



PENNSYLVANIA
AMERICAN WATER

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October 13, 2016

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

Dear Secretary Chiavetta,

Attached please find Supplement No. 16 to Tariff Wastewater-Pa P.U.C. No. 15 for Pennsylvania American Water, which bears the issue of October 13, 2016. This tariff supplement makes changes to the Company's Distribution System Improvement Charge language to comply with the Pennsylvania Public Utility Commission's Model Tariff attached as Appendix A to the Supplemental Implementation Order for Act 11 of 2012 at Docket No. M-2012-2293611, entered September 21, 2016.

Sincerely,

John Cox
Manager of Rates and Regulations

cc. Office of Consumer Advocate
Bureau of Investigation and Enforcement
Office of Small Business Advocate
Marie Intrieri
Audit Bureau (DSIC Filings Only)
Bureau of Technical Utility Services (Acquisitions Only)

Pennsylvania-American Water Company
Wastewater Division
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES, RULES AND REGULATIONS
GOVERNING THE FURNISHINGS OF
WASTEWATER COLLECTION AND DISPOSAL SERVICE
IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED
IN ADAMS COUNTY, BEAVER COUNTY, CHESTER COUNTY, CLARION COUNTY,
MONROE COUNTY, NORTHUMBERLAND COUNTY, PIKE COUNTY,
WASHINGTON COUNTY AND YORK COUNTY

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

By: Kathy Pape, President
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033

Issued: October 13, 2016

Effective: October 14, 2016

NOTICE

This tariff makes changes to comply with Supplemental Implementation Order M-
2012-2293611.
(refer to pages 5J and 5K)

LIST OF CHANGES

Changes

This tariff supplement makes changes to the Company's Distribution System Improvement Charge language to comply with the Pennsylvania Public Utility Commission's Model Tariff attached as Appendix A to the Supplemental Implementation Order for Act 11 of 2012 at Docket No. M-2012-2293611, entered on September 21, 2016.

(I) Indicates Increase, (D) Indicates Decrease, (C) Indicates Change

Issued: October 13, 2016

Effective: October 14, 2016

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Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{(\text{DSI} \times \text{PTRR}) + \text{Dep}}{\text{PQR}} + \frac{e}{\text{PQR}} \quad (\text{C})$$

Where:

- DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.
- PTRR = Pre-tax return rate applicable to DSIC-eligible property.
- Dep = Depreciation expense related to DSIC-eligible property.
- e = Amount calculated under the annual reconciliation feature or Commission Audit, as described below.
- PQR = Projected quarterly revenues for wastewater service **will be based on the applicable three-month period**, (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period. (C)

Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, Commission's Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

3. Customer Safeguards

Cap: The DSIC is capped at 5% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year **or the utility may elect to subject the DSIC to quarterly reconciliation but only upon request and approval by the Commission.** The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307 (e), over a one year period commencing

on April 1 of each year, **or in the next quarter if permitted by the Commission.** If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on the over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, et seq.) and will be refunded in the same manner as an over-collection. (C)

New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

All customer classes: The DSIC shall be applied equally to all customer classes.

Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the Pre-tax return section. **The utility shall file a tariff supplement implementing the reset to zero due to overearning on one-days' notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Utility has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed cost.**
(C)

Residual E-Factor Recovery Upon Reset to Zero: The utility shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The utility can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The utility shall refund any over collection to customers and is entitled to recover any under collections as set forth in Section 3 - Audit Reconciliation. Once the utility determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the utility shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, The Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.
(C)