# Morgan Lewis

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August 4, 2017

# VIA eFILING

Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission Commonwealth Keystone Building 400 North Street Harrisburg, PA 17105

Re: Petition of Pennsylvania-American Water Company for Approval of Tariff Changes and Accounting and Rate Treatment Related to Replacement of Lead Customer-Owned Service Pipes, Docket No. P-2017-2606100

Dear Secretary Chiavetta:

Enclosed please find the **Prehearing Conference Memorandum of Pennsylvania- American Water Company**, in the above-referenced proceeding.

A copy will be served on those parties identified on the attached Certificate of Service.

Very truly yours,

Cluthory C. DeCusatis

ACD/tp Enclosures

c: Per Certificate of Service (w/encls.)

Morgan, Lewis & Bockius LLP

# BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIAAMERICAN WATER COMPANY FOR:

APPROVAL OF TARIFF CHANGES AND : Docket No. P-2017-2606100

ACCOUNTING AND RATE TREATMENT:
RELATED TO REPLACEMENT OF LEAD:
CUSTOMER-OWNED SERVICE PIPES:

# **CERTIFICATE OF SERVICE**

I hereby certify and affirm that I have this day served a copy of the **Prehearing**Conference Memorandum of Pennsylvania-American Water Company on the following persons, in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

# VIA ELECTRONIC AND FIRST CLASS MAIL

The Honorable Elizabeth H. Barnes Administrative Law Judge Pennsylvania Public Utility Commission Commonwealth Keystone Building 2nd Floor, L-M West 400 North Street Harrisburg, PA 17120 ebarnes@pa.gov

Christine Maloni Hoover Erin L. Gannon Office of Consumer Advocate 555 Walnut Street 5<sup>th</sup> Floor, Forum Place Harrisburg, PA 17101-1923 <u>choover@paoca.org</u> <u>egannon@paoca.org</u>

Carrie B. Wright
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
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Elizabeth Rose Triscari
Office of Small Business Advocate
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300 North Second Street
Harrisburg, PA 17101
etriscari@pa.gov

Dated: August 4, 2017

Respectfully submitted,

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Attorneys for Pennsylvania-American Water Company

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# BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIAAMERICAN WATER COMPANY FOR

APPROVAL OF TARIFF CHANGES

AND ACCOUNTING AND DATE

AND ACCOUNTING AND RATE
THE ATMENT DELIATED TO

TREATMENT RELATED TO : REPLACEMENT OF LEAD :

CUSTOMER-OWNED SERVICE PIPES

**DOCKET NO. P-2017-2606100** 

PREHEARING CONFERENCE MEMORANDUM OF PENNSYLVANIA-AMERICAN WATER COMPANY

### TO ADMINISTRATIVE LAW JUDGE ELIZABETH H. BARNES:

Pursuant to the June 19, 2017 Prehearing Conference Order issued by Administrative Law Judge Elizabeth H. Barnes (the "ALJ") and the Pennsylvania Public Utility Commission's ("Commission") regulations at 52 Pa. Code § 5.222(d), Pennsylvania-American Water Company ("PAWC" or the "Company") hereby submits its Prehearing Conference Memorandum in the above-captioned proceeding.

# I. HISTORY OF THE PROCEEDING

Lead is a naturally occurring metal that can cause a variety of adverse health effects, including delays in normal physical and mental development of young children. While the most common sources of lead exposure are soil, paint chips and dust, drinking water is another route of lead exposure, primarily as a result of corrosion of lead pipes and plumbing materials. Recent events, including those in Flint, Michigan, have heightened customers' concern about the possible presence of lead in their drinking water.

While the Company ceased installing lead Service Lines<sup>1</sup> by the 1950's, some remain in service in portions of PAWC's system that predate that change or were acquired from other water utilities. The Company employs a proactive approach to protect customers from lead exposure in the drinking water the Company supplies consistent with federal and state regulatory standards established by the United States Environmental Protection Agency ("EPA") and Pennsylvania Department of Environmental Protection ("DEP"), including the Lead and Copper Rule ("LCR"). To that end, the Company has implemented a variety of proactive measures, including effective corrosion control treatment, ongoing research to ensure that sampling and corrosion control protocols reflect the latest available science and best practices, robust customer education and eliminating the Company's remaining lead Service Lines.

The current LCR requires utilities, among other things, to test drinking water inside older homes for lead and take additional action if more than 10% of tap water samples exceed the lead concentration limit (i.e., 15 parts per billion),<sup>2</sup> including replacement of utility-owned and customer-owned lead piping. Consequently, remaining in compliance with applicable drinking water regulations necessarily requires taking steps to address possible sources of lead contamination from customer-owned property. However, the applicable regulation permits the utility to replace only the segment it owns if a customer is unable or unwilling to pay for replacing the portion of the service piping for which the customer is responsible. In PAWC's case, its options are further limited by Rule 4.9 of Tariff No. 4, which does not authorize the

Rules 2.11 and 2.12, respectively, set forth at page 16 of PAWC Tariff Water-Pa. P.U.C. No 4 ("Tariff No. 4"), define a "Service Line" as "[t]he Company-owned piping and appurtenances which run between and are connected to the Company's main and its street service connection," and a "Service Pipe" as "[t]hat part of the water line not owned by the Company" that "begins at the Company-owned street service connection and continues into the structure on the premise[s] to be supplied." Therefore, throughout this Prehearing Conference Memorandum, the terms "Service Line" and "Service Pipe" are employed in the manner they are defined in Rules 2.11 and 2.12 of Tariff No. 4.

<sup>&</sup>lt;sup>2</sup> See 40 C.F.R. §§ 141.80 et seq.; 25 Pa. Code §§ 109.1101 et seq.

Company to replace a customer's Service Pipe.

Accordingly, on May 22, 2017, PAWC petitioned the Commission to approve its plan to replace lead customer-owned Service Pipes ("Replacement Plan") and recover the associated costs (the "Petition"). PAWC's Replacement Plan consists of two parts. First, PAWC will proactively remove and replace, with the customer's consent, lead Service Pipes that are encountered when it replaces its mains and service lines ("Replacement Plan – Part 1"). Second, PAWC will remove and replace lead Service Pipes when requested to do so by a customer subject to verifying that the customer, in fact, has a lead Service Pipe ("Replacement Plan – Part 2"). Under Replacement Plan – Part 2, the Company will coordinate customer-requested replacements. Customer requests will be grouped by geographic location, and replacements will be undertaken when the number of customer requests in a given location allows the Company to realize reasonable economies of scale by doing those replacements as a single project. Under both Parts of the Replacement Plan, the customer will own, and be responsible for, the new Service Pipe after the replacement.

In its Petition, PAWC requests that the Commission: (1) approve the tariff revisions set forth in the Supplement to Tariff No. 4, which will allow the Company to replace lead Service Pipes at its sole cost;<sup>3</sup> (2) authorize the Company to capitalize costs incurred to replace lead Service Pipes ("LSP Replacement Costs") and to record such costs in Account No. 333 – Services for accounting purposes; and (3) affirm that the Company's investment in capitalized LSP Replacement Costs constitutes "eligible property" for water utilities as defined in 66 Pa.C.S. § 1351 and, therefore, pursuant to 66 Pa.C.S. § 1357, PAWC is entitled to recover a return on, and a return of, such costs through its Distribution System Improvement Charge ("DSIC").

This revision is required because Rule 4.9, at page 20 of Tariff No. 4, currently provides that "[t]he Customer shall have full responsibility for the installation, repair, replacement, and maintenance of all Service Pipes."

The Petition was served on the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Bureau of Investigation & Enforcement ("I&E"), and all parties of record in PAWC's Long-Term Infrastructure Improvement Plan proceeding at Docket No. P-2017-2585707. As of this date, Answers to PAWC's Petition have been submitted by I&E and the OCA on June 12, 2017. A Notice of Appearance and Notice of Intervention were filed by the OSBA on June 15, 2017.

### II. STATEMENT OF ISSUES

The two principal issues before the Commission in this proceeding are: (1) whether the Company's Replacement Plan is in the public interest; (2) whether PAWC should be allowed to capitalize the LSP Replacement Costs for accounting purposes and recover a return on, and a return of, such costs by including them in rate base in a subsequent base rate case and through its existing DSIC for property placed in service between base rate cases.

With respect to the first issue, PAWC has submitted direct testimony and exhibits with its Petition demonstrating that its Replacement Plan is in the public interest. As explained therein, a relatively recent and growing body of research indicates that a "partial" replacement, which physically disturbs, but leaves in place, the customer's segment of a service connection, may potentially increase the risk of lead exposure through drinking water. Significantly, lead Service Pipes largely remain in neighborhoods that face economic constraints making it unlikely that affected customers could bear the cost of replacing their lead Service Pipes and avoid the risks that may be posed by partial replacements. Therefore, Replacement Plan – Part 1 is a prudent and efficient way to avoid creating a risk of exposing customers to elevated lead levels in their drinking water from PAWC's extension of its infrastructure rehabilitation program into areas where lead Service Pipes are more likely to exist.

In addition, Replacement Plan – Part 2 is a reasonable approach to proactively remove, in a coordinated manner, any possible risk of lead exposure from Service Pipes in other areas where there is no ongoing main and Service Line replacement work by the Company that would disturb the existing Service Lines and adjoining Service Pipes. PAWC is also proposing to set a budget cap of \$6.0 million per year on the amounts expended to replace lead Service Pipes to mitigate the impact of the Replacement Plan on customer rates. Lead Service Pipe replacements under Replacement Plan – Part 1 will have priority on the use of the \$6.0 million annual budgetary allotment as they address conditions that pose relatively greater risks of raising lead levels for the affected customers. In sum, PAWC's Replacement Plan will reduce customers' exposure to lead and will help the Company maintain compliance with important drinking water standards of the EPA and DEP.

As to the second issue, and as explained in the Petition and accompanying direct testimony, PAWC proposes to capitalize LSP Replacement Costs and include such investment in the Company's rate base in a subsequent base rate case or the Company's existing DSIC for property placed in service between base rate cases. PAWC's proposed accounting and rate treatment is appropriate because the Company's investment in lead Service Pipe replacement provides multi-year assurance that it will remain below the action level prescribed by the LCR. In addition, such investment is functionally a part of one property unit – namely, the entire service connection main to customer's premises – that must be considered in its entirety for purposes of complying with applicable drinking water regulations.

### III. WITNESSES

As previously explained, on May 22, 2017, PAWC submitted its Petition along with the direct testimony and accompanying exhibits of the following witnesses:

- David R. Kaufman Mr. Kaufman is PAWC's Vice President of Engineering. Mr. Kaufman's business address is 800 West Herseypark Drive, Hershey, Pennsylvania 17033. His testimony (PAWC Statement No. 1), discusses PAWC's efforts to better protect customers from the health and safety risks of lead exposure in drinking water and describes the benefits of allowing the Company to replace lead Service Pipes under its proposed Replacement Plan.
- John R. Cox Mr. Cox is PAWC's Manager of Rates and Regulations Pennsylvania. Mr. Cox's business address is 800 West Herseypark Drive, Hershey, Pennsylvania 17033. In PAWC Statement No. 2, he presents the Company's proposed tariff changes to enable PAWC to implement its proposed Replacement Plan and discusses the Company's proposed accounting and ratemaking treatment of the associated costs and their impact on customers' rates.

PAWC may present additional witnesses in rebuttal of the direct testimony of other parties. However, such witnesses cannot be identified until other parties file their testimony and the issues raised in that testimony have been evaluated.

# IV. DISCOVERY

PAWC proposes that a Protective Order be adopted in this case to protect sensitive information from public disclosure. Therefore, PAWC respectfully requests that the ALJs approve the proposed Protective Order attached hereto as Appendix "A," which is similar to the Protective Order entered in PAWC's pending base rate case proceeding at Docket No. R-2017-2595853.

#### V. SERVICE LIST

Pursuant to 52 Pa. Code § 1.55, PAWC hereby designates the following individual for the service list in this proceeding:

> Susan Simms Marsh Deputy General Counsel Pennsylvania-American Water Company 800 West Hersheypark Drive Hershey, PA 17033 717.531.3208 (bus) susan.marsh@amwater.com

Parties are requested to also serve documents on the following attorneys as a courtesy:

Anthony C. DeCusatis Brooke E. McGlinn Morgan, Lewis & Bockius LLP 1701 Market Street Philadelphia, PA 19103-2921 215.963.5034 (bus) 215.963.5001 (fax) anthony.decusatis@morganlewis.com brooke.mcglinn@morganlewis.com

#### VI. PROPOSED SCHEDULE

PAWC will cooperate with the ALJ and other parties to facilitate the orderly conduct and disposition of this proceeding. To that end, PAWC has consulted with the other parties in this proceeding, who have indicated that they find the following proposed schedule acceptable or do not otherwise object:

> **Petition Filing** May 22, 2017

Prehearing Conference August 8, 2017

Settlement conferences to be Discovery and Scheduled scheduled based upon parties' Settlement Conferences

availability and readiness to

discuss.

Other Parties' Direct Testimony October 23, 2017 Due

Settlement Conference(s)

To be scheduled based on parties'

availability.

Rebuttal Testimony Due November 17, 2017

Surrebuttal Testimony Due November 30, 2017

Oral Rejoinder and Hearings

January 17-18, 2018 (Anticipate only one day should be needed.)

Three weeks from the date of

Main Briefs Due receipt of the evidentiary hearing

transcript.

Reply Briefs Due

Two weeks from the date of submission of Main Briefs.

All proposed dates for submission of testimony and briefs are for "in-hand" delivery, which may be satisfied by an e-mail or fax copy of the relevant documents.

# VII. POSSIBILITY OF SETTLEMENT

PAWC intends to engage in settlement discussions with the other parties in this proceeding with the goal of facilitating an effective resolution of this matter. The Company has proposed scheduled settlement conferences among the parties.

# VIII. CONCLUSION

WHEREFORE, Pennsylvania-American Water Company respectfully submits this

Prehearing Conference Memorandum.

Respectfully submitted,

Susan Simms Marsh (Pa. No. 44689)

Deputy General Counsel

Pennsylvania-American Water Company

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Dated: August 4, 2017 Counsel for Pennsylvania-American Water Company

# APPENDIX A

# PROPOSED PROTECTIVE ORDER

# BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIA-AMERICAN WATER COMPANY FOR

APPROVAL OF TARIFF CHANGES

AND ACCOUNTING AND RATE : DOCKET NO. P-2017-2606100

TREATMENT RELATED TO :

REPLACEMENT OF LEAD :

CUSTOMER-OWNED SERVICE PIPES :

### PROTECTIVE ORDER

This Protective Order is hereby GRANTED with respect to all documents and information, as identified below, produced or presented, or hereafter produced or presented in this proceeding. All persons now or hereafter granted access to such documents and/or information shall use and maintain the same only in strict accordance with this Protective Order.

This Protective Order is being entered to facilitate the orderly production of information and documents during discovery and the presentation of evidence at the hearings in this case and to provide adequate protection of Confidential Information without prejudicing the rights of parties to have reasonable access to information that becomes part of the evidentiary record.

# THEREFORE, IT IS ORDERED THAT:

1. Any information provided to the Pennsylvania Public Utility Commission

(Commission) or any parties in connection with the above-captioned proceeding that a producing party claims constitutes or contains Confidential Information shall be specifically identified and marked as Confidential Information. The producing party shall designate data or documents as constituting or containing Confidential Information by affixing a conspicuous

"CONFIDENTIAL" stamp or typewritten designation on such data or documents. Where only

part of data compilations or multi-page documents constitutes or contains Confidential Information, the producing party, insofar as reasonably practicable within time constraints imposed in this proceeding, shall designate only the specific data or pages of documents which constitute or contain Confidential Information and shall serve such documents separately from non-confidential information.

- 2. Each document and the information contained therein designated as "Confidential Information" shall be used by the recipient solely for purposes relating to the prosecution, review and processing of this proceeding and for no other purpose; and such documents and information shall be maintained in secure files, separate from public information, until returned to the producing party or destroyed pursuant to the terms hereof.
  - 3. With respect to all Confidential Information, it is further ORDERED that:
- (a) Access to the documents designated as "Confidential Information," and to the information contained therein, shall be limited to the parties and their identified attorneys, employees, and consultants whose examination of the Confidential Information is required for the conduct of this proceeding.
- (b) Recipients of Confidential Information shall not disclose the contents of the documents produced pursuant to this Protective Order to any person(s) other than their identified employees and any identified witnesses/consultants whom they may retain in connection with this proceeding, irrespective of whether any such expert is retained specially and is not expected to testify, or is called to testify in this proceeding. All employees (except Bureau of Investigation & Enforcement (BI&E) witnesses who are full-time employees and shall be entitled to receive documents without individually executing a Certification), consultants or experts of any of the parties bound by this Protective Order who are to receive copies of

documents or information produced pursuant to this Protective Order shall have executed a copy of the Certification attached hereto as Appendix A, which executed Certification shall be forthwith provided to counsel for the producing party with copies to counsel for other parties.

The BI&E Prosecutors who enter an appearance in this proceeding shall represent that all BI&E witnesses/employees will be bound by this Protective Order.

- (c) No other disclosure of Confidential Information shall be made to any person or entity except with the express written consent of the producing party or upon further order of the Commission or of any Court of competent jurisdiction which may review these matters.
- 4. The acceptance by the parties of documents or information which has been identified and marked as Confidential Information shall not serve to create a presumption that the material is in fact entitled to any special status in these or any other proceedings. Accordingly, as provided in 52 Pa. Code § 5.423, a party receiving Confidential Information retains the right, either before or after receipt of such Confidential Information, to challenge the legitimacy of the claim that the information is proprietary. Any party may initiate such a challenge by notifying the Commission, with reasonable notice to all other parties, that it wishes to challenge the designation of the material as Confidential Information. In that event, the producing party, as the provider of the Confidential Information, shall have the burden of proving that the material is entitled to protected status. However, notwithstanding such challenge, all parties shall continue to treat the documents and information subject to challenge as Confidential Information in accordance with the terms of this Protective Order, pending resolution by the Commission of the dispute as to its status.

- 5. The producing party retains the right to seek restrictions on the production, distribution and use by other parties of the Confidential Information beyond the protection expressly afforded such Confidential Information by this Protective Order.
- 6. This Protective Order shall not operate as a determination, for any purpose, that any documents or information produced pursuant to this Protective Order are either admissible or inadmissible in these or any other proceedings.
- 7. Documents or other materials containing Confidential Information filed with the Commission in this proceeding, including but not limited to pre-filed testimony and pre-filed exhibits, shall be labeled "CONFIDENTIAL" and shall be deemed filed under seal. During evidentiary hearings, if any, in this proceeding, all persons present for such hearings shall be subject to the terms of this Protective Order and may be required to so affirm for purposes of the record. The portion of the record containing the Confidential Information, including the portions of transcripts of oral testimony discussing Confidential Information, shall be placed under seal.
- 8. The Commission and any other state agency that may have access to, or receive copies of, the Confidential Information will deem and treat such information as within the exemption from disclosure provided in the Pennsylvania Right-to-Know Act set forth in 65 P.S. § 67.708(b) until such time as the information may be found to be non-proprietary by the Commission or by a court of competent jurisdiction.
- 9. Confidential Information which is placed on the record of this proceeding under seal shall remain with the Commission under seal after the conclusion of the proceeding. If such Confidential Information is provided to appellate courts for the purposes of appeal(s) from this proceeding, such information shall be provided, and shall remain, under seal.

- been provided, which includes the exhaustion of appeals, if any, all documents and other materials containing Confidential Information shall, within 30 days of the producing party's request, be either: (1) returned to counsel for the producing party; or (2) destroyed. If a receiving party chooses to destroy the Confidential Information, then it shall, in the case of the BI&E, notify the producing party, and in the case of all other parties, certify to the producing party, that the Confidential Information has been destroyed by it and its employees, consultants, and other representatives, and that the terms of this Protective Order have been satisfied. Provided, however, that the BI&E, the OCA, and the Office of Small Business Advocate may maintain in their official files copies of all pleadings, briefs, statements, exhibits and transcripts in this proceeding and, further provided, that all such pleadings, briefs, statements, exhibits and transcripts containing Confidential Information shall remain subject to the terms of this Protective Order.
- 11. A single copy of documents returned to the producing party or certified as destroyed upon resolution of this proceeding, as provided in this Protective Order, shall be kept on file at the producing party's offices for two years after the final resolution of this proceeding, as defined previously, for review by the parties under the terms of this Protective Order upon at least twenty days' notice to counsel for the producing party.

	12.	The issuance of this Protective Order shall not prejudice the producing party's
right 1	to challe	nge the production of any documents or information sought in discovery by any
party	on the g	rounds that such documents or information are not properly discoverable.

# IT IS HEREBY ORDERED:

Dated:	, 2017	Administrative Law Judge Elizabeth H. Barnes

# BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIA- AMERICAN WATER COMPANY FOR APPROVAL OF TARIFF CHANGES AND ACCOUNTING AND RATE TREATMENT RELATED TO REPLACEMENT OF LEAD CUSTOMER-OWNED SERVICE PIPES	: : : : : : : : : : : : : :
TO WHOM IT MAY CONCERN:	
The undersigned is the	of
(the receiving party).	
The undersigned has read, and understa	ands that, the Protective Order deals with the
treatment of Confidential Information. The un	dersigned agrees to be bound by, and comply
with, the terms and conditions of said Order, w	which are incorporated herein by reference.
	SIGNATURE
	PRINT NAME
	A construction of the cons
	ADDRESS
	EMPLOYER
	DATE: