

future acquisitions by York Water of either water or wastewater systems, nor can this agreement be construed as precedent for any future acquisitions by any other water or wastewater utility. Settlement ¶ 22.e.

E. Stay-out Provision (Settlement ¶ 22.k)

The Settlement provides that York will not file for an additional increase in rates before March 1, 2016, subject to certain narrow exceptions relating to policy or statutory changes. Settlement ¶ 22.k. As noted above, with the settled rates taking effect on February 28, 2014, the stay-out will effectively provide rate stability for at least 33 months, if York files its next case as soon as the stay-out expires and if the next case is fully litigated.

The stay-out does include an exception if certain conditions are met. Specifically, after informing the Commission and the Parties at least 30 days prior to any required notice, York may file a tariff or tariff supplement proposing a general increase in rates prior to March 1, 2016 in the event that the Department of Environmental Protection (DEP) directs the Company to undertake capital improvements to enhance either or both of its dams and directs that such enhancements be completed prior to June 30, 2016. *Id.* York agrees that it will provide the order from DEP to the Parties at the time DEP issues it. *Id.* This exception is included in this case to address specific circumstances that might occur during the time of the agreed upon stay-out.

This stay-out provision will provide York ratepayers and the affected public with reasonable rate stability. This specific and enforceable settlement condition ensures that York customers and the public will obtain benefits from the Commission's approval of the Petition.

F. Pension Cash Contributions (Settlement ¶ 22.f)

The Parties agreed to allow the Company to recover cash contributions to pensions in the amount of \$2,300,000 per year for the duration of the Settlement period, provided that the

deposit amount does not exceed the deductibility limits under the Internal Revenue Code (IRC). Settlement ¶ 22.f. The Settlement also provides that if the minimum required contribution by the IRC exceeds \$2,300,000, York will contribute the minimum required contribution. *Id.* Finally, York will continue to account for the difference between the cash contribution and the pension cost as detailed in the Settlement at paragraph 22.f.

York’s pension claim constitutes a substantial portion of its claim for rate relief. While in excess of the statutory minimum, York’s payments into its pension trusts will move those trusts closer to fully-funded status, and this should provide future rate stability with respect to this claim.

III. RATE STRUCTURE

A. Revenue Requirement (Water – Settlement ¶ 22.g and Appendix C; Wastewater – Settlement ¶ 22.h and Appendix D)

OCA witness Mierzwa addressed cost of service and rate design issues in OCA Statement 3. The Settlement resolves these issues to the satisfaction of the OCA. If approved, the Settlement will produce the following rates for the average gravity residential customer using 4,872 gallons of water per month and the average repumped residential customer using 3,928 gallons of water per month.

	Current Monthly Bill	As Filed Monthly Bill (% Increase)	Settlement Monthly Bill (% Increase)
Gravity	\$33.39	\$39.46 (18.2%)	\$37.61 (12.6%)
Repumped	\$39.71	\$46.91 (18.2%)	\$44.76 (12.7%)

See Settlement ¶ 23. The residential rates contained in the Settlement include a fixed customer

charge of \$16.00 and a volumetric charge of \$4.435 per 1,000 gallons for gravity customers and \$7.321 per 1,000 gallons for repumped customers. Settlement ¶ 22.g, Appendix A, and Appendix C. The \$16.00 customer charge is an additional reduction from the York filing, in which the Company sought approval of a customer charge of \$18.00 per month. The current customer charge is \$14.55. OCA St. 3 at 17. OCA witness Mierzwa recommended a customer charge of \$16.50 in his Direct Testimony. *Id.* at 19. The Settlement further provides that the Parties agree to a compromised scale-back of rates.

Regarding wastewater rates, cost of service, and rate design, the Company proposed rates that increased current rates for the Asbury Pointe Wastewater subdivision from \$40 to \$50, or a 25% increase. Settlement ¶ 22.h and Appendix D. In his direct testimony, OCA witness Mierzwa indicated that absent an allocation of any portion of the wastewater revenue requirement to the water revenue requirement, rates to Asbury Pointe would increase from \$40 to approximately \$84, or by over 100%. OCA St. 3 at 21.

Further, under York's original proposal, the shift in the remaining wastewater revenue requirement of \$96,020 to water customers would have represented a 0.33% increase to average residential water customers, or \$1.56 per year. *Id.* at 21. Under the Settlement, York's proposal has been scaled back to a \$58,826 allocation to water customers, and represents an increase to average residential water customers of approximately 92 cents per year. OCA witness Mierzwa testified that the Company's proposal was not unreasonable under Act 11, 66 Pa. C.S. § 1311(c), and utilizes the principle of gradualism, one of the principles of a sound rate design. *Id.* at 23.

The Settlement allocates the agreed-upon combined water and wastewater revenue requirements to each rate zone (gravity and repumped) and customer class in a manner that is reasonable in light of the rate structure and cost of service positions of each of the parties.

IV. CONCLUSION

For the foregoing reasons, the OCA respectfully requests that the Administrative Law Judges and the Public Utility Commission approve the terms and conditions of the Settlement Petition submitted in this proceeding without modification as being in the public interest.

Respectfully Submitted,



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November 6, 2013

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Appendix H

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2013-2336379
The York Water Company	:	

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
SETTLEMENT PETITION**

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a complaint against the rates, terms, and other provisions of Supplement No. 111 to Tariff Water-Pa. P.U.C. No. 14 (“Supplement No. 111”) and Supplement No. 1 to Tariff Wastewater-Pa. P.U.C. No. 1 (“Supplement No. 1”) which were filed with the Pennsylvania Public Utility Commission (“Commission”) on May 29, 2013, by The York Water Company (“York Water” or the “Company”). Supplement No. 111 reflects a general rate increase in water rates of \$7,116,392 per year. Supplement No. 1 reflects a general rate increase in wastewater rates for the Asbury Pointe Subdivision of \$27,960 per year.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Settlement Petition (“*Settlement Petition*”). The OSBA submits this statement in support of the *Settlement Petition*.

The Settlement Petition

The *Settlement Petition* sets forth a comprehensive list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Settlement Petition* was in the best interests of York Water's small business customers.

Revenue Allocation

Because the Company's requested increase is over \$1 million, York Water submitted a cost of service study ("COSS") with its May 29th filing. *See generally* 52 Pa. Code § 53.53. Based upon that COSS, York Water allocated its originally proposed overall revenue increase to the Company's customer classes. Mr. Kalcic explained that the Company had two goals in mind when it proposed its original revenue allocation:

On page 11 of his direct testimony, Mr. Herbert lists two specific rate design guidelines or directives that were conveyed to him by Company management: 1) increase public fire hydrant rates, as necessary, to recover 25% of cost of service per Section 1328 of the Public Utility Code; and 2) increase all remaining customer and consumption charges so as to move total revenues, by class, toward their indicated cost of service, while recovering the Company's claimed revenue requirement.

OSBA Statement No. 1, at 3-4.

Mr. Kalcic also explained how the Company's COSS results can be used to bring the York Water's customer classes closer to their cost of service in this proceeding:

By definition, if a class is not paying exactly its full cost of service, it is either: a) receiving a subsidy (i.e., paying too little); or b) providing a subsidy (i.e., paying too much). In order to determine whether or not a class is moving toward cost of service, one must ascertain whether the class' present subsidy is growing or shrinking at proposed rates. If its present subsidy is growing at proposed rates, the class is moving in the wrong direction (i.e., away from cost of service). Conversely, if its present subsidy is

shrinking at proposed rates, the class is moving closer to cost of service.

In short, the proper yardstick for measuring the degree of movement toward cost of service is the change in the absolute level of class subsidies at present and proposed rates.

OSBA Statement No. 1, at 4.

After examining York Water's proposed revenue allocation, Mr. Kalcic concluded:

In general, a comparison . . . indicates that the Gravity system as a whole would subsidize the Repumped system by approximately \$58,500 at proposed rates. However, the proposed subsidy is relatively minor in scale, since it amounts to only 0.4% of total proposed Gravity system revenues.

Id., at 4.

Mr. Kalcic continued, as follows:

On a total system basis, a comparison . . . shows that the Residential, Private Fire and Public Fire Protection classes would move (within rounding) to full cost of service under York's proposed revenue allocation. In addition, the Commercial class would move closer to full cost of service under the Company's proposed rates (i.e., the present subsidy provided by the Commercial class of approximately \$172,000 would decrease to \$77,000). However, the present subsidy received by the Industrial class (line 3) would decline by only 14%.

Id.

However, Mr. Kalcic did not fully support the revenue allocation originally proposed by

York Water:

I am in agreement with the Company's overall proposed increases to the Residential, Private Fire and Public Fire classes, since such classes would move to full cost of service (as measured by the Company's COSS) under the Company's proposal. However, I do not agree with the Company's proposed increases to the Commercial and Industrial classes.

OSBA Statement No. 1, at 5-6.

Specifically, Mr. Kalcic recommended, as follows:

I recommend adjusting York's proposed Commercial and Industrial increases so that each class moves to full cost of service, as measured by the Company's COSS.

Id., at 6. Mr. Kalcic set forth his proposed revenue allocation (at the full revenue amount requested) in an exhibit to his direct testimony. *See* OSBA Statement No. 1, Exhibit BK-4.

If the Commission were to award York Water a revenue increase less than the full revenue amount requested by the Company, Mr. Kalcic testified:

In that event, I would recommend that the recommended class increases . . . (exclusive of any allowed wastewater allocation) be reduced proportionately via an across-the-board reduction of the OSBA's recommended class increases within the Gravity and Repumped systems.

OSBA Statement No. 1, at 6-7.

Table A below provides a comparison of the parties' recommended class increases to the proposed settlement water increases. As set forth in Table A, the combined Commercial and Industrial ("C&I") increase under the settlement is \$1.543 million. This amount is within \$23,000 of Mr. Kalcic's recommended C&I increase of \$1.520 million. In contrast to the OCA's proposed C&I increase of \$2.299 million, the *Settlement Petition* provides a savings of \$0.756 million for the Company's C&I customers. Therefore, the OSBA concludes that the settlement is consistent with Mr. Kalcic's testimony and represents a fair and reasonable resolution of this issue.

Table A
Comparison of Parties' Proposed Water Increases to Settlement¹

<i>Class</i>	<i>Settlement</i>	<i>Company</i>	<i>OCA</i>	<i>OSBA</i>
	(1)	(2)	(3)	(4)
Residential	\$3,270,606	\$3,294,507	\$2,514,959	\$3,294,318
Commercial	\$1,096,924	\$1,069,139	\$1,580,579	\$1,015,820
Industrial	\$446,202	\$450,492	\$718,599	\$504,004
Private Fire	\$93,851	\$93,446	\$93,446	\$93,441
Public Fire	<u>\$57,087</u>	<u>\$57,087</u>	<u>\$57,087</u>	<u>\$57,087</u>
Total	\$4,964,670	\$4,964,671	\$4,964,670	\$4,964,670

Source: *Settlement* – Appendix C to *Settlement Petition*;
Company – Sch. BK-1, page 1 of 3;
OCA – OCA St. 3 at page 16;
OSBA – Sch. BK-3, page 1 of 3.

¹ Columns 2-4 reflect a proportional scaleback of parties' filed positions (using the ratio of \$4.965 million to \$7.106 million) so as to be comparable with the proposed settlement increase.

Conclusion

Therefore, for the reasons set forth in the *Settlement Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Settlement Petition* and respectfully requests that the Administrative Law Judge and the Commission approve the *Settlement Petition* in its entirety.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven C. Gray", is written over a horizontal line.

Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Dated: November 7, 2013