

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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January 26, 2015

Honorable Jeffrey Watson  
Office of Administrative Law Judge  
301 Fifth Avenue  
Suite 220, Piatt Place  
Pittsburgh, PA 15222

Re: Office of Consumer Advocate  
v.  
Pennsylvania-American Water  
Company Wastewater Operations  
Docket No. P-2014-2431005

Dear Judge Watson:

Enclosed please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink that reads "Christine Maloni Hoover".

Christine Maloni Hoover  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 50026  
E-Mail: CHoover@paoca.org

Enclosure

cc: Rosemary Chiavetta, Secretary  
Certificate of Service

CERTIFICATE OF SERVICE

Re: Petition of Pennsylvania-American Water Company Wastewater Operations  
For Approval of Long Term Infrastructure Improvement Plan and Approval to  
Establish and Implement a Distribution System Improvement Charge  
Docket No. P-2014-2431005

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

Dated this 26th day of January, 2015.


SERVICE BY EMAIL AND FIRST CLASS MAIL, POSTAGE PREPAID

John Cox, Manager  
Susan Simms Marsh, Esq.  
Pennsylvania American Water  
800 West Hersheypark Drive  
Hershey, PA 17033

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Office of Small Business Advocate  
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300 North Second Street  
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Mary Jane Stigliano  
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Christine Maloni Hoover  
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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pennsylvania-American Water :  
Company Wastewater Operations For :  
Approval of Long Term Infrastructure : Docket No. P-2014-2431005  
Improvement Plan and Approval to Establish :  
And Implement a Distribution System :  
Improvement Charge :

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PREHEARING MEMORANDUM  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333 and in accordance with the Prehearing Conference Notice issued on January 12, 2015, the Office of Consumer Advocate (OCA) provides the following:

I. BACKGROUND

On July 3, 2014, Pennsylvania-American Water Company Wastewater Operations (PAWC Wastewater or the Company) filed a Petition for approval of its Long Term Infrastructure Improvement Plan (LTIIIP) and Approval of a Distribution System Improvement Charge (DSIC). 66 Pa. C.S. §§ 1352, 1353(b). On July 23, 2014, the OCA filed Comments on the LTIIIP and an Answer, Formal Complaint and Public Statement in response to the DSIC. The Office of Small Business Advocate (OSBA) filed an Answer, Notice of Intervention, and Complaint and Public Statement on the same date.

On December 4, 2014, the Commission issued an Opinion and Order regarding the LTIIIP and the DSIC. By the Order entered on that date, the Commission approved the Company's

LTIP, consistent with its Order. The Commission also approved the Company's proposed DSIC, consistent with its Order, subject to recoupment and/or refund pending final resolution of certain issues raised in the parties' Petitions and Answers.

The OCA now files this Prehearing Memorandum to set forth the status of the issues and procedure that the OCA believes are relevant to this proceeding.

## II. ISSUES

### A. Application of the DSIC to Franklin and Koppel Systems

In its July 23, 2014 Comments and Answer, the OCA identified several preliminary concerns with PAWC's proposed surcharge. The Commission addressed each of these concerns in its December 4, 2014 Order with the exception of the applicability of the DSIC to the PAWC wastewater systems of Franklin and Koppel. The OCA questioned whether the DSIC should be applied to Franklin and Koppel before they are included in a PAWC Wastewater base rate case (they were acquired after the Company's most recent base rate case). In an Order entered December 4, 2014, the Commission directed that this issue be assigned to the OALJ for hearing and preparation of a Recommended Decision. The Commission also noted that, in its Final Implementation Order, it added the following statement to the end of the Formula section discussing the calculation of the DSIC: "The DSIC calculation does not factor in the plant of acquired troubled companies or the revenue of customers acquired from troubled companies until such plant and customer rates have been part of a base rate case by the acquiring utility." Petition of PAWC - Wastewater for Approval of a Distribution System Improvement Charge, Order at 34-35 (Dec. 4, 2014) citing Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Order at 54 (Aug. 2, 2012).

On December 15, 2014, PAWC filed a Compliance Tariff, which specifies that the DSIC will not be applied to the Franklin and Koppel systems. Supp. 6 to Tariff-Wastewater Pa. P.U.C. No. 15 at 5G. The Compliance Tariff was approved by Secretarial Letter issued on December 22, 2014. Accordingly, the OCA's issue is resolved.

B. Recognition of ADIT and Actual State Income Taxes in the DSIC Calculation

With regard to the recognition of accumulated deferred income taxes (ADIT) and actual state income tax expense in the DSIC calculation, the Commission observed that the same issues were raised by the OCA and addressed by the Commission in the Columbia Gas DSIC proceeding and are pending before the Commonwealth Court. Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Distribution System Improvement Charge, Docket No. P-2012-2338282, Order (May 22, 2014). The Commission recognized that the OCA has preserved these issues in the current proceeding, and stated that it "will abide by previous resolution of the May 22nd Order and not refer the ADIT issue or the calculation of the state tax component of the DSIC revenue requirement to the OALJ for disposition." Petition of PAWC - Wastewater for Approval of a Distribution System Improvement Charge, Order at 35-36 (Dec. 4, 2014). As such, these issues are not before the Presiding Officer for hearing and decision but the OCA has preserved its rights regarding ADIT and state income taxes when the Commission issues an Order disposing of all claims in this matter. See also Law Bureau Letter of December 18, 2014.

III. WITNESSES

The OCA does not believe it necessary to submit any testimony in this proceeding. If testimony is necessary, the OCA will present testimony of Thomas S. Catlin regarding the accounting and policy issues identified above. Mr. Catlin will present testimony in written form

and will also attach various exhibits, documents, and explanatory information, which will assist in the presentation of the OCA's case. His contact information is as follows:

Thomas S. Catlin  
Exeter Associates, Inc.  
Suite 300  
10480 Little Patuxent Parkway  
Columbia, MD 21044  
Telephone: 410-992-7500  
E-mail: [tcatlin@exeterassociates.com](mailto:tcatlin@exeterassociates.com)

The OCA specifically reserves the right to call additional witnesses and to expand the issues addressed in testimony, as necessary, and will notify all parties of record immediately.

#### IV. DISCOVERY

The OCA proposes no changes to the Commission's discovery regulations.

#### V. SERVICE ON THE OCA

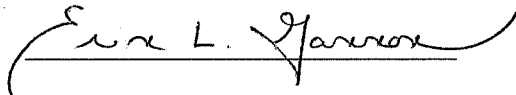
The OCA will be represented in this proceeding by Senior Assistant Consumer Advocates Christine Maloni Hoover and Erin L. Gannon. Two copies of all documents should be served on the OCA as follows:

Erin L. Gannon  
Senior Assistant Consumer Advocate  
Office of Consumer Advocate  
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E-mail: [egannon@paoca.org](mailto:egannon@paoca.org)  
[choover@paoca.org](mailto:choover@paoca.org)

VI. PROPOSED SCHEDULE

The OCA does not believe it is necessary to establish a litigation schedule but, if required, the OCA will work with all parties to reach an acceptable schedule.

Respectfully Submitted,



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DATE: January 26, 2015  
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