

# John J. Gallagher

Attorney at Law

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November 24, 2014

**VIA ELECTRONIC MAIL AND  
HAND DELIVERY**

Honorable Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

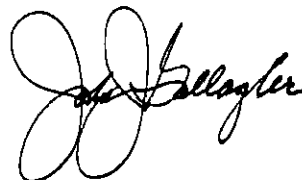
**Re: Pennsylvania Public Utility Commission v.  
City of Lancaster- 2014 General Water Rate Increase Filing  
Docket No. R-2014-2418872  
(Joint Petition for Settlement)**

Dear Secretary Chiavetta:

On behalf of the City of Lancaster, ("City"), the Office of Consumer Advocate ("OCA"), the Bureau of Investigation & Enforcement ("I&E"), the Office of Small Business Advocate ("OSBA") and the Kellogg Company ("Kellogg"), please find enclosed an original copy of a Joint Petition for Settlement in the above captioned matter.

Copies of this Settlement Petition are being served on the parties listed in the attached certificate of service. Please contact me if you have any questions concerning this submission.

Sincerely,



John J. Gallagher

cc: Certificate of Service

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**BEFORE THE PENNSYLVANIA  
PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
Office of Consumer Advocate	:	Docket Nos.: R-2014-2418872
Office of Small Business Advocate	:	C-2014-2426000
v.	:	C-2014-2433724
City of Lancaster– Bureau of Water	:	C-2014-2435548

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**JOINT PETITION FOR SETTLEMENT  
OF RATE INVESTIGATION**

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The City of Lancaster("City"), the Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Kellogg Company ("Kellogg"), collectively referred to as "Joint Petitioners" individually and by their respective counsel, respectfully request: (a) that Administrative Law Judge Angela T. Jones recommend approval of this Joint Petition for Settlement ("Petition for Settlement") as set forth herein; (b) that the Pennsylvania Public Utility Commission ("Commission") approve and adopt this Petition for Settlement as set forth herein; and (c) that the Commission permit the City to file tariff supplements attached hereto at Appendix A effective on one day's notice for service rendered on and after the entry date of the Commission's Order approving this Petition for Settlement. In support of this Joint Petition for Settlement, the Joint Petitioners set forth the following:

**I. INTRODUCTION**

1. On June 6, 2014, the City of Lancaster filed with the Commission Supplement No. 43 to Tariff Water-Pa. P.U.C. No. 6 to become effective August 5, 2014. Supplement No.

43 to Tariff Water- Pa. P.U.C. No. 6 contained proposed changes in the City of Lancaster's rates, rules, and regulations and set forth a request to adjust current water rates in order to produce \$6,458,300 in additional annual revenues, a rate increase of approximately 45.8% for jurisdictional customers.

2. On June 26, 2014, Gina Matz, Esquire filed a Notice of Appearance on behalf of I&E in this matter. On June 11, 2014, Christine Maloni Hoover, Esquire filed a Public Statement, a Notice of Appearance and a formal Complaint on behalf of the OCA in this matter. The Complaint was docketed at C-2014-2426000. On June 27, 2014, Steven Gray, Esquire filed a Public Statement, a Notice of Appearance and a formal Complaint on behalf of the OSBA in this matter. The Complaint was docketed at C-2014-2433724. A Formal Complaint was filed by Mr. Frank Kitzmiller on July 14, 2014. The Complaint was docketed at C-2014-2435548. On September 26, 2014 the Kellogg Company filed a Petition to Intervene in this matter.

3. By Order entered on July 9, 2014, the Commission suspended the City's filing and instituted an investigation into the lawfulness, justness and reasonableness of the proposed rate increase. Pursuant to the Commission's Order, the new effective date for Supplement No. 43 to Tariff Water-Pa. P.U.C. No. 6 became March 5, 2015 unless permitted to become effective at an earlier date. By the same Order, the Commission assigned the case to the Office of Administrative Law Judge for the scheduling of hearings. The Commission issued a notice to the parties of a Prehearing Conference scheduled for July 24, 2014. All the parties, with the exception of Kellogg and Kitzmiller, filed Direct and Rebuttal testimony in this proceeding.

4. In accordance with the Commission's Rules and Regulations, 52 Pa. Code § 5.231, Joint Petitioners engaged in settlement negotiations resulting in this Petition for Settlement. Joint Petitioners have been able to agree to a proposed revenue increase and a rate

design to recover the agreed-upon increase, thereby resolving all issues raised by the participants to this proceeding.

5. Although Joint Petitioners have not agreed upon specific adjustments reflective of their respective positions, they join in and request approval of this Petition for Settlement. Joint Petitioners are in full agreement that Commission approval of the Petition for Settlement would result in rates that are just and reasonable and would otherwise be in the public interest and in the best interests of the City's outside customers.

## **II. TERMS AND CONDITIONS**

6. The City will be permitted to establish rates for outside customers, which will produce an overall increase in annual operating revenues of approximately \$4.2 million. These rates, as determined in accordance with the attached proof of revenues and tariff supplement, will be effective on March 5, 2015. The Proof of Revenues attached hereto at Appendix B, reflects rates that are designed to recover approximately \$4.2 million of additional revenues from outside customers. In sum, for outside customers, the increase in revenues by class from present rates as proposed in this Petition for Settlement are as follows:

### **CITY OF LANCASTER - OUTSIDE CUSTOMERS**

	Revenue	Revenue	
	Present Rates	Settlement Rates	Increase
Residential	\$ 7,023,156	\$ 9,045,587	\$ 2,022,431
Commercial	5,250,562	6,761,125	1,510,562
Industrial	829,962	1,135,894	305,932
Large Industrial	430,096	603,986	173,890
Other Water Utilities	304,518	377,746	73,228
Private Fire	258,783	372,787	114,004
Total Outside the City	\$ 14,097,078	\$ 18,297,125	\$ 4,200,047

a. In addition to, and in consideration of, the agreed-upon overall increase in operating revenues for outside customers of approximately \$4.2 million. Joint Petitioners also agree to various terms and conditions set forth as follows:

b. *Stay out* -- The City agrees that it will not file a new general base rate filing earlier than 18 months following the Commission's Order approving the rates proposed in this settlement. This stay out provision excludes the filing with the Commission by the City of a DSIC Petition, and, if approved, the inclusion of quarterly DSIC surcharges on customers' bills. Nothing in this settlement agreement is intended to waive the right of the OCA, I&E, or the OSBA to take any position in any future DSIC filing. In addition, the Parties agree that the City may file for a change in rates under Sections 1308(a) and (b) (governing general rate relief), or Section 1308(e) (governing extraordinary rate relief) of the Public Utility Code if a legislative body or administrative agency orders or enacts changes in policy, regulation or statutes which directly and substantially affect the City's rates.

c. The City agrees to provide to the Joint petitioners and the Commission's Bureau of Technical Utility Services (TUS) Fully Projected Future Test Year ("FPFTY") updates to City Exhibits at 6 months and 1 year after rates go into effect, plus full updates at the time of the City's next rate filing.

d. *DSIC* If the City files for a Distribution System Improvement Charge ("DSIC"), it agrees that its first DSIC will be effective only after the balances of DSIC-eligible accounts, net of plant funded with customer advances and customer contributions, exceed the February 29, 2016 levels of investment in plant additions projected by the City in this case. This provision

relates solely to the calculation of DSIC during the time that the Settlement Rates are in effect and is not determinative for future ratemaking purposes of the projected plant additions to be included in rate base in a fully projected future test year filing.

e. The City agrees to evaluate its lost and unaccounted-for-water.

f. The City agrees that it will meet with representatives of the Kellogg Company following the Commission's final Order approving the rates proposed in this settlement to discuss the feasibility of initiating a competitive rider tariff for the City of Lancaster. Nothing in this settlement agreement is intended to waive the rights of the OCA, I&E, or the OSBA to take any position in any future competitive rider tariff filing.

g. *Rate Effective Date* -- Joint Petitioners agree that it is in the public interest for entry of a Commission-approved final order approving the Petition for Settlement with the proposed effective date of the agreed-upon rate increase to be March 5, 2015.

h. *Rate Structure/Rate Design* -- Joint Petitioners agree to the distribution of revenue among customer classes in this Petition for Settlement as set forth in the attached Proof of Revenues at Appendix B. These charges specifically provide for a \$16.65 per quarter or \$5.55 per month for 5/8 inch customer charge. The design and structure of rates for outside customers of the City under this Petition for Settlement are developed based upon the customer and volumetric charges contained within the Rate Schedules set forth in Appendix B. Joint Petitioners agree that rates and charges set forth in Appendix B are just and reasonable and are in the public interest.

7. The Joint Petitioners agree that the City's original filing, including all testimony, exhibits and supporting data, shall be admitted into the record as originally filed with the Secretary of the Commission. 52 Pa.Code §§ 53.52, 53.53. The Joint Petitioners also agree that all testimony, exhibits and supporting data filed by the OCA, I&E and OSBA in this proceeding shall be admitted into the record as outlined in the Joint Stipulation for Admission of Evidence which accompanies this Joint Petition.

8. Joint Petitioners agree that adoption and approval of this Petition for Settlement by the ALJ and the Commission is in the public interest. Under this Petition for Settlement, the quarterly bill of a typical 5/8" metered residential customer residing outside the City who utilizes 13,000 gallons of water per quarter will increase from \$58.94 to \$75.01, or by approximately 27.3%, rather than from \$58.94 to \$83.76 ( 42.1%) as originally requested.

9. The Petition for Settlement provides for a sound and reasonable revenue requirement and appropriately balances the interests and concerns of the City, I&E, OCA, OSBA, and Kellogg. In addition, adoption and approval of the Petition for Settlement will avoid the need for the filing of direct testimony by any of parties, for briefing, and for continued litigation of this proceeding.

10. This Petition for Settlement arises from extensive discovery and discussions, and reflects compromises by all sides. It is being proposed to settle the instant case. Accordingly, this Petition for Settlement is made without any admission against, or prejudice to, any positions which any Joint Petitioner might adopt during any subsequent litigation of this proceeding (should this Petition for Settlement be rejected or modified), or in any other proceeding. If the Commission withholds such approval as to any of the terms and conditions, or alters any of the terms and conditions, any Joint Petitioner may withdraw from this settlement upon written notice of its intent to the Commission and the remaining parties within three (3) business days of the date of the Commission's Order and may resume with the litigation of this proceeding within (10) days of the entry of the Order making any such modifications.

11. Joint Petitioners agree that the Petition for Settlement shall be considered to have the same effect as full litigation of the instant proceeding resulting in the establishment of rates that are Commission-made rates.

12. In the event that the Commission does not approve this Petition for Settlement, the signatory parties reserve their respective rights to resume litigation. If the ALJ, in her Recommended Decision, recommends that the Commission adopt this Petition for Settlement as herein proposed, Joint Petitioners agree to waive the filing of Exceptions. However, Joint Petitioners do not waive their rights to file Exceptions with respect to any additional matters dealt with, or any modifications to the terms and conditions of this Petition for Settlement recommended by the ALJ in her Recommended Decision.

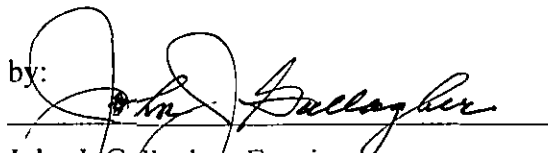
13. Each Joint Petitioner's individual reason for supporting the Petition for Settlement is set forth at Appendix C. More specifically, Statements in Support have been submitted by the City (Statement 1), the BI&E (Statement 2), the OCA (Statement 3) the OSBA (Statement 4) and Kellogg (Statement 5).

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


1. That Administrative Law Judge Angela T. Jones and the Commission approve this Petition for Settlement inclusive of its terms and conditions without modification on or before March 5, 2015;
2. That the Commission permit the City of Lancaster-- Bureau of Water to file a tariff supplement on one day's notice for service rendered on and after the entry date of the Commission's Order approving of this Petition for Settlement so as to increase total revenues outside the City by \$4.2 million, to a level of \$18,297,125, or by 29.8 %; and,
3. That the Commission terminate and mark closed its inquiry and investigation at Docket No. R-2014-2418872, including all complaint dockets associated therewith.

Respectfully submitted,

**CITY OF LANCASTER-- BUREAU OF WATER:**

by:   
John J. Gallagher, Esquire  
711 Forrest Road  
Harrisburg, PA 17112

**OFFICE OF CONSUMER ADVOCATE**

by:   
Christine Maloni Hoover, Esquire  
Lauren M. Burge, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Street

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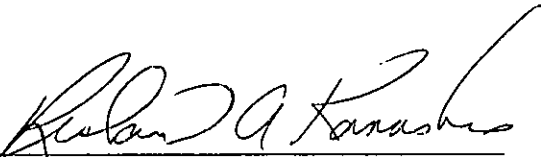
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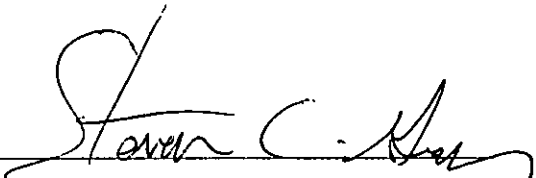


Harrisburg, PA 17101

**BUREAU OF INVESTIGATION AND ENFORCEMENT:**

**OFFICE OF SMALL BUSINESS ADVOCATE**

by: 

by: 

Richard A. Kanaskie, Esquire  
Deputy Chief Prosecutor  
Bureau of Investigation & Enforcement  
Commonwealth Keystone Building  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Steven Gray, Esquire  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17102

**KELLOGG COMPANY:**

By: \_\_\_\_\_ By: \_\_\_\_\_  
Elizabeth Trinkle, Esquire  
James Dougherty, Esquire  
McNees Wallace & Nurick LLC  
100 Pine street  
P.O. Box 1166  
Harrisburg, PA 17108

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DATED: November 2014

**KELLOGG COMPANY:**

By: 

Elizabeth Trinkle, Esquire  
James Dougherty, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108

DATED: November 2014

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A

Supplement No. 45  
to  
Tariff Water-Pa. P.U.C. No. 6

CITY OF LANCASTER  
RATES, RULES AND REGULATIONS  
GOVERNING THE DISTRIBUTION OF WATER  
IN  
TERRITORY OUTSIDE THE CITY OF LANCASTER  
INCLUDING AREAS IN THE BOROUGH OF MILLERSVILLE AND  
THE TOWNSHIPS OF  
EAST HEMPFIELD, EAST LAMPETER, LANCASTER, MANHEIM,  
MANOR, PEQUEA, WEST HEMPFIELD, AND WEST LAMPETER  
IN LANCASTER COUNTY, PENNSYLVANIA

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# NOTICE

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

By: Patrick Hopkins  
Business Administrator  
Lancaster Pennsylvania

This Tariff increases rates for all customers

**CITY OF LANCASTER**  
**Lancaster, Pennsylvania**

**Supplement No. 45 to Tariff**  
**Water-Pa. P.U.C. No. 6**  
**30th Revised Page No. 2**  
**Cancelling 29th and 28<sup>th</sup> Revised Page No. 2**

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List of Changes Made by this Tariff

This Supplement increases jurisdictional rates by \$4,200,047 or 29.8 % over existing rates. Both customer charges and volumetric rates are increased for all customer classes.

This Supplement modifies the City's consumption blocks for residential, commercial and industrial consumption rates.

This Supplement creates a new customer class, Large Industrial Class, with a single block consumption rate.

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ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

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Meter Rate - Water Sold for Resale	5 Twenty-fourth Revised
Purposes Tapping Fee	6 First Revised
Flat Rate - Private Fire Protection Service	7 Twenty-fourth Revised
Sec. 1 - Definition of Terms	8 Original
Sec. 1- Definition of Terms, cont.	9 Second Revised
Sec. 2 - Service Area	10 First Revised
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ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

Schedule of Rates (I)

Meter Rate - General Service

Application

This Schedule applies to all service other than (1) emergency sales for resale and (2) fire protection (See Section 3).

Customer Charges (I)

All metered customers shall be subject to a monthly or quarterly customer charge, based on the (C) required size of meter to render adequate service.

<u>Size of Meter</u>	<u>Customer Charge</u>			<u>Size of Meter</u>	<u>Customer Charge</u>		
	Per Month	Per Qtr			Per Month	Per Qtr	
5/8" or 3/4"	\$5.55	\$16.65	(I)	3"	\$71.50	\$214.50	(I)
1"	\$14.70	\$44.10	(I)	4"	\$111.60	\$334.80	(I)
1-1/4"	\$18.75	\$56.85	(I)	6"	\$222.00	\$666.00	(I)
1-1/2"	\$23.20	\$69.60	(I)	8"	\$351.60	\$1,054.80	(I)
2"	\$36.20	\$108.60	(I)	10"	\$465.10	\$1,395.30	(I)
				12"	\$701.50	\$2,104.50	(I)

Consumption Charges – Residential, Commercial and Industrial (C)

	<u>Rate Per 1,000 Gallons</u>	
For the first 25,000 gallons/month or 75,000 gallons/quarter	\$4.489	(I)
For the next 575,000 gallons/month or 1,725,000 gallons/quarter	\$3.824	(I)
For all over 600,000 gallons/month or 1,800,000 gallons/quarter	\$3.247	(I)
Consumption Charge – Large Industrial for all consumption	\$3.202	(C)

The minimum charge shall be the customer charge.

When more than one meter is installed on the premises for the convenience of the customer, the above consumption and customer charges will be assessed against the individual meters.

(I) Indicates Increase  
(C) Indicates Change

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

Schedule of Rates

Meter Rate - Water Sold for Resale Purposes

Application

This Schedule is applicable to all metered sales to public utilities and municipal corporations for resale purposes.

Customer Charges

<u>Size of Meter</u>	<u>Minimum Charge Per Month</u>		<u>Minimum Charge Per Quarter</u>	
4"	\$111.60	(I)	\$334.80	(I)
6"	\$222.00	(I)	\$666.00	(I)
8"	\$351.60	(I)	\$1,054.80	(I)
10"	\$465.10	(I)	\$1,395.30	(I)

Consumption Charges

	<u>Rate Per 1,000 Gallons</u>	
For all consumption	\$3.460	(I)

The minimum charge shall be the customer charge.

When more than one meter is installed on the premises for the convenience of the customer, the above consumption and customer charges will be assessed against the individual meters.

(I) Indicates Increase

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ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_



Schedule of Rates

Flat Rate – Private Fire Protection Service

Application

This Schedule is applicable to all private fire lines serving yard hydrants and automatic sprinkler or fire service systems located inside buildings, if (1) adequate provision is made to prevent the use of water from such service connections for purposes other than fire extinguishing and (2) a detector check, of a type approved by the Bureau of Water, is installed on the customer's fire service line, said detector check to be purchased and installed at the customer's expense.

Rate:

(I)

	<u>Per Month</u>	<u>Per Quarter</u>	
1" Connection	\$2.81	\$8.43	(I)
1½ " Connection	6.31	18.93	(I)
2" Connection	11.21	33.63	(I)
3" Connection	25.22	75.66	(I)
4" Connection	36.75	110.25	(I)
6" Connection	59.80	179.40	(I)
8" Connection	103.41	310.23	(I)
10" Connection	138.79	416.37	(I)
12" Connection	200.50	601.50	(I)

No charge will be made for water used for extinguishment of accidental fires. All consumption recorded by the disc (small flow) meter, whether from use of water for other purposes, or from leakage from customer-owned pipelines, will be billed at the meter rate for General Service.

(I) Indicates Increase

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ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

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RULES AND REGULATIONS

Sec. 1 - Definition of Terms, cont.

- Commercial Service: Provision of water to premises where the customer is engaged in trade.
- Industrial Service: Provision of water to a customer for use in manufacturing or processing activities.
- Large Industrial Service: Provision of water to a customer for use in manufacturing or processing activities and consumes during the prior calendar year, an average usage exceeding 10,000,000 gallons per month. (C)
- Irrigation Service: Provision of water for commercial agricultural, floricultural, or horticultural use.
- Main Extension: Extension of distribution pipelines, exclusive of service connections, beyond existing facilities.
- Mains: Distribution pipelines located in streets, highways, public ways, alleys, or private rights of way which are used to carry water to serve the general public.
- Meter Rate Service: Provision of water in measured quantities.
- Municipal or Public Use: Provision of water to a municipality or other public body for other than fire protection purposes.
- Premises: The integral property of area, including improvements thereon, to which water service is or will be provided.
- Service Line, Utility's: The connecting facilities between the utility's distribution main and the customer's service line, in general consisting of a valve or corporation stop at the main, piping there from to the street curb line, terminating with a curb stop and curb box.
- Service Line, Customer's: The connecting facilities from the utility's curb stop and curb box to a point of consumption.
- Tariff Schedules: The entire body of effective rates, charges, rules, and regulations, as set forth herein.
- Temporary Service: Provision of service for circuses, bazaars, fairs, construction work, irrigation of vacant property, and similar uses, that because of their nature will not be used steadily or permanently.

(C) Indicates Change

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ISSUED: \_\_\_\_\_

EFFECTIVE \_\_\_\_\_

**B**

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CITY OF LANCASTER  
BUREAU OF WATER

SUMMARY OF PRESENT AND SETTLEMENT RATES

Customer Charges:	Present Rates		Settlement Rates			
	Inside	Outside	Inside	% increase	Outside	Outside % increase
	<u>Monthly</u>					
5/8"	3.50	3.50	5.55	58.6%	5.55	58.6%
3/4"	3.50	3.50	5.55	58.6%	5.55	58.6%
1"	9.30	9.30	14.70	58.1%	14.70	58.1%
1 1/2"	14.60	14.60	23.20	58.9%	23.20	58.9%
2"	22.80	22.80	36.20	58.8%	36.20	58.8%
3"	45.10	45.10	71.50	58.5%	71.50	58.5%
4"	70.40	70.40	111.60	58.5%	111.60	58.5%
6"	140.00	140.00	222.00	58.6%	222.00	58.6%
8"	221.70	221.70	351.60	58.6%	351.60	58.6%
10"	293.30	293.30	465.10	58.6%	465.10	58.6%
<u>Quarterly</u>						
5/8"	\$ 10.50	\$ 10.50	\$ 16.65	58.6%	\$ 16.65	58.6%
3/4"	10.50	10.50	16.65	58.6%	16.65	58.6%
1"	27.90	27.90	44.10	58.1%	44.10	58.1%
1 1/2"	43.80	43.80	69.60	58.9%	69.60	58.9%
2"	68.40	68.40	108.60	58.8%	108.60	58.8%
3"	135.30	135.30	214.50	58.5%	214.50	58.5%
4"	211.20	211.20	334.80	58.5%	334.80	58.5%
6"	420.00	420.00	666.00	58.6%	666.00	58.6%
8"	665.10	665.10	1,054.80	58.6%	1,054.80	58.6%
10"	879.90	879.90	1,395.30	58.6%	1,395.30	58.6%

Consumption Charges per 1,000 gallons

	Monthly	Quarterly		
First	25,000	75,000	\$ 3.3403	\$ 3.7260
Next	308,000	925,000	3.0696	3.4240
Over	333,000	1,000,000	2.0082	2.2400
First	25,000	75,000		\$ 3.7900
Next	575,000	1,725,000		3.1080
Over	600,000	1,800,000		2.7300
Large Industrial	All Usage	All Usage		NA
				\$ 4.4890
				3.8240
				3.2470
				3.2020

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CITY OF LANCASTER  
BUREAU OF WATER

SUMMARY OF PRESENT AND SETTLEMENT RATES

	Present Rates		Settlement Rates			
	Inside	Outside	Inside	% increase	Outside	Outside % increase
	<b>Sales for Resale</b>					
Customer Charges:						
<u>Monthly</u>						
4"		\$ 70.40			\$ 111.60	58.5%
6"		140.00			222.00	58.6%
8"		221.70			351.60	58.6%
10"		293.30			465.10	58.6%
Consumption Charges per 1,000 gallons						
		<u>Monthly</u>				
		All Usage			\$ 3.4600	23.6%
<b>Private Fire</b>						
<u>Monthly</u>						
1"	\$ 1.95	\$ 1.95	\$ 1.95	0.0%	\$ 2.81	44.1%
1 1/2"	4.38	4.38	4.38	0.0%	6.31	44.1%
2"	7.78	7.78	7.78	0.0%	11.21	44.1%
3"	17.51	17.51	17.51	0.0%	25.22	44.0%
4"	25.51	25.51	25.51	0.0%	36.75	44.1%
6"	41.51	41.51	41.51	0.0%	59.80	44.1%
8"	71.79	71.79	71.79	0.0%	103.41	44.0%
10"	96.35	96.35	96.35	0.0%	138.79	44.0%
12"	139.19	139.19	139.19	0.0%	200.50	44.0%
<u>Quarterly</u>						
1"	\$ 5.85	\$ 5.85	\$ 5.85	0.0%	\$ 8.43	44.1%
1 1/2"	13.14	13.14	13.14	0.0%	18.93	44.1%
2"	23.34	23.34	23.34	0.0%	33.63	44.1%
3"	52.53	52.53	52.53	0.0%	75.66	44.0%
4"	76.53	76.53	76.53	0.0%	110.25	44.1%
6"	124.53	124.53	124.53	0.0%	179.40	44.1%
8"	215.37	215.37	215.37	0.0%	310.23	44.0%
10"	289.05	289.05	289.05	0.0%	416.37	44.0%
12"	417.57	417.57	417.57	0.0%	601.50	44.0%

**CITY OF LANCASTER - BUREAU OF WATER**

**COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND SETTLEMENT RATES  
FOR THE TEST YEAR ENDED FEBRUARY 29, 2016 - SETTLEMENT**

Customer Classification (1)	Cost of Service		Revenue Present Rates		Revenue Settlement Rates		Settlement Increase	
	Amount (2)	Percent (3)	Amount (4)	Percent (5)	Amount (6)	Percent (7)	Amount (8)	Percent Increase (9)
<b>Inside the City</b>								
Residential	\$ 4,236,417	14.9%	\$ 3,191,785	15.6%	\$ 3,900,657	15.0%	\$ 708,872	22.2%
Commercial	3,114,512	10.9%	2,417,702	11.9%	2,894,185	11.3%	476,483	19.7%
Industrial	598,728	2.1%	431,633	2.1%	544,878	2.1%	113,245	26.2%
Private Fire	242,833	0.9%	241,651	1.2%	241,650	0.9%	(1)	0.0%
Total Inside the City	<u>8,192,490</u>	28.8%	<u>6,282,771</u>	30.8%	<u>7,581,370</u>	29.3%	<u>1,298,599</u>	20.7%
<b>Outside the City</b>								
Residential	10,002,856	35.2%	7,023,156	34.4%	9,045,587	35.0%	2,022,431	28.8%
Commercial	7,474,562	26.2%	5,250,562	25.8%	6,761,125	26.1%	1,510,562	28.8%
Industrial	1,280,951	4.5%	829,962	4.1%	1,135,894	4.4%	305,932	36.9%
Large Industrial	686,569	2.4%	430,096	2.1%	603,986	2.3%	173,890	40.4%
Other Water Utilities	412,445	1.4%	304,518	1.5%	377,746	1.5%	73,228	24.0%
Private Fire	427,262	1.5%	258,783	1.3%	372,787	1.4%	114,004	44.1%
Total Outside the City	<u>20,284,646</u>	71.2%	<u>14,097,078</u>	69.2%	<u>18,297,125</u>	70.7%	<u>4,200,047</u>	29.8%
Total Sales	<u>\$ 28,477,136</u>	100.0%	<u>\$ 20,379,849</u>	100.0%	<u>\$ 25,878,495</u>	100.0%	<u>\$ 5,498,646</u>	27.0%
Other Revenues								
Inside the City	368,767		368,767		368,767		-	0.0%
Outside the City	456,409		456,409		456,409		-	0.0%
Total	<u>\$ 29,302,311</u>		<u>\$ 21,205,025</u>		<u>\$ 26,703,670</u>		<u>\$ 5,498,646</u>	25.9%

CITY OF LANCASTER - WATER FUND

STATEMENT OF OPERATING REVENUES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND FEBRUARY 29, 2016  
AND THE CALCULATION OF THE PROPOSED REVENUE INCREASE FROM INSIDE-CITY AND OUTSIDE-CITY CUSTOMERS BY CUSTOMER CLASSIFICATION

Pursuant To Subsection 53.53 Exhibit D II(2) of Tariff Regulations

Customer Classification (1)	Revenues Per Books, 12 Months Ended 31-Dec-13 (2)	Historic Test Year Pro Forma Adjustments Under Present Rates		Pro Forma, Present Rates, 31-Dec-13 (5)	Future Test Year Pro Forma Adjustments Under Present Rates		Pro Forma, Present Rates 29-Feb-16 (8)	Under Settlement Rates, Supplement No. 45 to Tariff Water Pa-PUC No. 6		Pro Forma, Settlement Rates 29-Feb-16 (11)
		Ref. (3)	Amount (4)		Ref. (6)	Amount (7)		Increase		
								Percent (9)	Amount (10)	
<b>INSIDE-CITY</b>										
Sales of Water										
Residential	\$ 3,202,683	R1	\$ (1,641)	\$ 3,201,042	R4	\$ (9,257)	\$ 3,191,785	22.2%	\$ 708,872	\$ 3,900,657
Commercial	2,390,050	R1,R3	\$ 24,947	2,414,997	R4	2,706	2,417,702	19.7%	476,483	2,894,185
Industrial	422,938	R1	\$ 8,695	431,633			431,633	26.2%	113,245	544,878
Private Fire Protection	203,792	R3	1,971	205,763	R6	35,888	241,651	0.0%	(1)	241,650
<b>Total Sales of Water</b>	<b>6,219,463</b>		<b>33,972</b>	<b>6,253,435</b>		<b>29,336</b>	<b>6,282,771</b>	<b>20.7%</b>	<b>1,298,599</b>	<b>7,581,370</b>
Other Operating Revenues										
Lien Interest and Costs	544			544			544			544
Rental Income	92,717			92,717			92,717			92,717
Meters	361			361			361			361
Sewer Reimb - Meter Shop	188,531			188,531	REB	(17,623)	170,908			170,908
Misc. Revenue	29,161			29,161			29,161			29,161
Reconnection Fees	22,496			22,496			22,496			22,496
State Aid for Pension Expense	52,581			52,581			52,581			52,581
<b>Total Other Revenues</b>	<b>386,390</b>		<b>-</b>	<b>386,390</b>		<b>(17,623)</b>	<b>368,767</b>		<b>-</b>	<b>368,767</b>
<b>Total Inside City</b>	<b>\$ 6,605,853</b>		<b>\$ 33,972</b>	<b>\$ 6,639,825</b>		<b>\$ 11,713</b>	<b>\$ 6,651,538</b>	<b>19.5%</b>	<b>\$ 1,298,599</b>	<b>\$ 7,950,137</b>

CITY OF LANCASTER - WATER FUND

STATEMENT OF OPERATING REVENUES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND FEBRUARY 29, 2016  
AND THE CALCULATION OF THE PROPOSED REVENUE INCREASE FROM INSIDE-CITY AND OUTSIDE-CITY CUSTOMERS BY CUSTOMER CLASSIFICATION

Pursuant To Subsection 53.53 Exhibit D II(2) of Tariff Regulations

Customer Classification (1)	Revenues Per Books, 12 Months Ended 31-Dec-13 (2)	Historic Test Year Pro Forma Adjustments Under Present Rates*		Pro Forma, Present Rates, 31-Dec-13 (5)	Future Test Year Pro Forma Adjustments Under Present Rates		Pro Forma, Present Rates 29-Feb-16 (8)	Under Settlement Rates, Supplement No. 45 to Tariff Water Pa-PUC No. 6		Pro Forma, Settlement Rates 29-Feb-16 (11)
		Ref. (3)	Amount (4)		Ref. (6)	Amount (7)		Increase		
								Percent (9)	Amount (10)	
<b>OUTSIDE-CITY</b>										
Sales of Water										
Residential	\$ 6,867,855	R2	\$ 32,224	\$ 6,900,079	R5	\$ 123,077	\$ 7,023,156	28.8%	\$ 2,022,431	\$ 9,045,587
Commercial	5,179,648	R2,R3	8,148	5,187,796	R5	\$ 62,766	5,250,562	28.8%	1,510,562	6,761,125
Industrial	842,992			842,992	R5	\$ (13,030)	829,962	36.9%	305,932	1,135,894
Large Industrial	430,096			430,096			430,096	40.4%	173,890	603,986
Other Water Utilities	304,518			304,518			304,518	24.0%	73,228	377,746
Private Fire Protection	254,208	R3	\$ 1,670	255,878	R7	2,905	258,783	44.1%	114,004	372,787
<b>Total Sales of Water</b>	<b>13,879,317</b>		<b>42,043</b>	<b>13,921,360</b>		<b>175,718</b>	<b>14,097,078</b>	<b>29.8%</b>	<b>4,200,047</b>	<b>18,297,125</b>
Other Operating Revenues										
Lien Interest and Costs	1,318			1,318			1,318			1,318
Rental Income	224,697			224,697			224,697			224,697
Meters	800			800			800			800
Sewer Reimb - Meter Shop	38,178			38,178	REB	(3,569)	34,609			34,609
Misc. Revenue	70,672			70,672			70,672			70,672
Inspection Fees	1,800			1,800			1,800			1,800
Reconnection Fees	7,049			7,049			7,049			7,049
State Aid for Pension Expense	115,463			115,463			115,463			115,463
<b>Total Other Revenues</b>	<b>459,977</b>		<b>-</b>	<b>459,977</b>		<b>(3,569)</b>	<b>456,409</b>	<b>0.0%</b>	<b>-</b>	<b>456,409</b>
<b>Total Outside City</b>	<b>14,339,294</b>		<b>42,043</b>	<b>14,381,337</b>		<b>172,150</b>	<b>14,553,487</b>	<b>28.9%</b>	<b>4,200,047</b>	<b>18,753,534</b>
<b>Total Inside &amp; Outside City</b>	<b>\$20,945,148</b>		<b>\$ 76,014</b>	<b>\$21,021,162</b>		<b>\$183,863</b>	<b>\$21,205,025</b>	<b>25.9%</b>	<b>\$ 5,498,646</b>	<b>\$ 26,703,670</b>



CITY OF LANCASTER - BUREAU OF WATER

SUMMARY OF APPLICATION OF PRESENT AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS AS OF 12/31/2013  
AND PRO FORMA REVENUES UNDER SETTLEMENT RATES AS OF 2/29/2016

Customer Classification	Revenues Per Books, 31-Dec-13	Application of Present Rates to Bill Analysis	Adjustment Factor	Application of Settlement Rates to Bill Analysis	Adjusted Revenues at Settlement Rates	Historic Test Year Pro Forma Adjustments Under Settlement Rates*		Pro Forma, Settlement Rates, 31-Dec-13	Future Test Year Pro Forma Adjustments Under Settlement Rates*		Pro Forma, Settlement Rates 29-Feb-16
						Ref.	Amount		Ref.	Amount	
(1)	(2)	(3)	(4)=(2)/(3)	(5)	(6)=(5)X(4)	(7)	(8)	(9)	(10)	(11)	(12)
<b>INSIDE-CITY</b>											
Residential	\$ 3,202,683	\$ 3,198,946	1.001168	\$ 3,909,409	\$ 3,913,976	R8	\$ (2,006)	\$ 3,911,970	R11	\$ (11,313)	\$ 3,900,657
Commercial	2,390,050	2,387,262	1.001168	2,855,942	2,859,278	R8,R10	31,670	2,890,949	R11	3,237	2,894,185
Industrial	422,938	422,445	1.001168	533,278	533,901	R8	10,977	544,878			544,878
Private Fire	203,792	203,554	1.001170	203,554	203,792	R10	1,971	205,763	R13	35,866	241,650
Total Inside	6,219,463	6,212,206		7,502,183	7,510,947		42,613	7,553,560		27,810	7,581,370
<b>OUTSIDE-CITY</b>											
Residential	\$ 6,867,855	\$ 6,859,841	1.001168	\$ 8,835,243	\$ 8,845,565	R9,R10	\$ 41,503	\$ 8,887,068	R12	\$ 158,519	\$ 9,045,587
Commercial	5,179,648	5,173,604	1.001168	6,661,922	6,669,705	R9,R10	\$ 10,597	6,680,302	R12	80,822	6,761,125
Industrial	842,992	842,008	1.001169	1,152,381	1,153,727			1,153,727	R12	(17,833)	1,135,894
Large Industrial	430,096	429,594	1.001168	603,281	603,986			603,986			603,986
Other Water Utilities	304,518	304,163	1.001168	377,305	377,746			377,746			377,746
Private Fire	254,208	\$ 253,912	1.001165	365,770	366,196	R10	2,406	368,602	R14	4,185	372,787
Total Outside	13,879,317	13,863,122		17,995,903	18,016,925		54,506	18,071,431		225,694	18,297,125
<b>Total Sale of Water</b>	<b>\$ 20,098,780</b>	<b>\$ 20,075,328</b>		<b>\$ 25,498,086</b>	<b>\$ 25,527,872</b>	<b>\$ -</b>	<b>\$ 97,119</b>	<b>\$ 25,624,991</b>		<b>\$ 253,504</b>	<b>\$ 25,878,495</b>

CITY OF LANCASTER - WATER FUND  
HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS  
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation	HTY Adjustment Increase (Decrease)
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R8 To annualize Inside-City Operating Revenues for the net gain or loss in the number of customers during the twelve months ended 12/31/2013, under proposed rates.

Customer Classification	Number of Customers 31-Dec-12	Number of Customers 31-Dec-13	Customer Gain/(Loss)	Average Annual Bill, Proposed Rates	Annualized Revenue Adjustment (Half Year)	
(1)	(2)	(3)	(4)	(5)	(6)	
Residential	14,677	14,662	(15)	\$ 267.45	\$ (2,006)	\$ (2,006)
Commercial	1,879	1,878	(1)	1,471.25	(736)	(736)
Industrial	43	45	2	10,976.56	10,977	10,977
<hr/>						-
Total	16,599	16,585	(14)		8,235	

R9 To annualize Outside-City Operating Revenues for the net gain or loss in the number of customers during the twelve months ended 12/31/2013, under proposed rates.

Customer Classification	Number of Customers 31-Dec-12	Number of Customers 31-Dec-13	Customer Gain/(Loss)	Average Annual Bill, Proposed Rates	Annualized Revenue Adjustment (Half Year)	
(1)	(2)	(3)	(4)	(5)	(6)	
Residential	27,154	27,411	257	\$ 322.98	\$ 41,503	\$ 41,503
Commercial	1,820	1,825	5	3,544.83	8,862	8,862
Industrial	66	66	-	16,211.68	-	-
<hr/>						-
Total	29,040	29,302	262		50,365	

CITY OF LANCASTER - WATER FUND  
HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS  
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation			HTY Adjustment Increase (Decrease)				
R10	To impute Inside-City and Outside-City operating revenues for City-owned properties not recorded by the City under proposed rates.							
		<u>Customer Classification</u>	<u>Number of Bills</u>	<u>Usage, 1,000 Gals.</u>	<u>Proposed Rates</u>	<u>Revenue</u>		
		<u>INSIDE-CITY - Commercial</u>						
		5/8" Quarterly	12		\$ 16.65	\$ 200		
		3/4" Quarterly	8		16.65	133		
		1-1/2" Quarterly	24		69.60	1,670		
		2" Quarterly	40		108.60	4,344		
		4" Quarterly	8		334.80	2,678		
		6" Quarterly	8		666.00	5,328		
		Consumption						
		First Block		3,266	3.7900	12,378		
		Second Block		1,826	3.1080	5,675		
		Subtotal	100	5,092		32,406	\$ 32,406	
		<u>INSIDE-CITY - Fire</u>						
		4" Monthly	24		25.51	612		
		6" Monthly	12		41.51	498		
		8" Monthly	12		71.79	861	1,971	
		Total	248	5,092		33,267		
		<u>OUTSIDE-CITY - Commercial</u>						
		2" Quarterly	8		108.60	869		
		Consumption						
		First Block		193	4.4890	866		
		Second Block		-	3.8240	0		
		Subtotal	8	193		1,735	1,735	
		<u>OUTSIDE-CITY - Fire</u>						
		12" Monthly	12		200.50	2,406	2,406	
			20	193		4,141		
		Total Historic Test Year, Pro Forma Operating Revenue Adjustments Under Proposed Rates						<u>\$ 97,119</u>

CITY OF LANCASTER WATER FUND  
FULLY PROJECTED FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS  
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation							FPFTY Adjustment Increase (Decrease)
R11	To adjust Inside-City Operating Revenues for the projected gain in the number of customers through February 29, 2016							
		Gain in Number of Customers, 12 Months Ended		Annual Average Gain in Customers	FPFTY* Gain/Loss in Customers	Average Annual Bill, Proposed Rates	FPFTY Revenue Adjustment	
		31-Dec-12	31-Dec-13					
	Residential	(24)	(15)	(19.5)	(42.3)	\$ 267.45	\$ (11,313)	\$ (11,313)
	Commercial	3	(1)	1.0	2.2	1,471.25	3,237	3,237
	Industrial	(2)	2	-	-	10,976.56	-	-
	Public	-	-	-	-	-	-	-
	<b>Total</b>	<b>(23)</b>	<b>(14)</b>	<b>(18.5)</b>	<b>(40.1)</b>		<b>(8,076)</b>	

R12 To adjust Outside-City Operating Revenues for the projected gain in the number of customers through February 29, 2016

		Gain in Number of Customers, 12 Months Ended		Annual Average Gain in Customers	FPFTY* Gain/Loss in Customers	Average Annual Bill, Proposed Rates	Annualized Revenue Adjustment	
		31-Dec-12	31-Dec-13					
	Residential	196	257	226.5	490.8	\$ 322.98	\$ 158,519	\$ 158,519
	Commercial	16	5	10.5	22.8	3,544.83	80,822	80,822
	Industrial	(1)	-	(0.5)	(1.1)	16,211.68	(17,833)	(17,833)
	<b>Total</b>	<b>211</b>	<b>262</b>	<b>236.5</b>	<b>512.5</b>		<b>221,509</b>	

\* Based on 26 months.

CITY OF LANCASTER WATER FUND  
FULLY PROJECTED FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS  
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation						FPFTY Adjustment Increase (Decrease)
R13	To adjust Inside-City Operating Revenues for projected gain in the number of private fire lines under proposed rates.						
<u>INSIDE-CITY - Private Fire Protection:</u>							
	Change in Number of Units,		Annual Average Gain in Units	FPFTY Gain/Loss in Customers	Proposed Rates	Revenue	
Size	31-Dec-12	31-Dec-13					
Monthly							
3-inch	-	-	-	-	\$ 17.51	-	
4-inch	1.0	-	0.5	1.1	25.51	337	
6-inch	4.0	2.0	3.0	6.5	41.51	3,238	
8-inch	2.0	(1.0)	0.5	1.1	71.79	948	
10-inch	-	-	-	-	96.35	-	
12-inch	-	-	-	-	139.19	-	
Quarterly							
3-inch	-	-	-	-	52.53	-	
4-inch	12.0	10.0	11.0	23.8	76.53	7,286	
6-inch	15.0	21.0	18.0	39.0	124.53	19,427	
8-inch	-	5.0	2.5	5.4	215.37	4,652	
10-inch	-	-	-	-	289.05	-	
Total	34.0	37.0	35.5	76.9		35,886	\$ 35,886

CITY OF LANCASTER WATER FUND  
FULLY PROJECTED FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS  
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation						FPFTY Adjustment Increase (Decrease)
R14	To adjust Outside-City Operating Revenues for projected gain in the number of private fire lines, under proposed rates.						
	<u>OUTSIDE-CITY</u>	<u>Change in Number of Units,</u>		<u>Annual Average Gain in Units</u>	<u>FPFTY Gain/Loss in Customers</u>	<u>Proposed Rates</u>	<u>Revenue</u>
	<u>Size</u>	<u>31-Dec-12</u>	<u>31-Dec-13</u>				
	<i>Monthly</i>						
	4-Inch	1	1	1.0	2.2	\$ 36.75	\$ 970
	6-Inch	5	2	3.5	7.6	59.80	5,454
	8-Inch	3	-1	1.0	2.2	103.41	2,730
	10-Inch	-1	1	0.0	0.0	138.79	-
	12-Inch	0	0	0.0	0.0	200.50	-
	<i>Quarterly</i>						
	4-Inch	-1	2	0.5	1.1	\$ 110.25	485
	6-Inch	-13	6	-3.5	-7.6	179.40	(5,454)
	8-Inch	-1	1	0.0	0.0	310.23	-
	10-Inch	0	0	0.0	0.0	416.37	-
	Total	-7	12	2.5	5.5	\$ 4,185	\$ 4,185
	Total Future Test Year, Pro Forma Operating Revenue Adjustments Under Proposed Rates						<u>\$ 253,504</u>

**CITY OF LANCASTER - BUREAU OF WATER  
INSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Residential - Quarterly</u>							
Service Charge							
5/8"	54,013	-	\$ 10.50	567,137	-	\$ 16.65	899,316
3/4"	3,819	-	10.50	40,100	-	16.65	63,586
1"	574	-	27.90	16,015	-	44.10	25,313
1 1/2"	52	-	43.80	2,278	-	69.60	3,619
2"	12	-	68.40	821	-	108.60	1,303
<b>Total - Service Charge</b>	<b>58,470</b>	<b>-</b>		<b>626,349</b>	<b>-</b>		<b>993,139</b>
First 75	-	763,620	\$ 3.3403	2,550,720	763,620	\$ 3.7900	2,894,120
Next 925 or 1,725	-	7,127	3.0696	21,877	7,127	3.1080	22,151
Over 1,000 or 1,800	-	-	2.0082	-	-	2.7300	0
		<u>770,747</u>		<u>2,572,597</u>	<u>770,747</u>		<u>2,916,271</u>
<b>Total Residential</b>	<b>58,470</b>	<b>770,747</b>		<b>\$ 3,198,946</b>	<b>770,747</b>		<b>\$ 3,909,409</b>
<u>Commercial - Quarterly</u>							
Service Charge							
5/8"	3,032	-	\$ 10.50	\$ 31,836	-	\$ 16.65	\$ 50,483
3/4"	1,534	-	10.50	16,107	-	16.65	25,541
1"	1,091	-	27.90	30,439	-	44.10	48,113
1 1/2"	498	-	43.80	21,812	-	69.60	34,661
2"	457	-	68.40	31,259	-	108.60	49,630
3"	19	-	135.30	2,571	-	214.50	4,076
4"	21	-	211.20	4,435	-	334.80	7,031
6"	11	-	420.00	4,620	-	666.00	7,326
<b>Total - Service Charge</b>	<b>6,663</b>	<b>-</b>		<b>143,079</b>	<b>-</b>		<b>226,860</b>
First 75	-	164,896	\$ 3.3403	550,802	164,896	\$ 3.7900	624,956
Next 925 or 1,725	-	22,779	3.0696	69,922	25,193	3.1080	78,300
Over 1,000 or 1,800	-	7,497	2.0082	15,055	5,083	2.7300	13,877
		<u>195,172</u>		<u>635,780</u>	<u>195,172</u>		<u>717,132</u>
<b>Subtotal</b>	<b>6,663</b>	<b>195,172</b>		<b>778,859</b>	<b>195,172</b>		<b>943,993</b>

**CITY OF LANCASTER - BUREAU OF WATER  
INSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Commercial - Monthly</u>							
Service Charge							
5/8"	72	-	\$ 3.50	\$ 252	-	\$ 5.55	\$ 400
3/4"	220	-	3.50	770	-	5.55	1,221
1"	325	-	9.30	3,023	-	14.70	4,778
1 1/2"	472	-	14.60	6,891	-	23.20	10,950
2"	1,322	-	22.80	30,142	-	36.20	47,856
3"	229	-	45.10	10,328	-	71.50	16,374
4"	391	-	70.40	27,526	-	111.60	43,636
6"	145	-	140.00	20,300	-	222.00	32,190
8"	82	-	221.70	18,179	-	351.60	28,831
10"	47	-	293.30	13,785	-	465.10	21,860
<b>Total - Service Charge</b>	<b>3,305</b>	<b>-</b>		<b>\$ 131,196</b>	<b>-</b>		<b>\$ 208,095</b>
First 25	-	75,800	\$ 3.3403	\$ 253,195	\$ 75,800	\$ 3.7900	\$ 287,282
Next 308 or 575	-	253,736	3.0696	778,868	314,110	3.1080	976,254
Over 333 or 575	-	221,663	2.0082	445,144	161,289	2.7300	440,319
	-	551,199		1,477,206	551,199		1,703,855
<b>Subtotal</b>	<b>3,305</b>	<b>551,199</b>		<b>1,608,403</b>	<b>551,199</b>		<b>1,911,950</b>
<b>Total Commercial</b>	<b>9,968</b>	<b>746,371</b>		<b>\$ 2,387,262</b>	<b>746,371</b>		<b>\$ 2,855,942</b>
<u>Industrial - Quarterly</u>							
Service Charge							
5/8"	24	-	\$ 10.50	\$ 252	-	\$ 16.65	\$ 400
3/4"	16	-	10.50	168	-	16.65	266
1"	12	-	27.90	335	-	44.10	529
1 1/2"	20	-	43.80	876	-	69.60	1,392
2"	38	-	68.40	2,599	-	108.60	4,127
4"		-	211.20	-	-	334.80	-
<b>Total - Service Charge</b>	<b>110</b>	<b>-</b>		<b>4,230</b>	<b>-</b>		<b>6,714</b>
First 75	-	3,286	\$ 3.3403	\$ 10,976	\$ 3,286	\$ 3.7900	\$ 12,454
Next 925 or 1,725	-	469	3.0696	1,440	469	3.1080	1,458
Over 1,000 or 1,800	-	-	2.0082	-	-	2.7300	-
	-	3,755		12,416	3,755		13,912
<b>Subtotal</b>	<b>110</b>	<b>3,755</b>		<b>\$ 16,646</b>	<b>3,755</b>		<b>\$ 20,626</b>



**CITY OF LANCASTER - BUREAU OF WATER  
INSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Industrial - Monthly</u>							
<i>Service Charge</i>							
5/8"	-	-	\$ 3.50	\$ -	-	\$ 5.55	\$ -
1"	-	-	9.30	-	-	14.70	-
1 1/2"	24	-	14.60	350	-	23.20	557
2"	96	-	22.80	2,189	-	36.20	3,475
3"	24	-	45.10	1,082	-	71.50	1,716
4"	24	-	70.40	1,690	-	111.60	2,678
6"	13	-	140.00	1,820	-	222.00	2,886
8"	12	-	221.70	2,660	-	351.60	4,219
10"	60	-	293.30	17,598	-	465.10	27,906
<b>Total - Service Charge</b>	<b>253</b>	<b>-</b>		<b>27,390</b>	<b>-</b>		<b>43,438</b>
First 25	-	5,642	\$ 3.3403	\$ 18,846	5,642	\$ 3.7900	\$ 21,383
Next 308 or 575	-	45,527	3.0696	139,750	65,403	3.1080	203,273
Over 333 or 575	-	109,458	2.0082	219,814	89,582	2.7300	244,559
	-	160,627		378,409	160,627		469,215
<b>Subtotal</b>	<b>253</b>	<b>160,627</b>		<b>405,799</b>	<b>160,627</b>		<b>512,652</b>
<b>Total Industrial</b>	<b>363</b>	<b>164,382</b>		<b>\$ 422,445</b>	<b>164,382</b>		<b>\$ 533,278</b>
<u>Private Fire - Quarterly</u>							
<i>Service Charge</i>							
3"	4		\$ 52.53	\$ 210		\$ 52.53	\$ 210
4"	328		76.53	25,102		76.53	25,102
6"	519		124.53	64,631		124.53	64,631
8"	164		215.37	35,321		215.37	35,321
10"	4		289.05	1,156		289.05	1,156
<b>Subtotal</b>	<b>1,019</b>			<b>\$ 126,420</b>			<b>\$ 126,420</b>
<u>Private Fire - Monthly</u>							
<i>Service Charge</i>							
3"	12		\$ 17.51	\$ 210		\$ 17.51	\$ 210
4"	312		25.51	7,959		25.51	7,959
6"	847		41.51	35,159		41.51	35,159
8"	351		71.79	25,198		71.79	25,198
10"	72		96.35	6,937		96.35	6,937
12"	12		139.19	1,670		139.19	1,670
<b>Subtotal</b>	<b>1,606</b>			<b>77,134</b>			<b>77,134</b>
<b>Total Private Fire</b>	<b>2,625</b>			<b>\$ 203,554</b>			<b>\$ 203,554</b>
<b>Total Inside</b>	<b>71,426</b>	<b>1,681,500</b>		<b>\$ 6,212,206</b>	<b>1,681,500</b>		<b>\$ 7,502,183</b>

**CITY OF LANCASTER - BUREAU OF WATER  
OUTSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Residential - Quarterly</u>							
<b>Service Charge</b>							
5/8"	76,262	-	\$ 10.50	\$ 800,751	-	\$ 16.65	\$ 1,269,762
3/4"	12,430	-	10.50	130,515	-	16.65	206,960
1"	20,490	-	27.90	571,671	-	44.10	903,609
1 1/2"	168	-	43.80	7,358	-	69.60	11,693
2"	68	-	68.40	4,651	-	108.60	7,385
3"	3	-	135.30	406	-	214.50	644
<b>Total - Service Charge</b>	<b>109,421</b>	<b>-</b>		<b>1,515,353</b>	<b>-</b>		<b>2,400,052</b>
First 75	-	1,423,005	\$ 3.7260	\$ 5,302,117	1,423,005	\$ 4.4890	\$ 6,387,869
Next 925 or 1,725	-	12,375	3.4240	42,372	12,375	3.8240	47,322
Over 1,000 or 1,800	-	-	2.2400	-	-	3.2470	-
	-	<b>1,435,380</b>		<b>5,344,489</b>	<b>1,435,380</b>		<b>6,435,191</b>
<b>Subtotal</b>	<b>109,421</b>	<b>1,435,380</b>		<b>\$ 6,859,841</b>	<b>1,435,380</b>		<b>\$ 8,835,243</b>
<u>Commercial - Quarterly</u>							
<b>Service Charge</b>							
5/8"	1,316	-	\$ 10.50	\$ 13,818	-	\$ 16.65	\$ 21,911
3/4"	634	-	10.50	6,657	-	16.65	10,556
1"	1,508	-	27.90	42,073	-	44.10	66,503
1 1/2"	601	-	43.80	26,324	-	69.60	41,830
2"	1,071	-	68.40	73,256	-	108.60	116,311
3"	43	-	135.30	5,818	-	214.50	9,224
4"	40	-	211.20	8,448	-	334.80	13,392
6"	64	-	420.00	26,880	-	666.00	42,624
8"	8	-	665.10	5,321	-	1,054.80	8,438
10"	-	-	879.90	-	-	1,395.30	-
<b>Total - Service Charge</b>	<b>5,285</b>	<b>-</b>		<b>\$ 208,595</b>	<b>-</b>		<b>\$ 330,788</b>
First 75	-	124,566	\$ 3.7260	\$ 464,133	124,566	\$ 4.4890	\$ 559,177
Next 925 or 1,725	-	56,905	3.4240	194,843	64,373	3.8240	246,162
Over 1,000 or 1,800	-	14,995	2.2400	33,589	7,527	3.2470	24,440
	-	<b>196,466</b>		<b>692,564</b>	<b>196,466</b>		<b>829,779</b>
<b>Subtotal</b>	<b>5,285</b>	<b>196,466</b>		<b>\$ 901,160</b>	<b>196,466</b>		<b>\$ 1,160,568</b>

**CITY OF LANCASTER - BUREAU OF WATER  
OUTSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Commercial - Monthly</u>							
Service Charge							
5/8"	65	-	\$ 3.50	\$ 228	-	\$ 5.55	\$ 361
3/4"	115	-	3.50	403	-	5.55	638
1"	501	-	9.30	4,659	-	14.70	7,365
1 1/2"	1,075	-	14.60	15,695	-	23.20	24,940
2"	3,055	-	22.80	69,654	-	36.20	110,591
3"	316	-	45.10	14,252	-	71.50	22,594
4"	432	-	70.40	30,413	-	111.60	48,211
6"	558	-	140.00	78,120	-	222.00	123,876
8"	472	-	221.70	104,642	-	351.60	165,955
10"	108	-	293.30	31,676	-	465.10	50,231
<b>Total - Service Charge</b>	<b>6,697</b>	<b>-</b>		<b>349,742</b>	<b>-</b>		<b>554,762</b>
First 25		156,157	\$ 3.7260	\$ 581,841	156,157	\$ 4.4890	\$ 700,989
Next 308 or 575		624,370	3.4240	2,137,843	822,243	3.8240	3,144,257
Over 333 or 575		537,062	2.2400	1,203,019	339,189	3.2470	1,101,347
		<u>1,317,589</u>		<u>3,922,703</u>	<u>1,317,589</u>		<u>4,946,593</u>
<b>Subtotal</b>	<b>6,697</b>	<b>1,317,589</b>		<b>4,272,444</b>	<b>1,317,589</b>		<b>5,501,355</b>
<b>Total Commercial</b>	<b>11,982</b>	<b>1,514,055</b>		<b>\$ 5,173,604</b>	<b>1,514,055</b>		<b>\$ 6,661,922</b>
<u>Industrial - Quarterly</u>							
Service Charge							
5/8"	8	-	\$ 10.50	\$ 84	-	\$ 16.65	\$ 133
3/4"	16	-	10.50	168	-	16.65	266
1"	36	-	27.90	1,004	-	44.10	1,588
1 1/2"	11	-	43.80	482	-	69.60	766
2"	44	-	68.40	3,010	-	108.60	4,778
4"	-	-	211.20	-	-	334.80	-
10"	4	-	879.90	3,520	-	1,395.30	5,581
<b>Total - Service Charge</b>	<b>119</b>	<b>-</b>		<b>8,267</b>	<b>-</b>		<b>13,112</b>
First 75	-	3,141	\$ 3.7260	\$ 11,703	3,141	\$ 4.4890	\$ 14,100
Next 925 or 1,725	-	3,903	3.4240	13,364	7,006	3.8240	26,791
Over 1,000 or 1,800	-	6,173	2.2400	13,828	3,070	3.2470	9,968
		<u>13,217</u>		<u>38,895</u>	<u>13,217</u>		<u>50,859</u>
<b>Subtotal</b>	<b>119</b>	<b>13,217</b>		<b>\$ 47,162</b>	<b>13,217</b>		<b>\$ 63,972</b>

**CITY OF LANCASTER - BUREAU OF WATER  
OUTSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Industrial - Monthly</u>							
Service Charge							
5/8"	24	-	\$ 3.50	\$ 84	-	\$ 5.55	\$ 133
1"	24	-	9.30	223	-	14.70	353
1 1/2"	48	-	14.60	701	-	23.20	1,114
2"	164	-	22.80	3,739	-	36.20	5,937
3"	12	-	45.10	541	-	71.50	658
4"	99	-	70.40	6,970	-	111.60	11,048
6"	72	-	140.00	10,080	-	222.00	15,984
8"	29	-	221.70	6,429	-	351.60	10,196
10"	24	-	293.30	7,039	-	465.10	11,162
<b>Total - Service Charge</b>	<b>496</b>	<b>-</b>		<b>\$ 35,807</b>	<b>-</b>		<b>\$ 56,786</b>
First 25	-	11,555	\$ 3.7260	\$ 43,054	11,555	\$ 4.4890	\$ 51,870
Next 308 or 575	-	61,928	3.4240	212,041	83,499	3.8240	319,300
Over 333 or 575	-	224,975	2.2400	503,944	203,404	3.2470	660,453
	-	298,458		759,039	298,458		1,031,623
<b>Subtotal</b>	<b>496</b>	<b>298,458</b>		<b>794,846</b>	<b>298,458</b>		<b>1,088,409</b>
<b>Total Industrial</b>	<b>615</b>	<b>311,675</b>		<b>\$ 842,008</b>	<b>311,675</b>		<b>\$ 1,152,381</b>
<u>Large Industrial - Monthly</u>							
Service Charge							
8"	12	-	\$ 221.70	\$ 2,660	-	\$ 351.60	\$ 4,219
10"	12	-	293.30	3,520	-	465.10	5,581
<b>Total - Service Charge</b>	<b>24</b>	<b>-</b>		<b>6,180</b>	<b>-</b>		<b>9,800</b>
First 25	-	600	\$ 3.7260	\$ 2,236	600	\$ 3.2020	\$ 1,921
Next 308 or 575	-	6,204	3.4240	21,242	9,408	3.2020	30,124
Over 333 or 575	-	178,543	2.2400	399,936	175,339	3.2020	561,435
	-	185,347		423,414	185,347		593,481
<b>Subtotal</b>	<b>24</b>	<b>185,347</b>		<b>429,594</b>	<b>185,347</b>		<b>603,281</b>
<u>Sales for Resale - Monthly</u>							
Service Charge							
4"	11	-	\$ 70.40	\$ 774	-	\$ 111.60	\$ 1,228
6"	24	-	140.00	3,360	-	222.00	5,328
<b>Total - Service Charge</b>	<b>35</b>	<b>-</b>		<b>4,134</b>	<b>-</b>		<b>6,556</b>
All Usage	-	107,153	\$ 2.800	\$ 300,028	107,153	\$ 3.460	\$ 370,749
	-	107,153		300,028	107,153		370,749
<b>Subtotal</b>	<b>35</b>	<b>107,153</b>		<b>\$ 304,163</b>	<b>107,153</b>		<b>\$ 377,305</b>

**CITY OF LANCASTER - BUREAU OF WATER  
OUTSIDE THE CITY**

**APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Present Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Consumption (6)	Settlement Rate (7)	Settlement Revenue (8)
<u>Private Fire - Quarterly</u>							
Service Charge							
4"	90		\$ 76.53	\$ 6,888		\$ 110.25	\$ 9,923
6"	568		124.53	70,733		179.40	101,899
8"	273		215.37	58,796		310.23	84,693
10"	25		289.05	7,226		416.37	10,409
Subtotal	956			143,643			206,924
<u>Private Fire - Monthly</u>							
Service Charge							
4"	156		\$ 25.51	\$ 3,980		\$ 36.75	\$ 5,733
6"	1,110.0		41.51	46,076		59.80	66,378
8"	624.0		71.79	44,797		103.41	64,528
10"	108.0		96.35	10,406		138.79	14,989
12"	36.0		139.19	5,011		200.50	7,218
Subtotal	2,034.0			110,269			158,846
Total Private Fire	2,990.0			253,912			365,770
Total Outside	125,067.0	3,553,610		\$ 13,863,122	3,553,610		\$ 17,995,903

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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SECRETARY'S BUREAU

PENNSYLVANIA PUBLIC UTILITY	:	DOCKET Nos. R-2014-2418872
COMMISSION	:	C-2014-2426000
v	:	C-2014-2400863
	:	
THE CITY OF LANCASTER-	:	
BUREAU OF WATER	:	

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**CITY OF LANCASTER  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT OF  
RATE INVESTIGATION**

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**TO ADMINISTRATIVE LAW JUDGE ANGELA T. JONES:**

The City of Lancaster (“City”), by and through Counsel, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement of Rate Investigation (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interest of the City and its water customers.

**A. BACKGROUND**

1. All active parties to this proceeding participated in settlement discussions and as result, the City, the Bureau of Investigation and Enforcement

("I&E"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") the Kellogg Company ("Kellogg") and Mr. Frank Kitzmiller ("Kitzmiller") have agreed upon the terms embodied in the foregoing Joint Petition.

2. The City of Lancaster Water System is a public water supply system owned and operated by the City of Lancaster, a Third Class City in the Commonwealth of Pennsylvania. Since 1836 the City has provided water service to its customers. The water system has expanded from its initial 22 customers in the City proper to a regional water system serving more than 46,000 customers, which includes all of the City, Lancaster Township, Manheim Township, Millersville Borough, West Lampeter Township and portions of East Lampeter, Pequea, Manor, West Hempfield, and East Hempfield Townships. The City water system also provides bulk water for resale to other public water suppliers through service agreements with The east Petersburg Borough Authority, Leola Sewer Authority and West Earl Authority.

3. On June 6, 2014, the City Filed Supplement No. 43 to Tariff Water-Pa. P.U.C. No. 6 requesting an increase of its total annual operating revenues of \$6,458,300 representing a rate increase of approximately 45 % for the City's jurisdictional customers. By Order entered July 9, 2014, the Commission



instituted a formal investigation to determine the lawfulness, justness and reasonableness of the City's existing and proposed rates, rules and regulations. The City's filing was originally suspended by operation of law until March 5, 2015, unless permitted by Commission order to become effective at an earlier date.

4. The case was assigned to Administrative Law Angela T. Jones for the purposes of conducting hearings and issuing a Recommended Decision.

5. A prehearing conference was held on July 24, 2014.

6. The Joint Petitioners engaged in several settlement discussions which resulted in the development of the settlement agreement set forth in the Joint Petition.

#### **B. TERMS AND CONDITIONS OF SETTLEMENT**

7. The City represents that the settlement reached by the parties is the result of extensive discovery, negotiations and compromises by all parties. The City submits that the settlement reached in this proceeding is in the public interest for the following reasons:

a. *Revenue Requirement* (Joint Petition ¶6) The settlement allows the City to increase operating revenues by approximately \$4,200,000 over existing revenues for outside customers. This settlement represents a reduction of \$2,258,300 from the City's filed request of \$6,458,300. The City's last general rate increase filing was in 2011. Since that time City customers have experienced stable rates for a period of three (3) years. It is also important to note that there was only one (1) customer complaint filed against the City's revenue increase request in this matter. This fact highlights the reasonableness of the settled revenue increase including the following:

b. *Lost and Unaccounted for Water* (Joint Petition ¶6 e) The City has agreed to evaluate its lost and unaccounted for water.

c. *Stay Out* (Joint Petition ¶6 b) The settlement provides for the City to refrain from filing a general base rate increase (with a general exception) until until 18 months following the Commission Order approving the rates proposed in this Settlement. Such a restriction provides for stable rates for the City customers for a significant period of time.

d. *FPFTY Filings* (Joint Petition ¶ 6 c) The Settlement provides that the City will provide to the Joint Petitioners and the Commission's Bureau of

Technical Iility Services (TUS) Fully Projected Future Test Year (“FPFTY”) updates to City Exhibits at 6 months and one (1) year after rates go into effect, plus updates at the time of the City’s next rate filing.

e. *DSIC FILINGS* (Joint Petition ¶ 6 d) The City agrees that if the City files for a Distribution System Improvement Charge (“DSIC”), that its first DSIC will be effective only after the balances of DSIC eligible accounts, net of plant funded with customer advances and customer contributions, exceed the February 29, 2016 levels of investment in plant additions projected by the City in this case.

f. *Rate Effective Date* (Joint Petition ¶ 6 g) The City agrees that the effective date of the agreed upon rate increase to be March 5, 2015.

8. Settlement of this rate case is consistent with the Commission’s stated policy to encourage negotiated settlements in lieu of incurring the time, expense and uncertainty of litigation.

9. Finally, the Settlement obviates the need for further litigation and possible appellate proceedings, thereby resulting in substantial savings for the joint Petitioners and the City’s customers.

**WHEREFORE**, the City of Lancaster represents that it fully supports the instant settlement as being in the public interest and respectfully requests that presiding Administrative Law Judge Jones recommend, and the Commission subsequently approve without modification, the proposed settlement as set forth in the Joint Petition.

Respectfully Submitted,



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*Counsel for the City of Lancaster*

Dated: November 24, 2014

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OCA

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION

v.

Docket No. R-2014-2418872  
C-2014-236055

LANCASTER WATER

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

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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 June 6, 2014, the City of Lancaster-Bureau of Water (Lancaster Water) filed Supplement No. 43 to Tariff Water - Pa. P.U.C. No. 6, to become effective August 5, 2014. The City, by filing this tariff supplement, sought Commission approval of rates and rate changes that would increase the level of rates that it charges for providing service to its customers. If the proposed tariff supplement were to become effective, Lancaster Water would have benefited from an opportunity to recover an estimated annual increase in base rate revenues of \$6,458,300

from its outside City customers. This represents an approximate 45.8% increase in Lancaster Water's annual revenues at present rates for outside City customers. Under Lancaster Water's proposal, the bill would have increased from \$58.94 to \$83.76 per quarter, or by 42.1% for the typical residential customer residing outside of the City using 13,000 gallons of water per quarter. Lancaster serves 29,305 outside-city water customers, of which 27,411 are residential in Lancaster Township, Manheim Township, Millersville Borough, West Lampeter Township, Pequea, and in portions of Manor, West Hempfield, and East Hempfield Townships and East Lampeter, Lancaster County, Pennsylvania.

On June 11, 2014, the Office of Consumer Advocate filed a Formal Complaint and Public Statement. In its Formal Complaint, the OCA submitted that a preliminary examination of Lancaster Water's rate increase request indicated that present rates and proposed charges, increases and changes in rates, rules and regulations contained within the request may be unjust, unreasonable, and in violation of law; may allow the City an opportunity to recover an excessive rate of return in violation of the Public Utility Code; may discriminate against certain customers; may compensate the City for providing inadequate service to some or all of its customers; and otherwise may be contrary to sound ratemaking principles and public policy. On June 26, 2014, I&E filed a Notice of Appearance. On June 27, 2014, the Office of Small Business Advocate filed a Formal Complaint and Public Statement. On July 14, 2014, a customer filed a formal complaint. On September 26, 2014, the Kellogg Company filed a Petition to Intervene.

Pursuant to 66 Pa.C.S. §1308(d), by Order entered on July 9, 2014, the filing was suspended by operation of law until March 5, 2015, unless permitted by Commission Order to become effective at an earlier date, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in the Tariff Filing.

The proceeding was assigned to Administrative Law Judge (ALJ) Angela Jones. On July 24, 2014, a prehearing conference was held and a litigation schedule was established. On September 4, 2014, the OCA and other non-City parties filed direct testimony. Rebuttal testimony was filed on September 25, 2014 and surrebuttal testimony was filed on October 10, 2014.

Pursuant to the Commission's policy of encouraging settlements that are in the public interest, the Joint Petitioners held discussions regarding the possibility of 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 City's PUC-jurisdictional ratepayers and is in the public interest.

## **II. RATES**

### **A. Revenue Increase**

The proposed settlement is designed to produce an increase in annual revenues of \$4,200,000 (29.8%), in lieu of the originally proposed \$6,458,300 increase (45.8%). Settlement ¶ 6. This compromise represents a reduction from Lancaster Water's original rate increase request. Based on the OCA's analysis of the City's filing, 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. This increase is appropriate when accompanied by other important conditions contained in the Settlement and yields a result that is just and reasonable.

Under the proposed Settlement the rates for a typical PUC-jurisdictional residential customer using 13,000 gallons of water per quarter will increase from \$58.94 to \$75.01 (27.3%) rather than \$83.76 (42.1%) as originally proposed.



## **B. Rate Effective Date and Stay Out**

The proposed settlement provides that the original suspension date of March 5, 2015 will be the effective date of rates under the settlement. Settlement ¶ 6g. This provision means that rates will not go into effect earlier than the beginning of the rate year resulting from the use of the City's fully projected future test year.

The proposed settlement prevents the City from filing a general rate increase, as that term is defined in Section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d), prior to eighteen (18) months after the entry date of the Commission's Order approving this Joint Petition for Settlement. Settlement ¶ 6b. The proposed stay-out provision should prevent another rate increase until July 2017 if the City files another rate case as soon as the stay-out expires and assuming the next case is fully litigated. Thus, the City's outside-City ratepayers will be assured of some level of rate stability.

## **C. Other Issues**

- Fully Projected Future Test Year

The City agrees to provide to the Joint Petitioners and the Commission's Bureau of Technical Utility Services (TUS) Fully Projected Future Test Year (FPFTY) updates to City Exhibits at 6 months and 1 year after rates go into effect, plus full updates at the time of the City's next rate filing.es. Settlement ¶ 6c. This provision will allow the Commission and the parties to review the actual level of plant additions and expenses compared to the claims made by the City in this case.

- Distribution System Improvement Charge (DSIC)

If the City files for a Distribution System Improvement Charge (DSIC) it agrees that its

first DSIC will be effective only after the balances of DSIC-eligible accounts, net of plant funded with customer advances and customer contributions, exceed the February 29, 2016 levels of investment in plant additions projected by the City in this case. Settlement ¶ 6d. This provision ensures that if the City files for a DSIC, then the DSIC will not include any eligible plant *claimed in this proceeding.*

- Unaccounted For Water

The City agrees to evaluate its lost and unaccounted-for-water. Settlement ¶ 6e. The City's evaluation will help to ensure that it manages the level of unaccounted for water in its system which should reduce chemical and power requirements.

**D. Rate Structure/Rate Design**

Joint Petitioners agree to the distribution of revenue among customer classes as set forth in the Proof of Revenues. Settlement Appendix B. Regarding the customer charges, for a 5/8 inch customer charge, the proposal is \$16.65 per quarter or \$5.55 per month. Settlement ¶ 6h. The City originally proposed a 5/8 inch customer charge of \$21 per quarter. The OCA's position in testimony was that the customer charge should be no more than \$14.00 per quarter. This provision represents a reasonable compromise of the parties' positions. Joint Petitioners agree that rates and charges set forth in Appendix B are just and reasonable and are in the public interest.

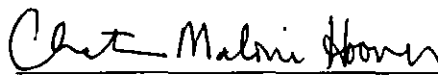
The City agreed to meet with representatives of the Kellogg Company following the Commission's final Order approving the rates proposed in this settlement to discuss the feasibility of initiating a competitive rider tariff for the City of Lancaster. Settlement ¶ 6f. The inclusion of this provision does not waive the rights of the OCA, BI&E, or the OSBA to take any position in any future competitive rider tariff filing regarding any resulting proposed competitive

tariff.

### III. CONCLUSION

For the foregoing reasons, the OCA respectfully requests that the Administrative Law Judge 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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"I&E"

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
	:	
<b>v.</b>	:	<b>DOCKET NO.</b>
	:	<b>R-2014-2418872 et al.</b>
<b>CITY OF LANCASTER - BUREAU OF WATER</b>	:	
	:	

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT  
OF RATE INVESTIGATION**

---

**TO ADMINISTRATIVE LAW JUDGE ANGELA T. JONES:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Deputy Chief Prosecutor, Richard A. Kanaskie, hereby respectfully submits that the terms and conditions of the foregoing *Joint Petition For Settlement Of Rate Investigation* (“Joint Petition” or “Settlement Agreement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interests of the City of Lancaster – Bureau of Water (“City”) and its customers. The parties to this Settlement Agreement have conducted extensive Formal and

Informal Discovery and have participated in numerous Settlement Conferences. The extensive discussions and sharing of information has culminated in the submission of the attached Settlement Agreement. The request for approval of the *Joint Petition For Settlement Of Rate Investigation* is based on the I&E conclusion that the Settlement Agreement meets all the legal and regulatory standards necessary for approval. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”<sup>1</sup> 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.”<sup>2</sup> The Settlement Agreement in the instant proceeding protects the public interest in that a comparison of the original filing submitted by the City and the negotiated agreement demonstrates that compromises are evident throughout the Joint Petition.

The Bureau of Investigation and Enforcement is of the opinion that the terms and conditions of the Joint Petition are in the public interest. In support of this position, I&E offers the following enumerated Comments:

## I. INTRODUCTION

1. On June 6, 2014, the City of Lancaster – Bureau of Water filed Supplement No. 43 to Tariff Water - Pa. P.U.C. No. 6 with the Pennsylvania Public Utility Commission (“PUC” or “Commission”), to become effective August 5, 2014. Supplement No. 43 to Tariff Water - Pa. P.U.C. No. 6, contains proposed changes in

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

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

rates, rules, and regulations calculated to produce \$6,458,300 in additional annual revenues for the customers located outside the City's limits and subject to the PUC.'s jurisdiction. This request, if approved by the Commission, represents a 45.8% increase over existing annual revenue.

2. On July 9, 2014, the Commission entered an Order instituting an investigation into the lawfulness, justness and reasonableness of the Company's proposed rates. Pursuant to 66 Pa. C.S. § 1308(d), Supplement No. 43 to Tariff Water - Pa. P.U.C. No. 6 was suspended by operation of law until March 5, 2015, unless permitted by Commission Order to become effective at an earlier date.

3. The Commission assigned the Company's filing to the Office of Administrative Law Judge (OALJ) for the development of an evidentiary record culminating in a Recommended Decision ("RD"). The OALJ subsequently assigned the suspended proceeding to Administrative Law Judge Angela T. Jones for investigation and scheduling of hearings to consider the lawfulness, justness and reasonableness of the Company's Rate increase request.

4. Pursuant to its charge to represent the public interest in matters impacting rates, I&E filed its initial Notice of Appearance on June 26, 2014. The I&E appearance was preceded by the Formal Complaint of the Office of Consumer Advocate ("OCA") dated June 11, 2014. The Office of Small Business Advocate ("OSBA") filed its Formal Complaint on June 27, 2014. In addition, a Formal Complaints was filed by Frank Kitzmiller at Docket No. C-2014-2435548.

5. A Prehearing Conference was held on July 24, 2014, at which time a procedural schedule was established. The procedural schedule included filing dates for Testimony, Main Briefs and Reply Briefs as well as dates for Evidentiary Hearings.

## II. DISCUSSION

6. In accordance with the Commission's policy at 52 Pa. Code §5.231 that encourages settlements over costly and time consuming litigation, I&E, OCA, OSBA, Kellogg, Mr. Kitzmiller and the City were successful in achieving a Settlement Agreement of all issues through comprehensive Discovery and several Settlement Conferences.

7. The Settlement Agreement provides for an increase of approximately \$4,200,000 to the Company's annual overall revenue. I&E has calculated this allowance as an increase of approximately 29.8% over pro forma test year jurisdictional annual revenue as originally presented in the Company's filing. The additional revenue in this proceeding is base rate revenue and 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.”<sup>3</sup>

This increased level of “Black Box” revenue adequately balances the interests of ratepayers and the City. The City will receive sufficient operating funds in order to provide safe and adequate service while ratepayers are protected as the resulting increase minimizes the impact of the initial proposal. The negotiated compromise represents approximately 66.1% of the City’s filed request. Mitigation of the level of the rate increase benefits ratepayers and results in rates that satisfy the regulatory standard. As such, this element supports the standard for approval of a settlement as the resulting rates are just and reasonable and in accordance with the Public Utility Code and all pertinent case law.

8. The Settlement Agreement provides that the Customer Charges in the Company’s proposed tariff will be modified to reflect the mitigated level of the overall increase. The residential customer charge will be set at \$16.65 per quarter or \$5.55 per

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<sup>3</sup> 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 Lewishurg, PA*, Docket No. R-2010-2172665.

month for 5/8 inch customers. It is important to allow the utility to recover the fixed portion of providing service through the implementation of the proper Customer Charge. This charge provides the City with a steady, predictable level of income which will allow for the proper maintenance and upkeep of the system. Establishing the proper levels protects ratepayers by ensuring that the City is not being overcompensated. Moderating the requested increase in this proceeding also benefits ratepayers as it allows them to reap a greater portion of the benefit of conservation. Shifting costs to the volumetric portion of a customer's bill allows for the immediate realization of the benefit of conserving usage. Designing rates to allow customers to have greater control of their water bills is in the public interest. The mitigated level of Customer Charge demonstrates a compromise of the interests of the parties. As such, this provision is in the public interest.

9. The Company also agrees that it will not file a base rate case, as defined in 66 Pa. C.S. §1308, prior to eighteen (18) months following the Commission's Order approving the rates proposed in this Joint Petition. This provision, however, does address increases that may be necessary due to substantial changes in regulatory or federal policies that may impact the Company. This provision does not apply to the filing of a Distribution System Improvement Charge ("DSIC") Petition and the applicable measures resulting from subsequent approval.

This "stay-out" provision will benefit ratepayers by providing a level of stability in their rates for the next eighteen (18) to twenty-four (24) months. Stability in rates is a benefit to all impacted parties. The City can make operational plans based on planned rates

while customers can budget their activities knowing that the cost of their services will not fluctuate for the next eighteen to twenty-four months.

10. Further protections are provided for ratepayers in the provision that if the City files for the implementation of a DSIC, it agrees that its first DSIC will be effective only after the balance of DSIC eligible accounts exceed the February 29, 2016 projected levels of plant additions claimed by the City in this case. Ratepayers are protected in that planned infrastructure replacements will continue utilizing funds planned for in base rates while subsequent improvements may utilize the DSIC. In other words, DSIC eligible improvements will be incremental to the already planned capital expenditures.

11. Furthermore, the Joint Petition for Settlement provides that the City will evaluate its Lost and Unaccounted for Water (“LUFW”). Evaluating and addressing the City’s Lost and Unaccounted for Water levels will allow for a better understanding of the sources of concern enabling remedial measures to be undertaken where feasible.

Addressing LUFW will protect ratepayers from imprudent costs associated with water that is treated and processed but not used. The Commission’s Regulations provide guidelines as to acceptable levels of LUFW and the City’s agreement to evaluate its current situation will assist both the City and its ratepayers.

12. The City’s agreement to meet with representatives of Kellogg is prudent and in the public interest as it will allow for an evaluation of the cost measures associated with providing service to this customer. Customers benefit from the retention of larger users as long as unreasonable rate subsidies do not exist. Discussions between the City

and Kellogg will allow for the exchange of the information necessary to evaluate this situation.

13. While current regulatory practices allow for the use of a Fully Projected Future Test Year (“FPFTY”), safeguards are necessary. I&E maintains that it is important to have the City provide interim reports until the filing of its next anticipated base rate case in order to be able to timely review and verify the status of its’ rate base projections. In paragraph 6(e) of the Joint Petition, the City agreed to provide to I&E, OCA, OSBA, and the Commission’s Bureau of Technical Utility Services (TUS), updates to the City’s exhibits at six (6) months and one (1) year after rates go into effect. In addition, the City agreed to provide full updates at the time of its next base rate case filing. I&E fully supports this term because it achieves I&E’s goal of timely receiving data sufficient to allow for the evaluation and confirmation of the accuracy of the City’s projections in advance of its next base rate case filing.

14. The remaining issues raised in the I&E Prehearing Memo have been satisfactorily resolved through Discovery and discussions with the City and are incorporated into the “Black Box” resolution of the revenue requirement in this proceeding. The very nature of a settlement agreement incorporates compromise on the part of all parties. This particular Settlement Agreement exemplifies this principle. In addition, a “Black Box” settlement makes the specific identification of the resolution of disputed issues impossible. Each signatory acknowledges the ultimate revenue allowance but makes no representation as to how this addition to base rate revenue was achieved. Because of the characteristics of

“Black Box” settlements, no representation of the resolution of any issue not specifically identified is possible in future proceedings.

### III. CONCLUSION

15. Based on I&E’s analysis of the base rate revenue increase requested by the City of Lancaster – Water Bureau, acceptance of this proposed Joint Petition is in the public interest. Resolution of these provisions by settlement rather than continued litigation will avoid the additional time and expense involved in formally pursuing all issues in this proceeding. Pursuing litigation through to its conclusion would have driven expenses even higher which may have impacted the agreed upon increase in revenue. As litigation of this rate case is a recoverable expense, curtailment of these charges is in the public interest.

16. I&E further submits that acceptance of the foregoing Settlement Agreement will negate the need to engage in additional litigation including the preparation of multiple levels of testimony as well as Main Briefs, Reply Briefs, Exceptions and Reply Exception. The avoidance of further rate case expense by settlement of these provisions in this Base Rate Investigation proceeding best serves the interests of the City and its customers.

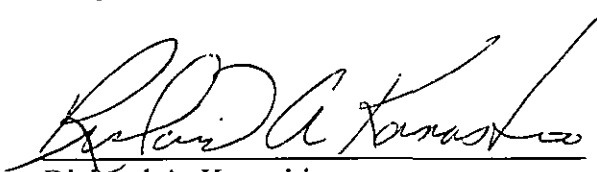
17. The Settlement Agreement is conditioned upon the Commission’s approval of all terms and conditions contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by I&E, or any of the signatories.

18. I&E agrees to settle the disputed issue as to the proper level of additional base rate revenue through a “Black Box” agreement with limited exceptions. 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 or the continuation of this litigation in the event the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

19. If the ALJ recommends that the Commission adopt the Settlement Agreement as proposed, I&E has agreed to waive the right to file Exceptions. However, I&E has not waived its rights to file Exceptions with respect to any modifications to the terms and conditions of the Settlement Agreement, or any additional matters, that may be proposed by the ALJ in her Recommended Decision. I&E also reserves the right to file Reply Exceptions to any Exceptions that may be filed by any active party to this proceeding.

**WHEREFORE**, the Commission's Bureau of Investigation and Enforcement represents that it supports the *Joint Petition For Settlement Of Rate Investigation* as being in the public interest and respectfully requests that Administrative Law Judge Angela T. Jones recommend, and the Commission subsequently approve, the foregoing Settlement Agreement, including all terms and conditions contained therein.

Respectfully submitted,



Richard A. Kanaskie  
Deputy Chief Prosecutor  
Attorney ID #80409

Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement  
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Dated: November 21, 2014

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY  
COMMISSION**

**v.**

**CITY OF LANCASTER –  
BUREAU OF WATER**

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**DOCKET NO. R-2014-2418872**

**STATEMENT OF  
THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN SUPPORT OF THE  
JOINT PETITION FOR SETTLEMENT OF RATE INVESTIGATION**

**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. 43 to Tariff Water-Pa. P.U.C. No. 6 (“Supplement No. 43”) which was filed with the Pennsylvania Public Utility Commission (“Commission”) on June 6, 2014, by the City of Lancaster – Bureau of Water (the “City”). Supplement No. 43 reflects a general rate increase in water rates of \$6,458,300 per year.

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

**The Joint Petition**

The *Joint 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 *Joint Petition* was in the best interests of the City's outside small business customers.

Revenue Allocation

Because the City's requested increase is over \$1 million, the City submitted a cost of service study ("COSS") with its June 6<sup>th</sup> filing. *See generally* 52 Pa. Code § 53.53. Based upon that COSS, the City allocated its originally proposed overall revenue increase to its outside customer classes. Mr. Kalcic summarized the City's original COSS, as follows:

As shown in Table 1 below, the City's proposal would move all outside-City classes to full cost of service (within rounding) based on the City's filed cost-of-service study ('COSS').

OSBA Statement No. 1, at 3. Mr. Kalcic's Table 1 is set forth below:

**Table 1**  
Comparison of Proposed Revenues to Cost of Service  
Outside-City Customers

<i>Class</i>	<i>Filed Cost of Service</i>	<i>Proposed Revenue</i>	<i>Difference</i>
	(1)	(2)	(3) = (1) - (2)
Residential	\$10,189,738	\$10,189,240	\$498
Commercial	\$7,548,832	\$7,548,974	(\$142)
Industrial	\$1,283,259	\$1,283,334	(\$75)
Lrg. Industrial	\$686,624	\$686,341	\$283
Oth. Water Util.	\$412,573	\$412,717	(\$144)
Private Fire	<u>\$434,351</u>	<u>\$434,772</u>	<u>(\$421)</u>
Tot. Outside City	\$20,555,377	\$20,555,378	(\$1)

*Id.*

Mr. Kalcic also explained how the City's COSS was updated during this proceeding:

The City reran its COSS as part of its response to I&E-RE-20, which requested that the City update various schedules to reflect the City's acceptance of certain adjustments identified by the OCA.

OSBA Statement No. 1, at 3.

After the City updated its COSS in response to the Bureau of Investigation and Enforcement ("I&E") interrogatory number 20, using the adjustments advocated by the Office of Consumer Advocate ("OCA"), Mr. Kalcic observed:

The COSS run contained in I&E-RE-20 shifts approximately \$68,000 of revenue responsibility from outside- to inside-City customers, compared to the City's filed case.

*Id.*

Ultimately, Mr. Kalcic continued, as follows:

I recommend that the outside-City class revenues be set at full cost of service, as determined by the COSS provided in response to I&E-RE-20.

OSBA Statement No. 1, at 4.

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

In that event, I would recommend that the outside-City (jurisdictional) portion of overall awarded increase be allocated to classes in proportion to the increases shown in column 3 of Schedule BK-2.

*Id.*

Mr. Kalcic's Schedule BK-2 is set forth below as Table 2:

**Table 2**  
OSBA Recommended Increases to  
Outside-City Customers

<i>Class</i>	<i>Present Revenue</i>	<i>Recommended Increases</i>	<i>Percent Increase</i>
	(1)	(2)	(3) = (2) / (1)
Residential	\$7,023,156	\$3,133,108	44.6%
Commercial	\$5,250,562	\$2,276,789	43.4%
Industrial	\$829,962	\$451,371	54.4%
Lrg. Industrial	\$430,096	\$256,269	59.6%
Oth. Water Util.	\$304,518	\$106,694	35.0%
Private Fire	<u>\$258,783</u>	<u>\$166,312</u>	64.3%
Tot. Outside City	\$14,097,077	\$6,390,543	45.3%

When Mr. Kalcic's proposed revenue allocation is compared to the *Joint Petition's* revenue allocation set forth on page 3 of Appendix B, it is apparent that the *relative class* increases contained in the *Joint Petition* are in line with those recommended by Mr. Kalcic. For example, the relative Commercial increase recommended by Mr. Kalcic is 43.4% divided by 45.3%, or 0.96 times the overall outside-City average increase. The proposed Commercial increase shown in Appendix B to the *Joint Petition* is 28.8%, which is 0.97 times the overall outside-City average increase of 29.8%. Therefore, the OSBA concludes that the revenue allocation proposed by the *Joint Petition* is consistent with Mr. Kalcic's testimony and represents a fair and reasonable resolution of this issue.

**GMS Rate Structure**

In his direct testimony, Mr. Kalcic described the City's current general metered service ("GMS") rate structure for outside-city customers:

The City's GMS rate schedule contains a three-step declining block consumption charge that applies to all (i.e., Residential, Commercial and Industrial) GMS customers. In addition, GMS customers pay a (fixed) customer charge that varies by meter size.

OSBA Statement No. 1, at 4.

Mr. Kalcic continued, as follows:

In compliance with the Commission's order in Docket No. R-2010-2179103, the City evaluated the propriety of its existing declining block rate structure for GMS customers. As a result of that evaluation, the City is proposing to: 1) modify the size of its second and third GMS rate blocks; and 2) establish a separate rate schedule for Large Industrial customers.

*Id.* (footnote omitted).

Mr. Kalcic explained the rationale for this proposed change:

The City states that its largest industrial customer consumes nearly double the amount of water as its next largest customer, and exhibits a more uniform month-to-month usage pattern than the class as a whole. As a result, the City determined that the a separate *Large Industrial* rate schedule was necessary in order to recover the Large Industrial class's allocated cost of service from large industrial customers (i.e., set class revenues at full cost of service).

OSBA Statement No. 1, at 5. Mr. Kalcic also observed:

[T]he adjusted rate blocks will now enable the City to set other GMS class revenues at full cost of service.

OSBA Statement No. 1, at 5 (footnote omitted).

Ultimately, Mr. Kalcic supported the GMS rate structure change proposed by the City. See OSBA Statement No. 1, at 5. As shown on page 1 of Appendix B, the *Joint Petition* proposes to adopt these changes. Therefore, consistent with Mr. Kalcic's testimony, the *Joint Petition's* proposal to alter the City's GMS rate structure is a just and reasonable resolution of this issue.

**Special Rates for Kellogg's**

The *Joint Petition* states, as follows:

The City agrees that it will meet with representatives of the Kellogg Company following the Commission's final Order approving the rates proposed in this settlement to discuss the feasibility of initiating a competitive rider tariff for the City of Lancaster.

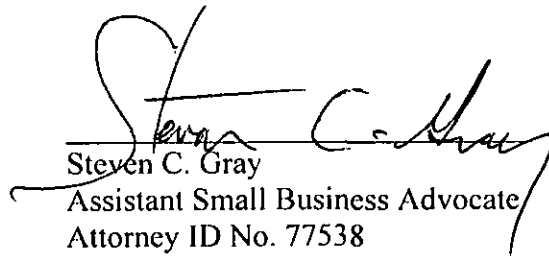
*Joint Petition*, Paragraph 6f.

However, any such competitive rider tariff would require a filing by the City with the Commission. Paragraph 6f specifically notes that the OSBA reserves all rights to respond to that potential filing in any manner this office deems appropriate.

**Conclusion**

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

Respectfully submitted,

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

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Dated: November 21, 2014

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission	:	Docket Nos.	R-2014-2418872
Office of Consumer Advocate	:		C-2014-2426000
Office of Small Business Advocate	:		C-2014-2400863
	:		C-2014-2435548
v.	:		
	:		
City of Lancaster – Bureau of Water	:		
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**STATEMENT IN SUPPORT OF  
KELLOGG COMPANY**

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Kellogg Company ("Kellogg"), by and through its counsel, submits that the Joint Petition for Settlement ("Joint Petition" or "Settlement"), recently filed in the above-captioned proceeding with the Pennsylvania Public Utility Commission ("PUC" or "Commission"), reflects a settlement among the Joint Petitioners with respect to the City of Lancaster – Bureau of Water's ("City"), June 6, 2014, filing of Supplement No. 43 to Tariff Water – Pa. P.U.C. No. 6, which sought to increase the City's total annual operating revenues by approximately \$6.46 million. As a result of settlement discussions, the City, Kellogg, the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the PUC Bureau of Investigation and Enforcement ("I&E), and Frank Kitzmiller (collectively, "Parties" or "Joint Petitioners") have agreed upon the terms embodied in the foregoing Joint Petition. Kellogg offers this Statement in Support to further demonstrate that the Settlement is in the public interest and should be approved without modification.

## I. BACKGROUND

1. On June 6, 2014, the City filed Supplement No. 43 to Tariff Water – Pa. P.U.C. No. 6 ("Supplement No. 43), which contained proposed changes in rates, rules, and regulations calculated to produce approximately \$6.46 million, or 45.8%, in additional revenues.

2. On September 26, 2014, Kellogg submitted a Petition to Intervene at Docket No. R-2014-2418872 ("Intervention). As noted in Paragraph 3 of Kellogg's Intervention, Kellogg receives service from the City and uses substantial volumes of water in its manufacturing and operational processes. As a result, Kellogg was concerned that the proposed increase would have a significant adverse impact upon its operations.

3. On or about October 17, 2014, the Parties informed the Administrative Law Judge ("ALJ") that a unanimous settlement in principle had been reached on all issues.

## II. STATEMENT IN SUPPORT

4. The Commission has a strong policy favoring settlements. As set forth in the PUC's regulations, "[t]he Commission encourages parties to seek negotiated settlements of contested proceedings in lieu of incurring the time, expense and uncertainty of litigation." 52 Pa. Code § 69.391; *see also* 52 Pa. Code § 5.231. Consistent with the Commission's Policy, the Joint Petitioners engaged in several negotiations to resolve the issues raised by various parties. These ongoing discussions produced the foregoing Settlement.

5. The Joint Petitioners agree that approval of the proposed Settlement is overwhelmingly in the best interest of the parties involved.

6. The Joint Petitioners agree that the City should be authorized to file a tariff supplement containing the rates set forth in the Joint Petition.

7. The Joint Petitioners agree that the \$4.2 million rate increase achieved in the Joint Petition is just, reasonable, and in the public interest.

8. The Joint Petitioners agree that this resulting rate increase should be allocated pursuant to the terms of the Settlement.

9. *The Joint Petition is in the public interest for the following reasons:*

- a. As a result of the Joint Petition, expenses incurred by the Joint Petitioners and the Commission for completing this proceeding will be less than they would have been if the proceeding had been fully litigated.
- b. Uncertainties regarding further expenses associated with possible appeals from the Final Order of the Commission are avoided as a result of the Joint Petition.
- c. The Joint Petition results in an increase in the City's rates by \$4.2 million, which is approximately 65% of the Company's original request of \$6,458,300.
- d. The Joint Petition provides a just and reasonable means by which to allocate the resulting increase.
- e. The Joint Petition reflects compromises on all sides presented without prejudice to any position any Joint Petitioner may have advanced so far in this proceeding. Similarly, the Joint Petition is presented without prejudice to any position any party may advance in future proceedings involving the Company.

10. In addition, the Joint Petitioner specifically satisfies the concerns of Kellogg by: (1) lowering the revenue increase amount by approximately 35%; and (2) memorializing the City's commitment to meet with Kellogg representatives following the Commission's final Order approving the rates proposed in this Joint Petition to discuss the feasibility of initiating a competitive tariff rider for the City.

11. Kellogg supports the foregoing Joint Petition because it is in the public interest; however, in the event that the Joint Petition is rejected by the ALJ or the Commission, Kellogg will resume its litigation position, which differs from the terms of the Joint Petition.

12. As set forth above, Kellogg submits that the Settlement is in the public interest and adheres to Commission policies promoting negotiated settlements. The Settlement was achieved after numerous settlement discussions. Although Joint Petitioners have invested time and resources in the negotiation of the Joint Petition, this process has allowed the parties, and the Commission, to avoid expending the substantial resources that would have been required to fully litigate this proceeding while still reaching a just, reasonable, and non-discriminatory result. Joint Petitioners have thus reached an amicable solution to this dispute as embodied in the Settlement. Approval of the Settlement will permit the Commission and Joint Petitioners to avoid incurring the additional time, expense, and uncertainty of further current litigation of a number of major issues in this proceeding. *See* 52 Pa. Code § 69.391.

### III. CONCLUSION

**WHEREFORE**, the Kellogg Company respectfully request that the Administrative Law Judge and the Commission approve the Joint Petition for Settlement without modification.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By 

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Counsel to the Kellogg Company

Dated: November 24, 2014

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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants, listed below, in the manner indicated below, and in accordance with the requirements of § 1.54 (relating to service by a party).

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Dated: November 24, 2014

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