

December 30, 2020

Via Electronic Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

In re: Docket No. R-2020-3020256, *et al.*
Pa. P.U.C., *et al.* v. The City of Bethlehem – Water Department

Dear Secretary Chiavetta:

We are counsel to the City of Bethlehem – Water Department and are submitting, via electronic filing with this letter, the City's Main Brief in the above matter. Copies of the Main Brief are being served upon the persons and in the manner set forth on the certificate of service attached to it.

Very truly yours,

THOMAS, NIESEN & THOMAS, LLC

By



Thomas T. Niesen

cc: Certificate of Service (w/encl.)
The Honorable Steven K. Haas, Administrative Law Judge (via email, w/encl.)
Edward J. Boscola, P.E. (via email, w/encl.)

**Before The
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Administrative Law Judge
Steven K. Haas, Presiding**

Pennsylvania Public Utility Commission	:	R-2020-3020256
Office of Small Business Advocate	:	C-2020-3021576
Office of Consumer Advocate	:	C-2020-3021583
	:	
v.	:	
	:	
City of Bethlehem – Water Department	:	
	:	

**MAIN BRIEF
OF
THE CITY OF BETHLEHEM**

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DATED: December 30, 2020

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Brealey, Myers & Allen, Principles of Corporate Finance, 10th Edition 43

I. INTRODUCTION

A. History of Proceeding

The City of Bethlehem – Water Department (“City”) initiated this proceeding on July 31, 2020 with the filing of Supplement No. 15 to Tariff Water – Pa. P.U.C. No. 6 proposing an annual increase of \$908,421 in water service revenue for Outside City Customers based on a future test year ending December 31, 2020.

The rate filing was assigned Docket No. R-2020-3020256. The Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance on August 14, 2020. The Office of Small Business Advocate (“OSBA”) and the Office of Consumer Advocate (“OCA”) filed Complaints on August 27, 2020 at C-2020-3021576 and C-2020-3021583, respectively.

By Order entered September 17, 2020, the Public Utility Commission (“Commission”) suspended Supplement No. 15 and instituted an investigation into the reasonableness of the proposed tariff change. The City filed Supplement No. 16 on September 23, 2020, suspending the application of the proposed water rates until April 29, 2021.

The investigation was assigned to Administrative Law Judge Steven K. Haas. A telephonic prehearing conference was held on October 8, 2020 with Judge Haas presiding. Counsel for I&E, OCA, OSBA and the City participated in the telephonic conference and a litigation schedule was established, which was memorialized in a Prehearing Order dated October 8, 2020.

Thereafter, the City served direct, rebuttal, surrebuttal and rejoinder testimony in support of Supplement No. 15. I&E, OCA and OSBA served direct and surrebuttal testimony in opposition to the proposed rate increase in whole or part. Discovery, which had been initiated

prior to the prehearing conference remained ongoing. Ultimately, the City responded to 210 data requests and interrogatories.

On December 11, 2020, counsel for the City advised Judge Haas that I&E and the City had achieved a settlement of issues, without joinder of OCA and OSBA. On December 28, 2020, the City and I&E filed a Joint Petition for Approval of a Partial Settlement of Rate Investigation (“Joint Petition”) proposing, *inter alia*, an annual increase of \$689,932 in water service revenue for Outside City Customers.

An evidentiary hearing was held on December 17, 2020, with Judge Haas presiding. Prior to the hearing, the parties, with Judge Haas’ approval, agreed to a mutual waiver of cross examination of all witness.

The City, I&E, OCA and OSBA participated in the hearing. Testimony and exhibits were stipulated into the evidentiary record.

This Main Brief is submitted in accordance with the Prehearing Order, dated October 8, 2020.

B. The City’s Water System

The City provides water service in the City of Bethlehem and all or parts of eleven other municipalities: (a) in Lehigh County – portions of Salisbury Township, portions of Upper Saucon Township, portions of Hanover Township, and the Borough of Fountain Hill; (b) In Northampton County – portions of Lower Saucon Township, portions of Bethlehem Township, portions of Hanover Township, East Allen Township, portions of Allen Township, portions of Lower Nazareth Township, and the Borough of Freemansburg.¹

As of December 31, 2019, the City provided water service to 13,496 customers outside

¹ City of Bethlehem St. No. 4 at 6.

the City limits and to 22,940 customers inside the City limits. The City supplies drinking water for residential, commercial, industrial, institutional, resale, and public uses, and for fire protection purposes.²

The cornerstone of the water system is a 23,000 acre watershed in Carbon and Monroe Counties, which watershed includes two man-made reservoirs: Wild Creek reservoir (constructed circa 1940 with a storage volume of 3.9 billion gallons); and Penn Forest reservoir (constructed circa 1958 with a storage volume of 6 billion gallons). The City actively manages the watershed to ensure the continued supply of the highest quality source water in the region. It has a PA DEP approved Source Water Protection Plan and has been certified by the Forest Stewardship Council for its forest management practices.³

Raw water is treated at the Bethlehem Water Treatment Plant in Lehigh Township. The plant is a rapid gravity multi-media filtration plant rated at 28.6 MGD. The Plant has undergone substantial process refinement since its opening in 1994 in order to optimize operations. In 2019, the Plant received its twelfth consecutive Area Wide Optimization Program Award for outstanding performance in filtration plant operations. The award is sponsored by US EPA and the Association of State Drinking Water Administrators.⁴

The City's water distribution network includes four high pressure zones served by five booster pump stations, particularly in areas south of the Lehigh River and along higher elevations of South Mountain. There are also three other smaller pressure zones controlled by individual pressure regulating valves. Distribution storage is provided by eight tanks and reservoirs with a

² City of Bethlehem St. No. 4 at 6-7.

³ City of Bethlehem St. No. 4 at 7.

⁴ City of Bethlehem St. No. 4 at 8.

total capacity of 38.2 million gallons of which 25.5 million gallons are located south of the Lehigh River to serve the higher pressure gradients.⁵

Bethlehem employs a supervisory control and data acquisition ("SCADA") system that includes pressure sensors, flow meters, tank levels, valve position indication, and pump controls. The SCADA system is monitored by operators at the Water Treatment Plant and is also accessed remotely by computer tablet or laptop for field operations.⁶

The water distribution network is comprised of approximately 550 miles of pipeline, 15,000 valves, and 3,500 fire hydrants. Pipe material consists mostly of ductile iron and cast iron pipe. Much of this infrastructure is decades old with some of the older pipe sections in the city close to 100 years old. Domestic service lines range in size from 3/4-inch to 6-inches in diameter.⁷

Peak system demand is supplied by the storage capacity of the transmission mains, storage tanks, and design capacity of the treatment plant. In addition to the main water supply, treatment and distribution system described above, the City operates and maintains four independent community well systems in East Allen Township which serve a combined population of approximately 430 persons, and one consecutive water system serving a population of approximately 725 persons.⁸

⁵ City of Bethlehem St. No. 4 at 8-9.

⁶ City of Bethlehem St. No. 4 at 9.

⁷ City of Bethlehem St. No. 4 at 9.

⁸ City of Bethlehem St. No. 4 at 9.

C. Legal Standards

1. Section 1301

Section 1301(a) of the Public Utility Code (“Code”) provides that “[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission.” Pursuant to the just and reasonable standard, a utility may obtain “a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment.” *City of Lancaster (Sewer Fund) v. Pa. P.U.C.*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002).

Section 1301(b) of the Code provides that “[i]n determining a just and reasonable rate furnished or rendered by a municipal corporation or by the operating agencies of a municipal corporation providing public utility water or wastewater service beyond its corporate limits, the commission shall employ an imputed capital structure of comparable public utilities providing water or wastewater service.”

2. Fair Rate of Return Criteria

In determining a fair rate of return, the Commission is guided by the criteria provided by the United States Supreme Court in the landmark cases of *Bluefield Water Works and Improvement Co. v. Public Service Comm’n of West Virginia*, 262 U.S. 679 (1923) (“*Bluefield*”) and *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). In *Bluefield*, the Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits

such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.⁹

The regulatory-determined price for service must allow the regulated entity a fair opportunity to recover all costs associated with providing the service, including a fair rate of return.

3. Burden of Proof

The burden of proof to establish the justness and reasonableness of the utility's rate increase rests solely upon the public utility. 66 Pa. C.S. § 315(a). The evidence adduced by a utility to meet this burden must be substantial. *Lower Frederick Twp. v. Pa. P.U.C.*, 48 Pa. Cmwlth. 222, 227, 409 A.2d 505, 507 (1980). *See also Brockway Glass Co. v. Pa. P.U.C.*, 63 Pa. Cmwlth. 238, 437 A.2d 1067 (1981).

In rate proceedings, the burden of proof does not shift to the parties challenging a rate increase. *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 236 P.U.R.4th 218 (2004). Nonetheless, the Commission has stated that, where a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g., Pa. P.U.C. v. PECO*, Docket No. R-891364 (Order entered May 16, 1990); *Pa. P.U.C. v. Breezewood Telephone Co.*, Docket No. R-901666 (Order entered January 31, 1991)

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing

⁹ *Bluefield*, 262 U.S. at 692-693.

and which, frequently, the utility would oppose. The mere rejection of evidence contrary to that adduced by the public utility is not an impermissible shifting of the evidentiary burden. *Pa. P.U.C., et al. v. Philadelphia Gas Works*, Docket No. R-2020-3017206, Opinion and Order entered November 19, 2020 (“*PGW*”).

4. Settlements, Including Partial Settlements

It is the policy of the Commission to encourage settlements, and the Commission has stated that settlement rates are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code §§ 5.231, 69.401. A full settlement of all the issues in a proceeding eliminates the time, effort and expense that otherwise would have been used in litigating the proceeding, while a partial settlement may significantly reduce the time, effort and expense of litigating a case. *PGW*, mimeo at 14.

The Commission, however, does not simply rubber stamp settlements without further inquiry. In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. P.U.C. v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. P.U.C. v. C. S. Water and Sewer Assoc.*, 74 Pa. P.U.C. 767 (1991) (“*CS Water and Sewer*”). The focus of the inquiry for determining whether a proposed settlement should be approved by the Commission is whether the proposed terms and conditions foster, promote and serve the public interest. *Pa. P.U.C., et al. v. City of Lancaster – Bureau of Water*, Docket Nos. R-2010-2179103, *et al.* (Order entered July 14, 2011), citing *Warner v. GTE North, Inc.*, Docket No. C-00902815 (Order entered April 1, 1996) and *CS Water and Sewer*.

5. Substantive Right to Rate Relief During COVID Pandemic

While the Commission may have the ability to alter litigation deadlines as a result of the Governor’s Proclamation of a Disaster Emergency and the Commission’s subsequent

Emergency Order as a result of the COVID pandemic, the Commission does not have the authority to alter a utility's substantive right of a rate increase going into effect at the end of the seven-month deadline. *PGW*, mimeo at 13, citing *Pa. P.U.C. v. Columbia Gas of Pa. Inc.*, Docket No. R-2020-3018835 (Order on Petition for Reconsideration of Staff Action entered August 20, 2020) at 20-21; and *Pa. P.U.C. v. Pennsylvania-American Water Company*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Order on Petition for Reconsideration of Staff Action entered August 20, 2020).

II. SUMMARY OF ARGUMENT

The City has demonstrated through a preponderance of evidence and substantial evidence that its ratemaking claims for Outside City Service are reasonable and appropriate. The ratemaking adjustments proposed by the OCA and OSBA should be given no weight.

The Commission has no authority to deny the City rate relief because of the COVID pandemic. The City has taken reasonable and appropriate steps to assist customers with payment for water service during the pandemic.

The partial settlement proposed by the City and I&E, through which the City has voluntarily reduced its proposed rate increase to \$689,932 from the originally proposed increase of \$908,421, should be approved as the settlement is in the public interest. The proposed settlement revenue and settlement rates are just and reasonable and in compliance with the Public Utility Code.

III. OVERALL POSITION ON RATE INCREASE

A. The City's Overall Position

The City's overall position is that the Commission should approve the Joint Petition, without modification, and accept the settlement increase of \$689,932 and the settlement rates proposed in the Joint Petition as just and reasonable and consistent with Section 1301 of the Code. In doing so, the Commission should reject the ratemaking adjustments proposed by OCA and by OSBA and dismiss their respective Complaints with prejudice.

Approval of the Joint Petition would be consistent with the Commission's approval of a partial settlement in *PGW*. Additionally, in his Recommended Decision dated December 22, 2020, at Docket Nos. R-2020-3019369 and R-2020-3019371, Administrative Law Judge Johnson recommended that the Commission approve a "non-unanimous" settlement in Pennsylvania-American Water Company's pending rate proceeding.

B. The OCA's Overall Position – Impact of COVID Pandemic

The OCA contends that, because of the COVID pandemic, the Commission should deny any rate increase to the City unless it finds that some increase is needed to ensure that the City meets its lease payment obligation to the Bethlehem Authority. It contends, further, that the City would not suffer severe financial hardship if rates remained at their current level for the foreseeable future.¹⁰ The OCA has also presented a "business as usual" analysis that concludes that the City has an additional revenue requirement of \$443,666 for jurisdictional service to Outside City Customers.¹¹ The OCA's position of no increase is contrary to law and not

¹⁰ OCA St. No. 1 at 28.

¹¹ OCA St. No. 2S at 1-2.

supported by the evidence of record. As this is an issue created by the OCA, the OCA has the burden of proof to support it.

1. **The Commission’s Lack of Authority and Steps Taken by the City**

The City submits that the Commission has no authority under the Code to deny the City’s rate increase as proposed by the OCA. The Commission addressed its statutory ratemaking authority in *PGW* as set forth above and held that it has *no* authority to alter a utility’s substantive right of a rate increase going into effect at the end of the seven-month statutory deadline. A Commission decision adopting the OCA “no increase” proposal would violate the Public Utility Code and the Commission’s statutory obligation to set just and reasonable rates.¹²

As a municipal provider of utility services, the City is aware of the difficulties faced by its City residents and neighbors as a result of the COVID pandemic and has taken steps to assist customers. Significantly, it is not terminating service to customers. It also is continuing to offer payment arrangements to customers and waiving all new late payment charges. The City reported the following to the Commission in its letter dated December 15, 2020 at M-2020-3019244:¹³

1. In order to best serve our customers, the City shall continue with the moratorium on all service terminations regardless of whether or not a customer is classified as a “protected customer” as defined in the Order. This moratorium has been in effect since the March 13, 2020 Emergency Order and shall continue until March 31, 2021 unless modified by PUC.
2. The City shall continue to offer payment arrangements for customers who have difficulty making payments or who otherwise have significant

¹² Although we disagree with it as it is far below the increase in rates supported by the evidence of record, we point out that OCA witness Sherwood’s “business as usual,” traditional rate base / rate of return analysis shows that the City would be entitled to an increase in rates of \$443,666 for Outside City Service at the end of the seven month statutory deadline.

¹³ City of Bethlehem Hearing Exhibit No. 1.

overdue balances. This effort predates the Covid-19 pandemic and shall continue indefinitely.

3. The City shall waive all new late payment charges for all customers until March 31, 2021.

The Commission, moreover, is not denying rate increases because of the pandemic. As set forth above, the Commission recently approved a partial settlement of the PGW rate proceeding. PGW, like the City, is a municipal provider of utility service. The City's Water Department provides an essential service to its customers and a rate increase is needed in order for the City to continue to provide safe and adequate service to its customers. The Commission should approve the partial settlement here as it did in *PGW*.

2. Additional Considerations

While current unemployment rates cited by OCA witness Rubin are certainly significant, they are not unprecedented. The unemployment rates in Lehigh and Northampton Counties as of September 2020 are 8.1% and 7.4%, respectively. The unemployment rate in 2010 reached 10% in Lehigh County and 9.7% in Northampton County as a result of the financial crisis. Thus, while the pandemic circumstances are unique, the high unemployment rate is not an unprecedented economic crisis. In fact, the City filed a rate case in June 2011 and received approval for an increase totaling \$730,000 from the Commission during this period.¹⁴

The unemployment rate, moreover, has improved since the March 2020 shut down, dropping from a high of 16.1% in April 2020 to the September 2020 rate of 8.1%. A recovery in employment appears to be swift. Additionally, while the Federal Reserve Bank Coincident Index for the Commonwealth of Pennsylvania, cited by Mr. Rubin, shows a precipitous decline in

¹⁴ City of Bethlehem St. No. 1R at 2-3.

March 2020, the recovery trend shows a sharp V shape as the economy appears to be recovering, as was also demonstrated by the unemployment rate data.¹⁵

The elected City officials weighed the impact of a rate increase on water customers while in the midst of the COVID-19 pandemic. The City officials determined that the need for a rate increase to adequately operate and maintain the City’s water system was justified and required even during this challenging period. The City’s elected officials would be the most qualified to make this decision as they are close to their constituents and the situation in Lehigh and Northampton Counties.¹⁶

Significantly, the City’s monthly bill even under proposed rates is one of the lowest in the region. The following chart shows the comparable residential monthly bills at 4,000 gallons of usage for water utilities near and around the Bethlehem service area.¹⁷

Water Provider	Monthly Residential Bill
Bethlehem – Proposed	\$28.52
Aqua PA – Rate Zone 1	\$65.00
Pennsylvania American Water Company	\$64.37
Lehigh County Authority – Central Lehigh	\$24.09
Lehigh County Authority – City of Allentown	\$32.06
Reading Area Water Authority	\$45.32
Schuylkill County Municipal Authority – Pottsville	\$28.17
Easton Suburban Water Authority	\$33.59
Northampton Borough Water Authority	\$29.36
Northampton Borough Water Authority – High Pump District	\$30.72

Finally, and significantly, Mr. Rubin’s claim that the City, under present rates, has a sufficient surplus of \$1.5 million to meet its operating needs is inaccurate. The City’s Water Department requires a larger annual surplus than \$1.5 million to maintain a safe and reliable

¹⁵ City of Bethlehem St. No. 1R at 3.

¹⁶ City of Bethlehem St. No. 1R at 3.

¹⁷ City of Bethlehem St. No. 1R at 4.

water system that serves over 36,000 customers, both inside and outside the City. The evidence of record demonstrates that the City's 2018 debt service coverage of 1.3 is very low. In comparison, the debt coverage levels between 2.5 and 3.4 are much higher for the Comparable Group. The City has an ongoing construction program and, without rate relief, the City's already below average debt coverage levels will be strained.

3. Conclusion

The OCA's position should be given no weight and denied. The Commission has no authority to deny the City rate relief because of the COVID pandemic. The City has taken reasonable and appropriate steps to assist customers with payment for water service during the pandemic. The evidence of record, moreover, does not demonstrate the appropriateness of, or otherwise support, the OCA's position.

IV. ISSUES RESOLVED AMONG THE PARTIES

The City and I&E have resolved all issues and filed a Joint Petition for Approval of a Partial Settlement of Rate Investigation providing for an increase in annual revenue for Outside City Service of \$689,932 in lieu of the originally proposed increase of \$908,421. A copy of the Joint Petition is attached as Attachment A.

The City and OCA have resolved through Stipulation all issues related to the testimony of OCA witness Fought. The Stipulation is attached as Attachment B.

Additionally, as evolved through testimony the following ratemaking adjustments, listed below, originally proposed by OCA have been resolved or withdrawn as addressed in subsequent sections of this Main Brief:

Rate Base

- Well Generator
- Roof Replacement
- Hecktown Road Bridge Main Replacement

Expenses

- Uncollectible Account Expense
- Professional Services Expense
- East Allen Township Expense – Other Expense
- Water Filtration Expense – Oil Expenses
- Chemical Expense – Fluoride
- Chemical Expense – Caustic Soda

As for Revenue Allocation, the Joint Petition for Approval of Partial Settlement adopts the revenue allocation and scale back of revenue proposed by OSBA.

V. RATE BASE

A. Introduction

The original cost measure of value as of December 31, 2019 and December 31, 2020, is comprised of the original cost less the ratemaking book reserve for the total utility plant in service less customers' advances for construction and contributions in aid of construction plus cash working capital. In its initial filing the City presented a *total* original cost measure of value claim of \$125,287,005 as of December 31, 2019 and \$127,003,215 as of December 31, 2020. For Outside City Service, the City claimed an original cost measure of value of \$48,369,248 as of December 31, 2019 and \$49,031,825 as of December 31, 2020.

OCA witness Sherwood recommended adjustments to projected plant in service. Ms. Sherwood also recommended adjustments to cash working capital. Upon review of the recommended adjustments, the City, in rebuttal testimony, reduced its measure of value claim by \$178,981 to \$126,824,234, as of December 31, 2020. Due to cost allocation changes, however, the jurisdictional allocation to Outside City Service was increased by \$254,255 to \$49,286,080. The measure of value submitted in rebuttal testimony also included a \$7,000 increase in the claim for cash working capital.¹⁸

B. Projected Plant in Service

OCA witness Sherwood proposed to exclude 5 specific capital projects, totaling \$1,901,378, from projected plant additions. Ms. Sherwood's difficulty with the projects is that they will not be completed or in-service by December 31, 2020, the end of the future test year. The City accepted three of Ms. Sherwood's adjustments as they will not be completed before the

¹⁸ City of Bethlehem St. No. 1R at 15.

end of the first quarter 2021. The remaining two projects, which are key projects, should be included in the revenue requirement determination.¹⁹ Each adjustment is addressed below.

1. Water Treatment Emergency Generator

The most significant project in dollar terms is the Water Treatment Emergency Generator at the Water Treatment Plant. The rate base claim in Account 312.30 is \$956,000. The Generator is a necessary capital item for the City to continue to provide reasonable and adequate service. It is needed to ensure the water treatment plant remains operational during a power outage or failure in electronic components at the plant.²⁰

The City has taken physical delivery of the Emergency Generator and the associated automatic transfer switch. Both were installed as of December 9, 2020. In Rejoinder Testimony served December 15, 2020, the City advised that scheduling the Generator for operation now would take less than six weeks.²¹

Under the facts presented, it is reasonable and appropriate to include the Emergency Generator in rate base. Excluding the Generator from rate base would create an under recovery or, in other words, a misaligned recovery until the next rate case. This mismatch of asset recovery to asset utilization is not appropriate and will create an inaccurate level of rate base and depreciation expense going forward.²²

Ms. Sherwood does not dispute the need for the Emergency Generator. Her proposed exclusion of the Generator from rate base is because the Generator was not scheduled for completion until after December 31, 2020. In support, she contends that less than 1% of the total

¹⁹ City of Bethlehem St. No. 3R at 3-4.

²⁰ City of Bethlehem St. No. 3R at 4.

²¹ City of Bethlehem St. No. 3RJ at 1-2.

²² City of Bethlehem St. No. 3RJ at 1-2.

project cost was incurred as of September 14, 2020. Ms. Sherwood's rationale is overly precise and rigid.²³

The delivery and, as a result, the installation of the Emergency Generator was delayed only because of the unprecedented circumstances occurring in 2020. Nevertheless, current facts and circumstances demonstrate, as set forth above, that the City has possession of the Generator and that it is installed. Even if one were to apply Ms. Sherwood's rationale, the majority of the Generator project has occurred.

The Commission explained in *Pa. P.U.C. v. Pennsylvania-American Water Company*, 68 Pa. P.U.C. 343, 351-352 (1988) that a utility is entitled to a return on investment in property which is essential to the continued operation of the utility in rendering service to its ratepayers and, in that proceeding, allowed a claim for projects that would be operating and in service shortly after the end of the test year. This same analysis supports the City's claim here where the Water Treatment Emergency Generator will be operating and in service shortly after the end of the future test year and is essential for continued service.

The City submits that the Commission should reject Ms. Sherwood's proposed exclusion of the Emergency Generator from rate base.

2. Fire Pump Station

The next most significant project in dollar terms is the Fire Pump Station. The rate base claim in Account 316 is \$758,000. The claim included the initial engineering work and, thereafter, the construction of the facility. The Pump Station is a necessary system improvement

²³ City of Bethlehem St. No. 3R at 3.

project for the City to continue to provide reasonable and adequate water service to customers in higher elevations.²⁴

The City has taken physical delivery of many of the needed valves and pumps related to the Fire Pump Station. The valves and pumps were ready to be installed as of the end of October. The majority of the old Station assets, moreover, have been removed. Installation and construction will be completed once the City receives the remaining component parts.²⁵

As with the Water Treatment Emergency Generator, excluding the Pump Station from rate base would create an under recovery or, in other words, a misaligned recovery until the next rate case. This mismatch of asset recovery to asset utilization is not appropriate and will create an inaccurate level of rate base and depreciation expense going forward.²⁶

Ms. Sherwood does not dispute the need for the Pump Station. Her proposed exclusion of the Station from rate base is because the Station was not scheduled for completion until after December 31, 2020. In support, she contends that only 8% of the total project cost was incurred by September 15, 2020. Ms. Sherwood's rationale, once again, is overly precise and rigid.²⁷

The delivery of remaining component parts and construction of the Fire Pump Station was delayed only because of the unprecedented circumstances occurring in 2020. Nevertheless, current facts and circumstances demonstrate, as set forth above, that the City has removed old assets and taken physical delivery of many of the needed valves and pumps. Completion of the Station will occur in short order once the remaining component parts have been received.²⁸

²⁴ City of Bethlehem St. No. 3R at 4.

²⁵ City of Bethlehem St. No. 3RJ at 2.

²⁶ City of Bethlehem St. No. 3RJ at 1-2.

²⁷ City of Bethlehem St. No. 3R at 3.

²⁸ City of Bethlehem St. No. 3RJ at 2.

The Commission explained in the PA American proceeding cited above that a utility is entitled to a return on investment in property which is essential to the continued operation of the utility in rendering service to its ratepayers and, in that proceeding, allowed a claim for projects that would be operating and in service shortly after the end of the test year. This same analysis supports the City's claim here where the Fire Pump Station will be operating and in service shortly after the end of the future test year and is essential for continued service.

The City submits that the Commission should reject Ms. Sherwood's proposed exclusion of the Fire Pump Station from rate base.

3. **Well Generator, Roof Replacement and Hecktown Road Bridge Main Replacement**

The remaining three projects that Ms. Sherwood proposed to exclude from the City's rate base claim are the Well Generator, the Roof Replacement at the Water Treatment Plant and the Main Replacement at the Hecktown Road Bridge. The rate base claims are \$75,000 in Account 312.13 for the Well Generator, \$40,000 in Account 312.30 for the Roof Replacement and \$72,378 in Account 322 for the Hecktown Road Bridge Main Replacement. These projects have been delayed such that they will not be completed before the end of the first quarter 2021 and the City, in rebuttal, removed them from its projected rate base claim in Exhibit CEH-1R.²⁹

C. **Cash Working Capital**

The City presented a Cash Working Capital ("CWC") claim of \$1,423,000 for the future test year based on the "rule-of-thumb" methodology, which is 12.5% or one-eighth of operation

²⁹ City of Bethlehem St. No. 3R at 4.

and maintenance expenses and payment in lieu of taxes.³⁰ The jurisdictional claim for Outside City Service is \$561,089.³¹

Ms. Sherwood agrees with the “rule of thumb” methodology to calculate CWC. She proposes, however, to adjust the City’s claim to reflect her recommended adjustments to operation and maintenance expenses. She also proposes to exclude uncollectibles expense but proposes to include taxes other than income in the calculation.³²

The end result of Ms. Sherwood’s recommendation is a total CWC calculation of \$1,403,299 or a reduction of \$19,701 to the calculation presented by the City. Her recommendation reduces the CWC allocated to Outside City Service by \$13,426.³³ The impact on revenue requirement is a reduction of \$882.00.

The City agrees with Ms. Sherwood that uncollectible expense should be excluded from the CWC calculation. The City also agrees, in theory, with Ms. Sherwood that the operating expenses included in the CWC calculation should reflect any changes to those expenses ultimately approved by the Commission. Inasmuch as the City disagrees, however, with most of Ms. Sherwood’s operation and maintenance expense adjustments, the City disagrees with her CWC adjustment.

Cash working capital has been adjusted in Exhibit CEH-1R to reflect the City’s adjustments to operation and maintenance expenses. The City’s total revised CWC is \$1,430,000 or an increase of \$7,000. The jurisdictional claim for Outside City Services is \$569,283, an increase of \$8,194. The CWC calculation increased because operations and maintenance

³⁰ City of Bethlehem St. No. 1 at 8.

³¹ Exhibit CEH-1 at 32.

³² City of Bethlehem St. No. 1R at 14.

³³ City of Bethlehem St. No. 1R at 14.

expense increased to \$4,650,083. The allocation to Outside City Service also increased due to the change in the cost allocation Exhibit CEH-2R.

D. Conclusion – Measures of Value

The City submits, as set forth above, that its Measure of Value claim of \$49,286,080 as presented in its Rebuttal Rate Study³⁴ is reasonable and appropriate and should be accepted by the Commission.

³⁴ Exhibit CEH 1R, Schedule 1-R, page 3 of 3.

VI. REVENUE

Pro forma revenue under present and proposed rates for Inside City Customers and Outside City Customers is presented on Schedule 2 of the Rate Study. At present rates, pro forma revenue for Outside City Service is \$8,334,533 as of December 31, 2020. At proposed rates, pro forma revenue for Outside City Service, as filed, is \$9,242,954.³⁵ Pro forma revenue under the settlement agreement is \$9,024,465. Neither OCA nor OSBA proposed any adjustments to the City's pro forma revenue claim under present rates.

³⁵ City of Bethlehem St. No. 1, Attachment 1, Schedule 2 and Exhibit CEH-1R, Schedule 2-R.

VII. EXPENSES

A. Operations and Maintenance Expenses – Introduction

In its initial filing, the City presented *total* pro forma Operation and Maintenance (“O&M”) Expenses of \$11,310,608 for the twelve months ended December 31, 2019 and \$11,338,488 for the twelve months ending December 31, 2020. The allocation to Outside City Services was \$4,537,800 for the twelve months ended December 31, 2019 and \$4,548,985 for the twelve months ending December 31, 2020.³⁶

The City revised the presentation of O&M Expenses in its Rebuttal Rate Study presenting *total* pro forma Operation and Maintenance Expenses of \$11,436,242 for the twelve months ended December 31, 2019 and \$11,503,143 for the twelve months ending December 31, 2020. The allocation to Outside City Services was revised to \$4,623,039 for the twelve months ended December 31, 2019 and \$4,650,083 for the twelve months ending December 31, 2020.³⁷

OCA witness Sherwood proposed several adjustments to the City’s O&M claim. Each of Ms. Sherwood’s adjustments is addressed below.

1. Uncollectible Account Expense

The City presented, in direct testimony of Ms. Heppenstall, an uncollectible account expense claim of \$109,620, based on 2019 uncollectible account expense of which \$39,584 is allocated to Outside City Service based on number of bills.³⁸ Ms. Sherwood accepted the claim and it is included in the City’s Rebuttal Rate Study.³⁹

³⁶ City of Bethlehem St. No. 1, Attachment 1, Schedule 1, pages 1 and 3 of 3.

³⁷ Exhibit CEH-1R, Schedule 1-R, pages 1 and 3 of 3.

³⁸ City of Bethlehem St. No. 1, Attachment 1, Schedule 2 and Exhibit CEH-1R, Schedule 2-R.

³⁹ Exhibit CEH-1R.

2. Rate Case Expense

The City presented an annual rate case expense claim of \$138,187 based on a three-year normalization of total rate case expense of \$414,560. Rate case expenses include legal fees, professional consulting fees for revenue requirement, rate base, rate of return, and rate design exhibits, supporting data and testimony as well customer notice expenses.⁴⁰

Ms. Sherwood did not challenge the dollar value of the claim. She did, however, propose to lengthen the normalization period from 3 years (36 months) to 52 months based on the average duration between the City's prior three rate cases. Lengthening the normalization period in this way produced an adjustment of \$42,519 to the claim.⁴¹

Reliance on intervals between recent rate cases as proposed by Ms. Sherwood produces an unreasonable result. The City's immediate prior three rate cases were filed in 2007, 2011 and 2013. Historically, however, prior to 2007, the City filed rate cases every two years. The recent period of extended intervals was abnormal for the City and occurred as the City was involved in a long running rate case related dispute with Lower Saucon Township, even after it had settled with the other parties to the case.⁴²

Furthermore, the results of the 2013 rate case (Docket No. R-2013-2390244), which occurred two years after the 2011 rate case provided settlement terms for the City to meet which took longer than two years to address. Two of these terms are a customer demand study that took

⁴⁰ City of Bethlehem St. No. 1 at 5 and Attachment A, Schedule 6, page 2 of 4 and Exhibit CEH-1R, Schedule 6-R, page 2 of 4.

⁴¹ City of Bethlehem St. No. 1R at 6.

⁴² City of Bethlehem St. No. 1R at 6.

14 months to carry out and an evaluation and implementation project to install radio-frequency meter reading technology.⁴³

The normalization of rate case expense over several years is appropriate as the expense for a rate case is only incurred during the period of the actual rate case but the benefits of increased rates last more than one year. A three-year normalization period is reasonable as it acknowledges that rate case expense should be spread over a period of years, but also does not penalize the City for delaying a rate case due to costs, requirements from the previous case, and limited resources.⁴⁴

Ultimately, extending the normalization period as proposed by Ms. Sherwood places the City at risk for under recovery of rate case expense. Additionally, while rate case expense would be normalized over a number of months, the actual cash outlay for the expense occurs at the present time. While rate case intervals prior to 2007 would have supported a normalization period of two years or 24 months, the City presented its claim on a more extended 3 year or 36 month period.

Ms. Sherwood, in surrebuttal testimony, adjusted her Rate Case Expense allowance to reflect the amount spent to date on rate case expense which, at that time, in early December 2020, totaled \$259,402. Ms. Sherwood then used the 52-month normalization period and the amount spent to date to adjust the expense to \$59,862, which is \$78,325 less than the City rate case expense claim of \$138,187. The City projects rate case expense for a fully litigated case of \$414,560. As litigation with the OCA and OSBA is continuing, the City will continue to incur

⁴³ City of Bethlehem St. No. 1R at 6.

⁴⁴ City of Bethlehem St. No. 1R at 6.

rate case expense and submits that its normalized claim of \$138,187 is reasonable and appropriate.

3. Professional Services Expense

The City presented a claim for Professional Services Expense of \$59,560 related to the Customer Demand Study, which it normalized over ten years.⁴⁵ Ms. Sherwood adjusted the pre-normalized claim by \$570 after reviewing invoices provided in the City's response to I&E-RE-30. The City accepted the adjustment, which reduces the normalized expense claim by \$57, and reflected it in the Rebuttal Rate Study.⁴⁶

4. Salaries and Wages Expense

The City's claim for Salaries and Wage Expense includes an increase in union contract wages effective January 1, 2021. Ms. Sherwood proposed to remove the increase from the revenue requirement calculation by adjusting Salaries and Wage Expense to 2020 pro forma levels. The adjustment reduces Salaries and Wage Expense by \$79,697 – \$30,802 on a jurisdictional basis – on the theory that the increase falls outside the test period as the wage increase will not take effect until January 1, 2021.

The wage increase is known, measurable and certain to occur as it is required by union contract. It takes effect on January 1, 2021, just one day past the end of the future test year. The ratemaking process is not so rigid that this known, measurable and certain wage increase cannot be part of the revenue requirement determination.

The City's claim is, in fact, consistent with past Commission decisions. The Commission accepted, for ratemaking purposes, a similar union required wage increase occurring one day

⁴⁵ City of Bethlehem St. No. 1, Attachment A, Schedule 6, page 2 of 4.

⁴⁶ City of Bethlehem St. No. 1R at 6 and Exhibit CEH-1R, Schedule 6-R, page 2 of 4.

after the end of the future test year in the City's 1994 rate proceeding.⁴⁷ In *Pa. P.U.C. v. Keystone Water Company*, 58 Pa. P.U.C. 437, 454-456 (1984), the Commission explained that salary increases taking effect one day after the end of the future test year have been allowed for rate purposes in a number of Commission decisions.

The City's claim is reasonable and appropriate. Ms. Sherwood's opposition to it should be given no weight.

5. Social Security Expense

As a companion adjustment to her Salaries and Wage Expense adjustment, Ms. Sherwood proposes a \$6,096 adjustment – \$2,356 on a jurisdictional basis – to Social Security and Medicare expense. This concomitant adjustment to Social Security Expense is inappropriate for the reasons set forth above in the discussion of Ms. Sherwood's adjustment to Salaries and Wage Expense.

6. East Allen Township Expense

Under the heading East Allen Township Expense, Ms. Sherwood proposed adjustments to "equipment maintenance" and "other expenses" expense accounts, which she characterized as one-time or fluctuating expenses. She recommended normalizing these expenses over a three-year period, 2017 through 2019. Her *total* proposed adjustment is \$45,212 – \$16,692 allocated to jurisdictional service.⁴⁸

The increase in "other expenses," which Ms. Sherwood proposed to normalize, concerned increases in costs due to DEP regulations. In rebuttal, the City pointed out that the increase in these DEP related costs was known and measurable and the expected level of this expense going

⁴⁷ *Pa. P.U.C. v. City of Bethlehem (Water)*, 160 PUR 4th 375, 386 (Pa. P.U.C. 1995)

⁴⁸ City of Bethlehem St. No. 1R at 10.

forward. Upon further consideration, Ms. Sherwood, in surrebuttal testimony, accepted the “other expenses” cost level related to the DEP regulation expense.⁴⁹

The City’s claim for “equipment maintenance” expense, which remains unresolved, is based on the expense actually incurred during 2019. Ms. Sherwood proposed to adjust the claim to a “normalized” level based on the three-year average of the expense incurred during 2017, 2018 and 2019. The adjustment *totals* \$17,838 of which \$6,586 is allocated to jurisdictional Outside City Service.⁵⁰ The ‘equipment maintenance’ expense incurred in 2019 was the result of emergency repairs. While the incurred expense is higher than the previous two years, the City experiences emergency equipment repairs every year in order to operate and maintain an aging plant and infrastructure and meet all regulatory requirements. The level of incurred expense in 2019 was reasonably incurred and should be accepted as the reasonable and appropriate level of the expense going forward.

7. Water Filtration Expense

Under the heading of Water Filtration Expense, Ms. Sherwood proposed adjustments to Department Contracts, Heating Oil and Equipment Maintenance totaling \$40,577 of which \$14,981 was allocated to jurisdictional Outside City Service. Each topic is discussed below.

a. Department Contracts

The City, in rebuttal testimony, explained that Ms. Sherwood used incorrect values in her proposed adjustment. Ms. Sherwood, in surrebuttal testimony, adjusted the Water Department contracts to reflect the actual expenses from 2017 through 2019 to determine the normalized

⁴⁹ OCA St. No. 2S at 7.

⁵⁰ Ms. Sherwood acknowledged that she had mistakenly accounted for the effect of her adjustment twice and in surrebuttal testimony removed the doubling effect of the adjustment from her analysis. See City of Bethlehem St. No. 1R at 10-11 and OCA St. No. 2S at 6.

expense level for the future test year in her analysis.⁵¹ Although Ms. Sherwood corrected her numbers, the City disagrees with her continued normalization of the claim. The City’s claim of \$196,413, of which \$79,272 is allocated to jurisdictional Outside City Service, is reasonable and appropriate. Ms. Sherwood’s proposed adjustment, which totals \$1,270, of which \$469 was allocated to jurisdictional Outside City Service, should be denied.

b. Heating Oil

Ms. Sherwood adjusted the claim for heating oil because, in her view, the cost would fluctuate. In rebuttal testimony, the City explained that heating oil expense did not fluctuate between 2017 and 2019 but, rather, increased from year to year. Consequently, the City contended that its claim, which is based on the expense during the historic test year, is appropriate. Ms. Sherwood accepted the City’s claim in her surrebuttal testimony, thus, resolving the issue.⁵²

c. Equipment Maintenance

The City’s claim for “equipment maintenance” expense, which remains in dispute, is based on the expense actually incurred during 2019. Similar to her adjustment to “equipment maintenance” expense for East Allen Township discussed above, Ms. Sherwood proposed to adjust the claim to a “normalized” level based on the three-year average of the expense incurred during 2017, 2018 and 2019. The adjustment *totals* \$24,728 of which \$9,130 is allocated to jurisdictional Outside City Service. The ‘equipment maintenance’ expense incurred in 2019 was due to necessary and emergency repairs. While the incurred expense is higher than the previous two years, the City experiences necessary and emergency equipment repairs every year in order

⁵¹ OCA St. No. 2S at 8.

⁵² OCA St. No. 2S at 7.

to operate and maintain an aging plant and infrastructure and meet all regulatory requirements. The level of incurred expense in 2019 was reasonably incurred and should be accepted as the reasonable and appropriate level of the expense going forward.

8. Chemical Expense

In direct testimony, Ms. Sherwood proposed adjustments to the City's claims for fluoride and caustic soda in amounts of \$2,930 and \$6,270, respectively. The City, thereafter, adjusted its claim for fluoride based on a selected bid price of \$414 per ton for the months of December 1, 2020 through November 20, 2021 and submitted additional information in Exhibit CEH-4R in support of a price of \$698.24 per ton of caustic soda.⁵³ In its Rebuttal Rate Study, the City presented *total* chemical expense of \$214,414⁵⁴ of which \$79,162 is jurisdiction for Outside City Service. Ms. Sherwood agreed with the City's rebuttal position in her surrebuttal testimony.⁵⁵

B. Depreciation Expense

In its initial filing, the City presented *total* pro forma Depreciation Expense of \$2,613,365 for the twelve months ended December 31, 2019 and \$2,675,569 for the twelve months ending December 31, 2020. The allocation to Outside City Services was \$1,012,772 for the twelve months ended December 31, 2019 and \$1,036,879 for the twelve months ending December 31, 2020.⁵⁶

The City revised its claim for future test year Depreciation Expense in its Rebuttal Rate Study based on adjustments to plant in service discussed in City of Bethlehem Statement No. 3R. Total Depreciation Expense for the twelve months ending December 31, 2020, was reduced.

⁵³ City of Bethlehem St. No. 1R at 12-13.

⁵⁴ Exhibit CEH-1R, Schedule 6-R, page 1 of 4.

⁵⁵ OCA St. No. 2S at 8.

⁵⁶ City of Bethlehem St. No. 1, Attachment 1, Schedule 1, pages 1 and 3 of 3.

However, the amount allocated to jurisdictional Outside City Service increased as a result of changes to allocation factors.⁵⁷ The City's revised claim for *total* pro forma Depreciation Expense is \$2,672,182 for the twelve months ending December 31, 2020. The allocation to Outside City Services was revised to \$1,043,475 for the twelve months ending December 31, 2020.⁵⁸

⁵⁷ Exhibit CEH-2R, Schedule D-R, page 3 of 3.

⁵⁸ Exhibit CEH-1R, Schedule 1-R, pages 1 and 3 of 3.

VIII. RATE OF RETURN

A. Introduction

The City claims an overall rate of return of 8.21%, including a cost of common equity capital of 10.20% as follows:⁵⁹

	<u>Recommended Ratios</u>	<u>Cost Ratios</u>	<u>Weighted Cost</u>
Debt	45.0%	5.77%	2.60%
Fund Equity	55.0%	10.20%	5.61%
Overall	100.0%		8.21%

Alternatively, if the Commission decides to adjust the City's common equity cost rate to reflect the income tax status of the City's "investors," the City's cost rate for common equity capital is 8.77% with an overall rate of return of 7.42%.⁶⁰

The components of the City's rate of return claim are addressed below.

B. Capital Structure Ratios

Section 1301(b) of the Code provides that "[i]n determining a just and reasonable rate furnished or rendered by a municipal corporation or by the operating agencies of a municipal corporation providing public utility water or wastewater service beyond its corporate limits, the commission shall employ an imputed capital structure of comparable public utilities providing water or wastewater service."

Consistent with Section 1301(b), the City's capital structure ratios are based on an imputed capital structure at December 31, 2020, of 45% long term debt and 55% equity, representing the current water industry practice and consistent with the Comparable Group's

⁵⁹ City of Bethlehem St. No. 2, Exhibit HW-1, Schedule 2.

⁶⁰ City of Bethlehem St. No. 2 at 2. The City's Rate Study and calculation of revenue requirement are based on

capital structure ratios.⁶¹ The ratios are similar to the ratios employed by other investor-owned water companies.⁶² A comparison of the City’s proposed capital structure ratios to those recently employed and forecasted to be employed by the Comparable Group, which support the City’s claim, is shown in the following Table:

<u>Comparison of Capital Structure Ratios</u>			
	Bureau of	Water Group	
	Water	At	Projected
	At	At	2023
	<u>12/31/2020</u>	<u>9/30/2019</u>	<u>2023</u>
Debt	45.0	46.7	43.4
Preferred Stock	0.0	0.1	0.0
Common Equity	<u>55.0</u>	<u>53.2</u>	<u>56.6</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

OCA witness Garrett recommended a capital structure of 48% debt and 52% equity based upon the average projected capital structure for his comparison group. Mr. Garrett relied on a multiple of sources for his recommendation and some of his sources may have included short term debt. Short term debt should not be included in ratemaking capital structure as it is a temporary source of financing for Construction-Work-In-Progress, a non-rate base component.⁶³

the tax adjusted rate of return of 7.42%. City of Bethlehem St. No. 1, Attachment 1 at 4 and Schedule 1, page 3 of 3.

⁶¹ The Comparable Group Companies are American States Water Co., American Water Works Co., Inc., Aqua America, Inc., California Water Service Gp., Middlesex Water Co., SJW Corp. and York Water Co. City of Bethlehem St. No. 2 at 12.

⁶² City of Bethlehem St. No. 2, Exhibit HW-1, Schedule 2, pages 1 and 2.

⁶³ City of Bethlehem St. No. 2R at 6.

The most recent capital structure ratios projected for Mr. Garrett’s comparison companies are shown in the following Table. The data demonstrates that Mr. Garrett’s comparison companies are projected to have a common equity ratio of 56.3% common equity, not the relatively low 52% he recommends.

	Estimated at 2024	
	Long-term Debt	Common Equity
<u>Water Group Followed by Analysts</u>		
American States Water Co	49.5	51.5
American Water Works Co Inc	59.0	41.0
California Water Service Gp	43.5	56.5
Essential Utilities, Inc.	40.5	59.5
Middlesex Water Co	39.0	60.5
SJW Corp	39.0	61.0
York Water Co	<u>36.0</u>	<u>64.0</u>
 Average	 <u>43.8</u>	 <u>56.3</u>
Source of Information: Value Line Investment Survey, 10/9/20		

A common equity ratio of 55% as proposed in the City’s rate of return claim is supported by the evidence of record, reasonable and appropriate for ratemaking purposes and consistent with Section 1301(b) of the Code.

C. Cost of Debt

The City rate of return claim includes an embedded cost of debt of 5.77%.⁶⁴ The embedded cost rate for debt capital is determined by employing a cost rate to maturity calculation, using as inputs, the coupon rate, net proceeds ratio, and term in years. Once the cost

⁶⁴ City of Bethlehem St. No. 2 at 17 and Exhibit HW-1, Schedule 3.

rate to maturity, or effective cost rate, is determined for each issue, it is weighted according to the amount of capital outstanding for each series to determine the weighted composite cost or the embedded cost. Mr. Garrett accepted 5.77% as the City's embedded long-term debt cost rate.⁶⁵ A long-term debt cost rate of 5.77% is supported by the evidence of record and reasonable and appropriate for ratemaking purposes.

D. Cost of Common Equity Capital

There is no single method or model suitable for estimating the cost rate for common equity. The National Society of Rate of Return Analysts states that “[n]o cost of equity model or other concept is recommended or emphasized, nor is any procedure for employing any model recommended . . . it remains important to recognize that alternative methods exist and have merit in cost of capital estimation.”⁶⁶

Mr. Walker used three recognized methods or models to estimate the cost of common equity capital: the Discounted Cash Flow (“DCF”) method shown on Schedule 12; the Capital Asset Pricing Model (“CAPM”) shown on Schedule 17, and the Risk Premium (“RP”) method shown on Schedule 18.⁶⁷

Based upon the results of the DCF, CAPM and RP models, the Water Group's common equity cost rate is in the range of 9.8% to 10.4% and the common equity cost rate for the Water Group is at least 10.10%. The City, however, has a greater investment risk than the Comparable Group as evidenced by its small size, visible lower credit rating and the other factors.⁶⁸ The

⁶⁵ City of Bethlehem St. No. 2 at 17 and Statement No. 2R at 8.

⁶⁶ City of Bethlehem St. No. 2 at 38.

⁶⁷ City of Bethlehem St. No. 2 at 38. The references to “Schedules” are to those Schedules in City of Bethlehem St. No. 2, Exhibit HW-1.

⁶⁸ City of Bethlehem St. No. 2 at 60-61.

difference in bond rating between the City (BBB rating) and the Comparable Companies (A rating) suggests a minimum 10-basis point difference in long-term debt cost rates. Adding the 0.10% risk adjustment shows a current range of common equity cost of 10.20% (DCF), 9.90% (CAPM), and 10.50% (RP).⁶⁹ Mr. Walker recommended a 10.20% common equity cost rate for Bureau of Water.⁷⁰

Mr. Walker also presented an alternative recommended common equity cost rate should the Commission decide to adjust the return to reflect the maximum income tax status of City investors. Mr. Walker explained that, in past cases the Commission has relied upon bond yield spreads between public utility and General Obligation (“GO”) bonds to make the adjustment. Current yield spreads between public utility and GO bonds shows the maximum income tax adjustment is 14%. Applying the 14% income tax adjustment to his primary recommendation of 10.20% produces a tax-adjusted, common equity return of 8.77% for the Bureau of Water.⁷¹

Mr. Walker confirmed the reasonableness of his recommendation by reviewing the average projected earned return on average book common equity for the Comparable Group for the period 2022-2024, which is shown to range from 9.5% to 14.0%. Given the large degree to which regulatory lag and attrition impacts water utilities’ earnings, the range of the comparable utilities projected earned returns suggests that an opportunity to earn 10.20% is reasonable, if not conservative.⁷²

Based upon the recommended capital structure and recommended common equity cost rate, Mr. Walker recommended an overall fair rate of return of 8.21%. Should the Commission

⁶⁹ City of Bethlehem St. No. 2 at 61.

⁷⁰ City of Bethlehem St. No. 2 at 61-62 and Exhibit HW-1, Schedule 19.

⁷¹ City of Bethlehem St. No. 2 at 62.

⁷² City of Bethlehem St. No. 2 at 62-63 and Exhibit HW-1, Schedule 14.

decide to adjust the return to reflect the income tax status of the City investors, his overall fair rate of return recommendation would be 7.42%.⁷³ If Mr. Walker's recommended return were actually earned, it will give the City a financial profile that will enable it to attract capital necessary to provide safe and reliable water service, at reasonable terms.⁷⁴

1. The Testimony of OCA Witness Garrett

OCA witness Garrett proposed a return on equity of 8.50% for the Bureau of Water, which is reduced to 7.31% by his tax adjustment.⁷⁵ Mr. Garrett relied on the DCF and CAPM methods to support his recommendation.

a. Violation of Basic Precepts

Mr. Walker cited two fundamental disagreements with Mr. Garrett:⁷⁶

- His recommended return on equity and related overall rate of return does not afford the Bureau of Water the opportunity to earn a fair rate of return; and
- OCA's proposal shows a lack of understanding of the precepts of a fair rate of return, including the comparable earnings standard, capital attraction standard, and the financial integrity standard.

In *Bluefield*, a fair rate of return is defined as: (1) equal to the return on investments in other business undertakings with the same level of risks (the comparable earnings standard); (2) sufficient to assure confidence in the financial soundness of a utility (the financial integrity standard); (3) will maintain and support its credit, enabling the utility to raise or attract additional capital necessary to provide reliable service (the capital attraction standard).⁷⁷

⁷³ City of Bethlehem St. No. 2 at 63 and Exhibit HW-1, Schedules 1 and 21.

⁷⁴ City of Bethlehem St. No. 2 at 63.

⁷⁵ There is no disagreement between Mr. Garrett and Mr. Walker in respect to the tax adjustment factor if the Commission decides to make one. Both witnesses used the income tax factor adjustment of 14%. City of Bethlehem St. No. 2R at 27.

⁷⁶ City of Bethlehem St. No. 2R at 2.

⁷⁷ City of Bethlehem St. No. 2R at 3.

Mr. Garrett's rate of return recommendation shows a lack of understanding of the precepts of a fair rate of return, including the comparable earnings standard; capital attraction standard, and the financial integrity standard. His testimony is couched with innuendos that the City's ownership of the Bureau of Water reduces the risk of providing service to outside customers. He did *not* suggest, however, that a multi-state investor owned utility should be afforded something less than a fair rate of return because they are owned by large holding companies or that their rates in Pennsylvania should be subsidized by non-jurisdictional rate payers. Yet, that is what Mr. Garrett recommends for the Bureau of Water.⁷⁸

The City is entitled to a return that will enable it to attract additional capital, not only subsidized, below-market cost GO Bond capital raised, and then assigned, by the City of Bethlehem. The credit that enables GO bonds to be issued is the taxing power of the issuing entity and the tax paying ability of the entity's taxpayers. A fair rate of return for the Bureau of Water is the credit that should enable the Bureau of Water to attract capital regardless of the City's ability to levy taxes.⁷⁹

The risk of providing service to Outside City Customers is not mitigated simply because the City can tax non-jurisdictional taxpayers or because the City can change rates for Inside City Customers. Risk does not change with ownership. Mr. Garrett's recommendations offers no incentive to investors to invest in municipal water assets when higher returns are available from less risky municipal bonds. Investors will not provide capital and should not be forced to provide capital when higher risk-adjusted returns are available.⁸⁰

⁷⁸ City of Bethlehem St. No. 2R at 4.

⁷⁹ City of Bethlehem St. No. 2R at 4.

⁸⁰ City of Bethlehem St. No. 2R at 4-5.

In the end, Mr. Garrett has failed to properly apply fundamental rate of return precepts. His recommended return is significantly understated and should be given no weight.

b. Mr. Garrett's DCF Method

Mr. Garrett recommends a market value DCF of 6.1% for his proxy group which is 355-basis points less than the market value DCF of the I&E witness and, obviously, far below any zone of reasonableness. Mr. Garrett's market value DCF of 6.1% is a result of his inappropriate reliance on two inputs or factors: sole reliance on an inappropriate, short term, 30-day yield measurement component; and an inappropriate growth component based on a 30-year measure of growth for the overall national economy as measured by the nominal growth in economic output ("GDP").⁸¹

i. 30-Day Measure of Yield

As to the first input or factor, a 30-day measure of yield is *not* appropriate because it allows for undue impact of irregularities that may arise from using a short measurement period. Further, there is a significant length of time from the beginning of the preparation of a rate filing, the filing of the application and when testimony is due which justifies the use of a longer, 12-month measurement period.⁸²

ii. Growth in the National Economy

As to the second input or factor, the growth in the value of GDP for the overall national economy does *not* provide a reasonable measure for the growth of the comparison companies. It's unrealistically low. Over the past 30 years (1989-2019), nominal GDP increased by 280% while the comparison companies' revenues increased 510%, or 82% more than GDP. The

⁸¹ City of Bethlehem St. No. 2R at 14-16.

⁸² City of Bethlehem St. No. 2R at 14.

comparison companies are expected to continue to grow faster than the overall economy for the next several decades, if not for the next century, through consolidation and acquisition of Government controlled water/wastewater establishments and small investor-owned utilities.⁸³

While Mr. Garrett's DCF growth estimate is unrealistically low, it is also not used by investors. Investors' expectations are based on expected future growth, *not* Mr. Garrett's unique growth rate. Analysts' forecasts are relied upon by investors when they price utility stocks.⁸⁴ Value Line's projected earned returns on common equity for Mr. Garrett's proxy group, upon which investors would rely, range from 9.5% to 14.0% while Mr. Garrett's DCF recommendation is 6.1%. Adopting Mr. Garrett's recommended 6.1% DCF result would significantly understate the cost rate for common equity capital and would place the Bureau of Water at a competitive disadvantage in the competition to attract needed capital.

iii. Other DCF Considerations

Mr. Walker identified additional difficulties with Mr. Garrett's DCF analysis:

- Effectively, there is no distinction between a market return and an accounting return. The ROE that the Commission will determine in this case will become Bureau of Water's accounting ROE benchmark by which under-earning and over-earning will be measured. If Mr. Garrett's proxy group is earning an accounting return of 9.5% to 14.0% while Bureau of Water earns only 6.1%, it places Bureau of Water at a competitive disadvantage in the competition to attract capital.⁸⁵
- Mr. Walker did not assume a 9.2% growth rate as contended by Mr. Garrett. Mr. Walker used a 7.2% growth rate in his DCF model based on the average projected growth in earnings per share.⁸⁶

⁸³ City of Bethlehem St. No. 2R at 14-16.

⁸⁴ Mr. Walker and the I&E witness both used published projected growth in earnings per share of their comparison companies in their DCF methods. City of Bethlehem St. No. 2 at 18.

⁸⁵ City of Bethlehem St. No. 2R at 17-18.

⁸⁶ City of Bethlehem St. No. 2R at 18.

iv. Conclusion – Mr. Garrett’s DCF Methodology

Mr. Garrett’s DCF methodology is based on inappropriate inputs for both yield and growth. It produces a result which is unreasonably and should be given no weight.

c. Mr. Garrett’s CAPM Method

Mr. Garrett recommends an average market value CAPM of 5.9%, which is 352-basis points less than the market value CAPM of the I&E witness and, obviously, far below any zone of reasonableness. Data for Mr. Garrett’s proxy group confirms that his CAPM result is too low. His proxy group projected accounting return of 9.5% to 14.0% is **360-basis points to 810-basis points higher** than his recommended market value CAPM of 5.9%.⁸⁷

Mr. Garrett’s CAPM reflects market premiums he gathered from six articles published at various times since 2015. The projections made in his sourced articles have substantially underestimated the actual market premium earned from investing. This can be proven from the information shown on Mr. Garrett’s Exhibit DJG-14 by subtracting the risk-free rate (column 5) from the actual market return (column 4) to produce the annual market premium for each year from 2015 to date. The results prove that the average annual market premiums have been substantially higher than the projected 4.4% to 6.0% premium which Mr. Garrett incorporated in his CAPM.⁸⁸ Investors in the market have not relied, and do not rely, upon the articles used by Mr. Garrett since the projected market premiums cited in the articles are considerably below the returns earned from investing.⁸⁹

⁸⁷ City of Bethlehem St. No. 2R at 23-25.

⁸⁸ City of Bethlehem St. No. 2R at 24.

⁸⁹ City of Bethlehem St. No. 2R at 24-25.

Mr. Garrett also failed to reflect the required CAPM size premium in his CAPM analysis. The size premium reflects the risks associated with Mr. Garrett's proxy group's small size and its impact on the determination of their beta. This adjustment is necessary because beta (systematic risk) does not capture or reflect the proxy group's small size. According to Brealey, Myers, and Allen, "the relationship among stock returns and firm size and book-to-market ratio has been well documented."⁹⁰ Brealey, Myers, and Allen also state that "between 1926 and 2008 the difference between the annual returns on small and large capitalization stocks averaged 3.6%" which should be included in Mr. Garrett's CAPM.⁹¹

The market value derived CAPM cost rate reflects the financial risk or leverage associated with **capitalization ratios based on market value**, not book value. As explained previously, there is a large difference in the market capitalization ratios and the book capitalization for OCA's proxy group. The larger the difference between market values and book values the less reliable the models' results are because **the models provide an estimate of the cost of capital of market value**, not book value.

d. Additional Comments Regarding OCA's Common Equity Cost Rate

Mr. Garrett's recommended common equity cost rate of 8.5% is based on his recommended cost of equity of 6.0%.⁹² This subjective adjustment shows the flaw in Mr. Garrett's analysis, as he is left only with a subjective judgment as to how much to increase his recommendation above his own 6% results. The average projected earned return on average book common equity for the companies in the Comparable Group of 9.5% to 14.0% is **100-basis**

⁹⁰ Brealey, Myers and Allen, Principles of Corporate Finance, 10th edition, page 198.

⁹¹ City of Bethlehem St. No. 2R at 21-22.

⁹² See OCA St. No. 3, at 10 – "An awarded ROE of 8.5% represents a relatively gradual, yet decisive move toward Bethlehem's market-based cost of equity, while still providing Bethlehem's shareholders with the opportunity

points to 550-basis points higher than Mr. Garrett's recommendation for the Bureau of Water of 8.50% and highlights the inadequacy of Mr. Garrett's recommendation.⁹³

2. Response to Mr. Garrett's Criticism of Mr. Walker's Testimony

Mr. Garrett criticized Mr. Walker's CAPM method stating that, in his view, Mr. Walker's projected bond yield estimates are upwardly biased and that the current, verifiable risk free rate is considerably lower than Mr. Walker's risk-free rate causing his CAPM result to be upwardly biased

Mr. Walker relied on a number of sources as the basis for his risk-free rate including the average yield of treasury futures contracts of 2.7%, average blue chip financial forecast for the next five quarters of 2.4%, the 12-month average yield of 30-year bonds of 2.5% and the current spot yield of 2.2%. These data points all support Mr. Walker's risk-free rate of 2.4% used in his CAPM method.⁹⁴

E. Conclusion – Rate of Return

The evidence of record demonstrates that the City's overall rate of return is 8.21%, including a cost of common equity capital of 10.20%. Alternatively, if the Commission decides to adjust the City's common equity cost rate to reflect the income tax status of the City's "investors," the City's cost rate for common equity capital is 8.98% with an overall rate of return of 7.42%.⁹⁵ The recommendation of OCA witness Garrett should be given no weight.

to earn a return that is about 250 basis points above Bethlehem's market-based cost of equity (8.5% vs. 6.0%)."

⁹³ City of Bethlehem St. No. 2R at 26.

⁹⁴ City of Bethlehem St. No. 2R at 32-33.

⁹⁵ The City's Rate Study and calculation of revenue requirement are based on the tax adjusted rate of return of 7.42%. City of Bethlehem St. No. 1, Attachment 1 at 4 and Schedule 1, page 3 of 3.

IX. TAXES

The City did not present a ratemaking claim for income taxes. It presented *total* Taxes, Other Than Income Taxes of \$47,584,⁹⁶ of which \$17,568 was allocated to jurisdictional Outside City Service.⁹⁷ The City's claim was not challenged by either OCA or OSBA.

⁹⁶ City of Bethlehem St. No. 1, Attachment 1, Schedule 1 page 1 of 3 and Exhibit CEH-1R, Schedule 1-R, page 1 of 3.

⁹⁷ City of Bethlehem St. No. 1, Attachment 1, Schedule 1 page 3 of 3 and Exhibit CEH-1R, Schedule 1-R, page 3 of 3.

X. RATE STRUCTURE / RATE DESIGN

The City prepared and submitted a Demand Study pursuant to the Joint Petition for Settlement at Docket No. R-2013-2390244.⁹⁸ The City monitored inside and outside City customers for a total of 161 residential customers, 30 commercial and public customers, 16 industrial customers and all 17 of the sales for resale customers. The results of the Demand Study were presented in Exhibit CEH-2 and revised in Exhibit CEH-3R. The resulting peaking factors were used in the City's cost of service study presented in Exhibit CEH-2R – Rebuttal Cost of Service Allocation Study for the Test Year Ended December 31, 2020.⁹⁹

The proposed rate design for Outside-City Customers in Supplement No. 15 maintains a monthly or quarterly customer charge by meter size for all customer classifications and a separate, single block consumption charge for all customer classifications. A comparison of present and proposed inside and outside-City rates is set forth on Schedule H of Exhibit CEH-1.¹⁰⁰

To recover the proposed rate increase, the City proposed to increase the single block consumption rate for all customer classes while leaving the customer charges unchanged. The City proposed to increase the residential consumption charge from \$4.266 per thousand gallons to \$5.067 per thousand gallons. For non-residential (commercial, industrial and public) and other water utilities, the City proposed to increase the consumption charge from \$3.333 per thousand

⁹⁸ City of Bethlehem St. No. 1 at 3.

⁹⁹ The Demand Study included in the record as Exhibit CEH-2 was prepared in April 2020. Additional data for the Sales for Resale class was gathered during the Summer of 2020 and submitted with Ms. Heppenstall's direct testimony as Exhibit CEH-3 – Revised Table II-7 of the Demand Study. The original and revised data was brought together and used in Exhibit CEH-2R – Rebuttal Cost of Service Allocation Study for the Test Year Ended December 31, 2020.

¹⁰⁰ City of Bethlehem St. No. 1 at 17.

gallons to \$4.066 per thousand gallons and from \$3.969 per thousand gallons to \$4.029 per thousand gallons, respectively.¹⁰¹

In settlement with I&E, the City has agreed to the scale back of rates as proposed by OSBA witness Kalcic. Ms. Heppenstall agreed with Mr. Kalcic's proposed scale back of rates in her rebuttal testimony. Ms. Heppenstall explained that Mr. Kalcic had revised his cost of service study to reflect the 2020 summer peak information for the Sales for Resale class as presented in Exhibit CEH-3R and that the results of Mr. Kalcic's revised study increased the cost of service for the Sales for Resale class. Mr. Kalcic's recommended revenue allocation appropriately reflects the appropriate change in the cost of service as it considers the full cost to service for the Sales for Resale class.¹⁰²

To recover the rate increase under settlement, the City and I&E agreed to increase the single block consumption rate for all customer classes while leaving the customer charges unchanged. The City proposed to increase the residential consumption charge from \$4.266 per thousand gallons to \$4.782 per thousand gallons. For non-residential (commercial, industrial and public) and other water utilities, the City proposed to increase the consumption charge from \$3.333 per thousand gallons to \$3.843 per thousand gallons and from \$3.969 per thousand gallons to \$4.498 per thousand gallons, respectively. The settlement scale back increases rates in a narrow range of 8.2% to 12.6%.¹⁰³

¹⁰¹ City of Bethlehem St. No. 1 at 17.

¹⁰² City of Bethlehem St. No. 1 at 17.

¹⁰³ See Joint Petition for Approval of Partial Settlement, Appendix A – Proof of Revenue.

XI. MISCELLANEOUS ISSUES

Miscellaneous issues raised in the testimony of OCA witness Fought have been resolved by Stipulation with the OCA. The Stipulation, which is attached as Attachment B, addresses Valve Exercising, Fire Hydrants, Pressure Surveys, Unaccounted for Water,¹⁰⁴ Customer Complaints and Customer Meter Age. The City submits that the Stipulation is reasonable and appropriate and should be accepted in resolution of issues raised by Mr. Fought.

¹⁰⁴ The Stipulation Term addressing Unaccounted for Water is identical to the term presented by the City and I&E in the Joint Petition.

XII. CONCLUSION

The City submits that the Commission should approve the Joint Petition for Approval of Partial Settlement of Rate Investigation, without modification, and accept the rates proposed in the Joint Petition as just and reasonable and consistent with Section 1301 of the Code. The Joint Petition provides for an increase in annual revenue for Outside City Service of \$689,932 in lieu of the originally proposed increase of \$908,421. In doing so, the Commission should reject the ratemaking adjustments proposed by OCA and by OSBA and dismiss their respective Complaints with prejudice.

Respectfully submitted,

By 

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DATED: December 30, 2020

MAIN BRIEF TABLES

TABLE I
CITY OF BETHLEHEM - BUREAU OF WATER
INCOME SUMMARY
R-2020-3020256

	Pro Forma Present Rates	Company Adjustments (1)	Pro Forma Rates (Revised) (1)	ALJ Adjustments	Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	8,307,603	26,930	8,334,533	0	8,334,533	908,421	9,242,954
Expenses:							
O & M Expense	4,623,039	27,045	4,650,083	0	4,650,083	0	4,650,083
Depreciation	1,020,508	22,967	1,043,475	0	1,043,475	0	1,043,475
Taxes, Other	17,568	0	17,568	0	17,568	0	17,568
Income Taxes:							
State	0	0	0	0	0	0	0
Federal	0	0	0	0	0	0	0
Total Expenses	5,661,114	50,013	5,711,127	0	5,711,127	0	5,711,127
Net Inc. Available for Return	2,646,489	(23,083)	2,623,406	0	2,623,406	908,421	3,531,827
Rate Base	48,694,512	591,564	49,286,076	0	49,286,076		49,286,076
Rate of Return	5.43%		5.32%				7.17000000%

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TABLE I(A)
 CITY OF BETHLEHEM - BUREAU OF WATER
 RATE OF RETURN
 R-2020-3020256

Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt				
Long-term Debt	45.00%	2.596500000%		2.60%
Short-term Debt	0.00%	0.000000000%		
Preferred Stock	0.00%	0.000000000%	1.000000	0.00%
Common Equity	55.00%	4.823500000%	1.000000	4.82%
	<u>100.00%</u>	<u>7.420000000%</u>		<u>7.42%</u>

Pre-Tax Interest Coverage 2.86

After-Tax Interest Coverage 2.86

TABLE I(B)
 CITY OF BETHLEHEM - BUREAU OF WATER
 REVENUE FACTOR
 R-2020-3020256

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (*)	0.00474937
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.00000000
Other Tax Factors	<u>0.00000000</u>
	0.99525063
State Income Tax Rate (*)	<u>0.00000000</u>
Effective State Income Tax Rate	<u>0.00000000</u>
Factor After Local and State Taxes	0.99525063
Federal Income Tax Rate (*)	<u>0.00000000</u>
Effective Federal Income Tax Rate	<u>0.00000000</u>
Revenue Factor (100% - Effective Tax Rates)	<u><u>0.99525063</u></u>

(*) Company Main Brief

TABLE II
 CITY OF BETHLEHEM - BUREAU OF WATER
 SUMMARY OF ADJUSTMENTS
 R-2020-3020256

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(VI/B38)						
Taxes (Table V)	(VI/P34)						
O & M (Table VI)	(VI/B42)						
REVENUES:		0				0	0
EXPENSES:			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
TAXES:							
Interest Synchronization (Table III)						0	0
TOTALS	0	0	0	0	0	0	0

TABLE III
 CITY OF BETHLEHEM - BUREAU OF WATER
 INTEREST SYNCHRONIZATION
 R-2020-3020256

	Amount \$
Company Rate Base Claim	49,286,076
ALJ Rate Base Adjustments	<u>0</u>
ALJ Rate Base	49,286,076
Weighted Cost of Debt	<u>2.59650000%</u>
ALJ Interest Expense	1,279,713
Company Claim (1)	<u>1,281,438</u>
Total ALJ Adjustment	1,725
Company Adjustment	<u>0</u>
Net ALJ Interest Adjustment	1,725
State Income Tax Rate	<u>0.00%</u>
State Income Tax Adjustment	<u>0</u>
Net ALJ Interest Adjustment	1,725
State Income Tax Adjustment	<u>0</u>
Net ALJ Adjustment for F.I.T.	1,725
Federal Income Tax Rate	<u>0.00%</u>
Federal Income Tax Adjustment	<u><u>0</u></u>

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TABLE IV
CITY OF BETHLEHEM - BUREAU OF WATER
CASH WORKING CAPITAL - Interest and Dividends
R-2020-3020256

Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends
Company Rate Base Claim	\$49,286,076	\$49,286,076	Company Rate Base Claim
ALJ Rate Base Adjustments	\$0	\$0	ALJ Rate Base Adjustments
			\$49,286,076
ALJ Rate Base	\$49,286,076	\$49,286,076	ALJ Rate Base
Weighted Cost of Debt	2.59650000%	0.00%	Weighted Cost Pref. Stock
			\$49,286,076
ALJ Annual Interest Exp.	<u>\$1,279,713</u>	<u>\$0</u>	ALJ Preferred Dividends
			<u>\$0</u>
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days
			0.0
Average Expense Lag Days	<u>0.0</u>	<u>0.0</u>	Average Expense Lag Days
			<u>0.0</u>
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days
			<u>0.0</u>
Working Capital Adjustment			
ALJ Daily Interest Exp.	\$3,506	\$0	ALJ Daily Dividends
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days
			<u>\$0</u>
ALJ Working Capital Company Claim (1)	\$0	\$0	Company Claim (1)
	<u>\$569,283</u>	<u>\$0</u>	<u>\$569,283</u>
ALJ Adjustment	<u>(\$569,283)</u>	<u>\$0</u>	<u>(\$569,283)</u>
Total Interest & Dividend Adj.	<u>(\$1,138,566)</u>		

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TABLE VI
 CITY OF BETHLEHEM - BUREAU OF WATER
 CASH WORKING CAPITAL -- O & M EXPENSE
 R-2020-3020256

Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$80,099	\$0	\$80,099	0.00	\$0
Group Insurance	\$770,386	\$0	\$770,386	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$1,616,766	\$0	\$1,616,766	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$1,630,949	\$0	\$1,630,949	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$28,670	\$0	\$28,670	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$523,212	\$0	\$523,212	0.00	\$0
	<u>\$4,650,083</u>	<u>\$0</u>	<u>\$4,650,083</u>	<u>0.00</u>	<u>\$0</u>
ALJ Average Revenue Lag	0.0				
Less: ALJ Avg. Expense Lag	0.0				
Net Difference	0.0	Days			
ALJ Pro forma O & M Expense per Day	<u>\$12,740</u>				
ALJ CWC for O & M	\$0				
Less: Company Claim (1)	\$0				
ALJ Adjustment	<u>\$0</u>				

(1) Company Main Brief

PROPOSED FINDINGS OF FACT

PROPOSED FINDINGS OF FACT

The City of Bethlehem's Water Service

1. The City of Bethlehem provides water service to 13,496 customers outside the City limits and to 22,940 customers inside the City limits. The City supplies drinking water for residential, commercial, industrial, institutional, resale, and public uses, and for fire protection purposes. City of Bethlehem St. No. 4 at 6-7.

2. The Outside City Service is provided to all or parts of eleven other municipalities: (a) in Lehigh County – portions of Salisbury Township, portions of Upper Saucon Township, portions of Hanover Township, and the Borough of Fountain Hill; (b) In Northampton County – portions of Lower Saucon Township, portions of Bethlehem Township, portions of Hanover Township, East Allen Township, portions of Allen Township, portions of Lower Nazareth Township, and the Borough of Freemansburg. City of Bethlehem St. No. 4 at 6.

3. The City has a large watershed area in Carbon and Monroe Counties and two man-made reservoirs. Raw water is treated at the Bethlehem Water Treatment Plant in Lehigh Township. The water distribution network includes four high pressure zones served by five booster pump stations and three other smaller pressure zones controlled by individual pressure regulating valves and approximately 550 miles of pipeline, 15,000 valves, and 3,500 fire hydrants. The City also operates and maintains four independent community well systems in East Allen Township. City of Bethlehem St. No. 4.

4. The City is the recipient of several awards related to its water service. It has been certified by the Forest Stewardship Council for its forest management practices related to its 23,000 acre watershed in Carbon and Monroe Counties. In 2019, its Water Treatment Plant received its twelfth consecutive Area Wide Optimization Program Award, sponsored by the US

EPA and the Association of State Drinking Water Administrators, for outstanding performance in filtration plant operations. City of Bethlehem St. No. 4.

The City’s Proposed Rate Increase

5. The City initiated this proceeding on July 31, 2020 with the filing of Supplement No. 15 to Tariff Water – Pa. P.U.C. No. 6 proposing an increase of \$908,421, or 10.9%, in annual water service revenue for Outside City Customers based on a future test year ending December 31, 2020.

6. By Order entered September 17, 2020, the Public Utility Commission (“Commission”) suspended Supplement No. 15 and instituted an investigation into the reasonableness of the proposed tariff changes. The City filed Supplement No. 16 on September 23, 2020, suspending the application of the proposed water rates until April 29, 2021.

7. On December 28, 2020, the City and the Bureau of Investigation and Enforcement (“I&E”) filed a Joint Petition for Approval of Partial Settlement of the Rate Investigation proposing a resolution of all issues.

8. Under the terms of the Settlement, if approved, the City would be permitted an increase in annual revenue of \$689,932 for service to Outside City Customers. The Settlement also includes other commitments and Agreements. The City and the Office of Consumer Advocate (“OCA”) stipulated to several operational matters.

The City’s Overall Position

9. The City’s overall position is that the Commission should approve the Joint Petition for Approval of Partial Settlement of Rate Investigation, without modification, and accept the rates proposed in the Joint Petition as just and reasonable for Outside City Service and consistent with Section 1301 of the Code.

10. The City is aware of the difficulties faced by City residents and neighbors as a result of the COVID pandemic. Although not part of the Joint Petition, the City has voluntarily taken steps to assist customers during this time. As presented in City Hearing Exhibit No. 1:

In order to best serve its customers, the City is continuing with a moratorium on all service terminations regardless of whether or not a customer is classified as a “protected customer” as defined in the Order at M-2020-3019244. This moratorium has been in effect since the March 13, 2020 Emergency Order and shall continue until March 31, 2021 unless modified by the Commission.

The City is continuing to offer payment arrangements for customers who have difficulty making payments or who otherwise have significant overdue balances. This City effort predates the Covid-19 pandemic and shall continue indefinitely.

The City is waiving all new late payment charges for all customers until March 31, 2021.

11. The elected City officials weighed the impact of a rate increase on water customers while in the midst of the COVID-19 pandemic and determined that the need for a rate increase to adequately operate and maintain the City’s water system was justified and required even during this challenging period. The City’s elected officials are the most qualified to make this decision as they are close to their constituents and the situation in Lehigh and Northampton Counties. The City, even at the proposed rate level, has one of the lowest rates for water service in the region. City of Bethlehem St. No. 1R at 3-4.

Rate Base

12. Rate Base is comprised of the original cost less the ratemaking book reserve for the total utility plant in service less customers’ advances for construction and contributions in aid of construction plus cash working capital. The City’s rate base claim, as revised in rebuttal testimony, is \$49,286,080. City of Bethlehem St. No. 1R at 15.

Projected Plant in Service

13. OCA witness Sherwood proposed to exclude 5 specific capital projects, totaling \$1,901,378, from projected plant additions. The City accepted three of Ms. Sherwood's adjustments as they will not be completed before the end of the first quarter 2021. The remaining two projects, the Water Treatment Emergency Generator and the Fire Pump Station, which are key projects, are appropriately included in the revenue requirement determination. City of Bethlehem St. No., 3R at 3-4.

Water Treatment Emergency Generator

14. The City claims \$956,000 for the Water Treatment Emergency Generator at the Water Treatment Plant. The Generator is a necessary capital item for the City to continue to provide reasonable and adequate service. It is needed to ensure the water treatment plant remains operational during a power outage or failure in electronic components at the plant. City of Bethlehem St. No. 3R at 4.

15. The City has taken physical delivery of the Emergency Generator and the associated automatic transfer switch. Both were installed as of December 9, 2020. In Rejoinder Testimony served December 15, 2020, the City advised that scheduling the Generator for operation now would take less than six weeks. City of Bethlehem St. No. 3RJ at 1-2.

16. Under the facts presented, it is reasonable and appropriate to include the Emergency Generator in rate base. Excluding the Generator from rate base would create an under recovery or, in other words, a misaligned recovery and an inaccurate level of rate base and depreciation expense going forward. City of Bethlehem St. No. 3RJ at 1-2.

Fire Pump Station

17. The City claims \$758,000 for the Fire Pump Station. The claim included the initial engineering work and, thereafter, the construction of the facility. The Pump Station is a necessary system improvement project for the City to continue to provide reasonable and adequate water service to customers in higher elevations. City of Bethlehem St. No. 3R at 4.

18. The City has taken physical delivery of many of the needed valves and pumps related to the Fire Pump Station. The valves and pumps were ready to be installed as of the end of October. The majority of the old Station assets, moreover, have been removed. Installation and construction will be completed once the City receives the remaining component parts. City of Bethlehem St. No. 3RJ at 2.

19. Under the facts presented, it is reasonable and appropriate to include the Fire Pump Station in rate base. Excluding the Generator from rate base would create an under recovery or, in other words, a misaligned recovery and an inaccurate level of rate base and depreciation expense going forward. City of Bethlehem St. No. 3RJ at 1-2.

Cash Working Capital

20. The City presented a Cash Working Capital (“CWC”) claim, revised in rebuttal testimony, of \$569,283 based on the “rule-of-thumb” methodology, which is 12.5% or one-eighth of operation and maintenance expenses and payment in lieu of taxes. City of Bethlehem St. No. 1 at 8 and Exhibit CEH-1R.

21. The only proposed adjustment to the claim proposed by OCA witness Sherwood is to reflect the impact of her proposed adjustments to operation and maintenance expense in the “rule of thumb” calculation. Those adjustments will not be adopted and, thus, there is no adjustment to the CWC claim of \$569,283.

Conclusion – Rate Base

22. The City rate base claim of \$49,286,080 is accepted as reasonable and appropriate.

Revenue

23. At present rates, pro forma revenue for Outside City Service is \$8,334,533 as of December 31, 2020. At proposed rates, pro forma revenue for Outside City Service, as filed, is \$9,242,954. City of Bethlehem St. No. 1, Attachment 1, Schedule 2 and Exhibit CEH-1R, Schedule 2-R. Pro forma revenue under the settlement agreement is \$9,024,465. No adjustments are proposed to the City's pro forma revenue claim under present rates and it is accepted as reasonable and appropriate.

Expenses

Operations and Maintenance Expenses

24. The City claims pro forma Operation and Maintenance Expenses of \$4,650,083 for the twelve months ending December 31, 2020, for Outside City Service. Exhibit CEH-1R, Schedule 1-R, pages 1 and 3 of 3. Claims for Uncollectible Accounts Expense, Professional Services Expense, East Allen Township Expense – Other Expense, Water Filtration Expense – Oil Expense, Chemical Expense – Fluoride and Chemical Expense – Caustic Soda, which were initially disputed, were ultimately resolved.

Rate Case Expense

25. The City presented an annual rate case expense claim of \$138,187 based on a three-year normalization of total rate case expense of \$414,560. Rate case expenses include legal fees, professional consulting fees for revenue requirement, rate base, rate of return, and rate design exhibits, supporting data and testimony as well customer notice expenses. City of

Bethlehem St. No. 1 at 5 and Attachment A, Schedule 6, page 2 of 4 and Exhibit CEH-1R, Schedule 6-R, page 2 of 4.

26. OCA witness Sherwood did not challenge the dollar value of the claim. She did, however, propose to lengthen the normalization period from 3 years (36 months) to 52 months based on the average duration between the City's prior three rate cases. Lengthening the normalization period produced an adjustment of \$42,519 to the claim. City of Bethlehem St. No. 1R at 6.

27. The normalization of rate case expense over several years is appropriate as the expense for a rate case is only incurred during the period of the actual rate case but the benefits of increased rates last more than one year. A three-year normalization period is reasonable as it acknowledges that rate case expense should be spread over a period of years, but also does not penalize the City for delaying a rate case due to costs, requirements from the previous case, and limited resources. City of Bethlehem St. No. 1R at 6.

Salaries and Wages Expense

28. The City claims \$1,616,766 for Salaries and Wage Expense including an increase in union contract wages effective January 1, 2021.¹ Ms. Sherwood proposed to remove the increase from the revenue requirement calculation on the theory that the increase falls outside the test period as the wage increase will not take effect until January 1, 2021.

29. The claim is reasonable and appropriate as the wage increase is known and measurable and certain to occur as it is required by union contract. It takes effect on January 1, 2021, just one day past the end of the future test year. The ratemaking process is not so rigid that

¹ Exhibit CEH-2R, Schedule D-R, pages 1 and 2 of 3.

this known and measurable wage increase cannot be part of the revenue requirement determination. City of Bethlehem St. No. 1R at 8-9.

Social Security Expense

30. As a companion adjustment to her Salaries and Wage Expense adjustment removing union wage increase from consideration, Ms. Sherwood proposes an adjustment to Social Security and Medicare expense. This concomitant adjustment to Social Security Expense is inappropriate for the reasons set forth above in the findings for Salaries and Wage Expense.

East Allen Township Expense – Equipment Maintenance Expense

31. The City claims \$13,967 for East Allen Township Expense – Equipment Maintenance Expense based on the expense actually incurred during 2019.² Ms. Sherwood proposed to adjust the claim to a “normalized” level based on the three-year average of the expense incurred during 2017, 2018 and 2019. City of Bethlehem St. No. 1R at 10.

32. The ‘equipment maintenance’ expense incurred in 2019 was the result of emergency repairs. While the incurred expense is higher than the previous two years, the City experiences emergency equipment repairs every year in order to operate and maintain an aging plant and infrastructure and meet all regulatory requirements. City of Bethlehem St. No. 1R at 10.

33. The level of incurred expense in 2019 was reasonably incurred and is accepted as the reasonable and appropriate level of the expense going forward.

Water Filtration Expense – Department Contracts

² Based on actual 2019 expense of \$34,605, provided in response to Interrogatory I&E-RE-5 Attachment A (*See* OCA St. No. 2S, Schedule SLS-3S), multiplied by the Outside City allocation of 40.36% shown in Exhibit CEH 2R, Factor 2, Schedule E-R, page 1 of 23.

34. The City claims \$79,272 for Water Filtration Expense – Department Contracts based on the actual 2019 expense.³ OCA witness Sherwood, in surrebuttal testimony, “normalized” the claim based on actual expenses from 2017 through 2019 proposing to adjust the claim by \$469. OCA St. No. 2S at 8. The City’s claim based on actual 2019 expense is reasonable and appropriate.

Water Filtration Expense – Equipment Maintenance Expense

35. The City claims \$30,137 for Water Filtration Expense – Equipment Maintenance Expense based on the expense actually incurred during 2019.⁴ Ms. Sherwood proposed to adjust the claim to a “normalized” level based on the three-year average of the expense incurred during 2017, 2018 and 2019. City of Bethlehem St. No. 1R at 11-12.

36. The ‘equipment maintenance’ expense incurred in 2019 was due to necessary and emergency repairs. While the incurred expense is higher than the previous two years, the City experiences necessary and emergency equipment repairs every year in order to operate and maintain an aging plant and infrastructure and meet all regulatory requirements. City of Bethlehem St. No. 1R at 12.

37. The level of incurred expense in 2019 was reasonably incurred and should be accepted as the reasonable and appropriate level of the expense going forward.

Depreciation Expense

38. The City claim for Depreciation Expense, for Outside City Service is \$1,020,508, for the twelve months ended December 31, 2019, and \$1,043,475 for the twelve months ending

³ Exhibit CEH 1R, Schedule 3-R, page 2 of 4, total 2019 expense of \$196,413 (*See* OCA St. No. 2S, Schedule SLS-4S), multiplied by the Outside City allocation of 40.36% shown in Exhibit CEH 2R, Factor 2, Schedule E-R, page 1 of 23.

⁴ Based on actual 2019 expense of \$74,671, provided in response to Interrogatory I&E-RE-5 Attachment A (*See* OCA St. No. 2S, Schedule SLS-4S), multiplied by the Outside City allocation of 40.36% shown in Exhibit CEH 2R, Factor 2, Schedule E-R, page 1 of 23.

December 31, 2020. Exhibit CEH-1R, Schedule 1-R, pages 1 and 3 of 3. The only proposed adjustment to the claim would be to reflect the effect of rate base adjustments proposed by the OCA. Those adjustments are not adopted and, thus, the City’s claim for Depreciation Expense is reasonable and appropriate.

Rate of Return

Introduction

39. The City claims an overall rate of return of 8.21%, including a cost of common equity capital of 10.20% as follows (City of Bethlehem St. No. 2, Exhibit HW-1, Schedule 2):

	<u>Recommended Ratios</u>	<u>Cost Ratios</u>	<u>Weighted Cost</u>
Debt	45.0%	5.77%	2.60%
Fund Equity	55.0%	10.20%	5.61%
Overall	100.0%		8.21%

40. Alternatively, if the Commission decides to adjust the City’s common equity cost rate to reflect the income tax status of the City’s “investors,” the City’s claimed cost rate for common equity capital is 8.77% with an overall rate of return of 7.42%. City of Bethlehem St. No. 2 at 2.

Capital Structure Ratios

41. Consistent with Section 1301(b) of the Code, the City’s capital structure ratios are based on an imputed capital structure at December 31, 2020, of 45% long term debt and 55% equity, representing the current water industry practice and consistent with Mr. Walker’s Comparable Group capital structure ratios. The ratios are similar to the ratios employed by other investor-owned water companies and are reasonable and appropriate for ratemaking purposes. City of Bethlehem St. No. 2, Exhibit HW-1, Schedule 2, pages 1 and 2.

Cost of Debt

42. The City rate of return claim includes an embedded cost of debt of 5.77%. City of Bethlehem St. No. 2 at 17 and Exhibit HW-1, Schedule 3. The City's claim was not challenged and it is accepted as reasonable and appropriate.

Cost of Common Equity Capital

43. There is no single method or model suitable for estimating the cost rate for common equity. The City's claim is based on three recognized methods or models to estimate the cost of common equity capital: the Discounted Cash Flow ("DCF") method; the Capital Asset Pricing Model ("CAPM"); and the Risk Premium ("RP") method. City of Bethlehem St. No. 2 at 38.

44. Based upon the results of the DCF, CAPM and RP models, the common equity cost rate for Mr. Walker's Comparable Water Group is in the range of 9.8% to 10.4% and the common equity cost rate for the Comparable Water Group is at least 10.10%. The City, however, has a greater investment risk than the Comparable Group as evidenced by its small size, visible lower credit rating and the other factors. City of Bethlehem St. No. 2 at 60-61.

45. The difference in bond rating between the City (BBB rating) and the Comparable Companies (A rating) suggests a minimum 10-basis point difference in long-term debt cost rates. Adding the 0.10% risk adjustment shows a current range of common equity cost of 10.20% (DCF), 9.90% (CAPM), and 10.50% (RP). City of Bethlehem St. No. 2 at 61.

46. The reasonable and appropriate common equity cost rate is 10.20% for its Outside City Service as recommended by Mr. Walker. City of Bethlehem St. No. 2 at 61-62 and Exhibit HW-1, Schedule 19. The alternative recommended common equity cost rate applying a maximum income tax adjustment of 14% should the Commission decide to adjust the return to

reflect the maximum income tax status of City investors is 8.77%. City of Bethlehem St. No. 2 at 62.

47. The reasonableness of the City's claim is confirmed by the average projected earned return on average book common equity for the Comparable Group for the period 2022-2024, which ranges from 9.5% to 14.0%. Given the large degree to which regulatory lag and attrition impacts water utilities' earnings, the range of the comparable utilities projected earned returns suggests that an opportunity to earn 10.20% is reasonable, if not conservative. City of Bethlehem St. No. 2 at 62-63 and Exhibit HW-1, Schedule 14.

Testimony of OCA witness Garrett

48. OCA witness Garrett proposed a return on equity of 8.50% for the Bureau of Water, which is reduced to 7.31% by his tax adjustment. Mr. Garrett relied on the DCF and CAPM methods to support his recommendation.

49. Mr. Garrett's recommendation would not afford the City the opportunity to earn a fair rate of return and shows a lack of understanding of the precepts of a fair rate of return, including the comparable earnings standard, capital attraction standard, and the financial integrity standard. A fair rate of return for the City Water Department is the credit that should enable the Bureau of Water to attract capital regardless of the City's ability to levy taxes. City of Bethlehem St. No. 2R at 4.

50. Mr. Garrett DCF of 6.1% for his proxy group is far below any zone of reasonableness and given no weight. It is the result of inappropriate reliance on two inputs or factors: sole reliance on an inappropriate, short term, 30-day yield measurement component; and an inappropriate growth component based on a 30-year measure of growth for the overall national economy as measured by the nominal growth in economic output. City of Bethlehem St.

No. 2R at 14-16.

51. Mr. Garrett's CAPM of 5.9% is far below any zone of reasonableness. Data for Mr. Garrett's proxy group confirms that his CAPM result is too low. His proxy group projected accounting return of 9.5% to 14.0% is 360-basis points to 810-basis points higher than his recommended market value CAPM of 5.9%. City of Bethlehem St. No. 2R at 23-25.

52. Mr. Garrett's common equity cost rate of 8.5% is based on his recommended cost of equity of 6.0%, which he then subjectively adjusted by 250 basis points. *See* OCA St. No. 3, at 10. This subjective adjustment shows the flaw and highlights the inadequacy of Mr. Garrett's analysis and recommendation. The average projected earned return on average book common equity for the companies in the Comparable Group of 9.5% to 14.0% is 100-basis points to 550-basis points higher than Mr. Garrett's recommendation for the Bureau of Water of 8.50%. City of Bethlehem St. No. 2R at 26.

Conclusion – Rate of Return

53. The City's claim of 8.21% for overall return is reasonable and appropriate and based on the evidence of record. Should the Commission decide to adjust the return to reflect the income tax status of the City investors, the reasonable and appropriate overall return is 7.42%. City of Bethlehem St. No. 2 at 63 and Exhibit HW-1, Schedules 1 and 21. If the City were to actually achieve a return at these levels, the City would have a financial profile that would enable it to attract capital necessary to provide safe and reliable water service, at reasonable terms. City of Bethlehem St. No. 2 at 63.

Taxes

54. The City did not present a ratemaking claim for income taxes. It presented a claim of \$17,568 for Taxes, Other Than Income Taxes. City of Bethlehem St. No. 1, Attachment

1, Schedule 1 page 3 of 3 and Exhibit CEH-1R, Schedule 1-R, page 3 of 3. The City's claim was not challenged and is accepted as reasonable and appropriate.

Rate Structure / Rate Design

55. The City presented a proposed rate design for Outside-City Customers in Supplement No. 15 that maintains a monthly or quarterly customer charge by meter size for all customer classifications and a separate, single block consumption charge for all customer classifications. To recover the proposed rate increase, the City proposed to increase the single block consumption rate for all customer classes while leaving the customer charges unchanged. City of Bethlehem St. No. 1 at 17.

56. In settlement with I&E, the City has agreed to the scale back of rates as proposed by OSBA witness Kalcic. To recover the rate increase under settlement, the City and I&E agreed to increase the single block consumption rate for all customer classes while leaving the customer charges unchanged.

57. The revenue allocation and scale back as proposed in settlement is reasonable and appropriate and cost based.

Miscellaneous Issues

58. Miscellaneous issues raised in the testimony of OCA witness Fought have been resolved by Stipulation with the OCA. The Stipulation is attached as Attachment B.

PROPOSED CONCLUSIONS OF LAW

PROPOSED CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and parties to this proceeding. 66 Pa.C.S. §§ 701, 1308(d).

2. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa.C.S. § 1301.

3. It is the policy of the Commission to encourage settlements. Settlement rates are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code §§ 5.231, 69.401.

4. To determine whether a settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. P.U.C. v. C. S. Water and Sewer Assoc.*, 74 Pa. P.U.C. 767 (1991); *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.*, 60 Pa PUC 1 (1985).

5. The City of Bethlehem has met its burden of proof and demonstrated through a preponderance of evidence and substantial evidence that its ratemaking claims for Outside City Service are reasonable and appropriate. The ratemaking adjustments proposed by the OCA and OSBA are given no weight and denied.

6. The Commission has no authority to deny the City of Bethlehem rate relief because of the COVID pandemic.

7. The partial settlement proposed by the City of Bethlehem and the Bureau of Investigation and Enforcement, which provides for an increase in annual revenue for Outside City Service of \$689,932 in lieu of the originally proposed increase of \$908,421, is approved as the

settlement is in the public interest. The proposed settlement revenue and settlement rates are just and reasonable and in compliance with the Public Utility Code.

PROPOSED ORDERING
PARAGRAPHS

PROPOSED ORDERING PARAGRAPHS

THEREFORE

IT IS RECOMMENDED:

1. That the Joint Petition for Approval of Partial Settlement of Rate Investigation of the City of Bethlehem and the Bureau of Investigation and Enforcement including all terms and conditions, be approved, without modification.

2. That the City of Bethlehem is authorized to file a tariff supplement containing the rates, rules and regulations as presented in Appendix A to the Joint Petition to produce an increase in operating revenues of \$689,932 for Outside City Service to become effective on one day's notice after entry of the Commission's Order approving the Settlement.

3. That the Stipulation between the City of Bethlehem and the Office of Consumer Advocate as presented in Attachment B to the City's Main Brief be approved as though each term therein were the subject of an individual ordering paragraph.

4. That the formal Complaint of the Office of Small Business Advocate at Docket No. C-2020-3021576 be dismissed and marked closed by the Commission's Secretary's Bureau.

5. That the formal Complaint of the Office of Consumer Advocate at Docket No. C-2020-3021583 be dismissed and marked closed by the Commission's Secretary's Bureau.

6. That upon acceptance of the tariff, tariff supplement or tariff revision filed by the City of Bethlehem consistent with the Commission's Order, the proceeding at Docket No. R-2020-3020256 shall be marked closed.

ATTACHMENT A

JOINT PETITION FOR APPROVAL
OF PARTIAL SETTLEMENT
OF RATE INVESTIGATION



THOMAS, NIESEN & THOMAS, LLC

Attorneys and Counsellors at Law

THOMAS T. NIESEN
Direct Dial: 717.255.7641
tniesen@tntlawfirm.com

December 28, 2020

Via Electronic Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

In re: Docket No. R-2020-3020256, *et al.*
Pa. P.U.C., *et al.* v. The City of Bethlehem – Water Department

Dear Secretary Chiavetta:

We are counsel to the City of Bethlehem – Water Department in the above matter and are submitting, via electronic filing with this letter, the Joint Petition of the City and the Bureau of Investigation and Enforcement for Approval of Partial Settlement of Rate Investigation. Copies of the Joint Petition are being served upon the persons and in the manner set forth on the certificate of service attached to it.

Very truly yours,

THOMAS, NIESEN & THOMAS, LLC

By 

Thomas T. Niesen

cc: Certificate of Service (w/encl.)
The Honorable Steven K. Haas, Administrative Law Judge (via email, w/encl.)
Edward J. Boscola, P.E. (via email, w/encl.)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3020256
Office of Small Business Advocate	:	C-2020-3021576
Office of Consumer Advocate	:	C-2020-3021583
	:	
v.	:	
	:	
City of Bethlehem – Water Department	:	
	:	

**JOINT PETITION FOR APPROVAL OF PARTIAL
SETTLEMENT OF RATE INVESTIGATION**

TO ADMINISTRATIVE LAW JUDGE STEVEN K. HAAS:

This Joint Petition for Approval of Partial Settlement of Rate Investigation (“Joint Petition”) is made and entered into by and between the Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission (“I&E”) and the City of Bethlehem – Water Department (“City”), parties to the above captioned rate proceeding (hereinafter collectively referred to as “Joint Petitioners”). Joint Petitioners request that Administrative Law Judge Steven K. Haas recommend approval of, and that the Public Utility Commission (“Commission”) approve, the Joint Petition, including the settlement terms and conditions, without modification, as set forth below.

Background

1. This proceeding concerns the City’s Supplement No. 15 to Tariff Water-Pa. P.U.C. No. 6 (“Supplement No. 15”) filed on July 31, 2020.

2. If approved as filed, Supplement No. 15 would increase the City's jurisdictional water revenue to Outside City Customers by \$908,421 based on a future test year ending December 31, 2020.

3. The rate filing was assigned Docket No. R-2020-3020256.

4. I&E filed a Notice of Appearance at the docket on August 14, 2020.

5. A formal Complaint against Supplement No. 15 was filed by the Office of Small Business Advocate at C-2020-3021576 on August 27, 2020.

6. A formal Complaint against Supplement No. 15 was filed by the Office of Consumer Advocate at C-2020-3021583 on August 27, 2020.

7. By Order entered September 17, 2020, the Commission suspended Supplement No. 15 and instituted an investigation into the reasonableness of the proposed tariff changes.

8. The City filed Supplement No. 16 on September 23, 2020, suspending the application of the proposed water rates until April 29, 2021.

9. The investigation was assigned to Administrative Law Judge Steven K. Haas.

10. A telephonic prehearing conference was held on October 8, 2020 with Judge Haas presiding. Counsel for I&E, OCA, OSBA and the City participated in the telephonic conference.

11. A litigation schedule was established and memorialized in a Prehearing Order dated October 8, 2020, providing for the service of testimony, an evidentiary hearing on December 17, 2020 and the filing of main and reply briefs.

12. By electronic mail correspondence on December 11, 2020, counsel for the City advised Judge Haas that I&E and the City had achieved a settlement of issues without joinder of OCA and OSBA.

13. An evidentiary hearing was held on December 17, 2020 with Judge Haas presiding. The City, I&E, OCA and OSBA participated in the hearing, mutually waived cross examination of witnesses and offered their respective statements of testimony and exhibits into the evidentiary record.

14. Judge Haas directed the City and I&E to file their settlement petition on or before December 30, 2020 and established a due date of January 8, 2021, for the filing of statements in opposition to the settlement. A due date of January 12, 2021, was established for the filing of replies to statements in opposition.

15. Main and reply briefs are due on December 30, 2020 and January 8, 2021, respectively, pursuant to the litigation schedule established at the Prehearing Conference.

Terms and Conditions of Settlement

16. The terms and conditions comprising this Joint Petition, to which Joint Petitioners agree, are as follows:

(a) Increase in Annual Revenue, Rate Design and Scale Back

Joint Petitioners respectfully request that the Commission act as soon as possible to approve this Joint Petition and grant the City special permission to file a tariff supplement in the form attached hereto as Appendix A, to become effective for service on one day's notice, following entry of a Commission Order approving the Joint Petition.

The settlement rates presented in Appendix A are designed to produce additional annual revenue of \$689,932, in lieu of the originally proposed rate increase of \$908,421. The settlement rates are designed reflective of the approximate revenue allocation and scale back of rates as proposed by OSBA

which incorporates the revised peaking factors for the Sales for Resale class.

A proof of revenue for the Appendix A settlement rates is attached hereto as Appendix B.

(b) Other Tariff Change – Elimination of Lower Saucon Honor System Rate

Appendix A implements the proposed elimination of the Lower Saucon Honor System Rate as proposed in Supplement No. 15, which Joint Petitioners agree is reasonable and appropriate.

(c) Unaccounted for Water (“UFW”)

Going forward, and starting with the UFW calculation for calendar year 2020, the City will begin using the Commission Section 500 method for the purpose of assisting the Commission in its review of future rate cases. The City will take steps to maintain UFW below 20% and, in its next base rate case, if UFW is above 20%, provide a narrative explanation of possible reasons for it.

(d) Customer Class Demand Study

Joint Petitioners agree that the City’s demand study as described in City of Bethlehem Statement No. 1 and presented as Exhibit CEH-2 and revised in Exhibit CEH-3 is acceptable.

Other Provisions

17. Under the presently suspended Supplement No. 15: (1) the quarterly cost of water service to a City residential customer using 12,000 gallons per quarter with a 5/8-inch meter would have increased by \$9.61 from \$75.94 to \$85.55 per quarter or by 12.7%; (2) the monthly cost of water service to a commercial customer using 65,000 gallons per month with a 2-inch meter would have increased by \$47.64 from \$301.93 to \$349.57 or by 15.8%; and (3) the monthly cost of water

service to an industrial customer using 228,000 gallons per month with a 1½-meter would have increased by \$167.13 from \$812.96 to \$980.09 or by 20.6%.

18. Under the Joint Petition: (1) the quarterly cost of water service to a City residential customer using 12,000 gallons per quarter with a 5/8-inch meter will increase by \$6.19 from \$75.94 to \$82.13 per quarter or by 8.2%; (2) the monthly cost of water service to a commercial customer using 65,000 gallons per month with a 2-inch meter will increase by \$33.15 from \$301.93 to \$335.08 or by 11.0%; and (3) the monthly cost of water service to an industrial customer using 228,000 gallons per month with a 1½-inch meter will increase by \$116.28 from \$812.96 to \$929.24 or by 14.3%.

19. Although Joint Petitioners are not in agreement with respect to each claim in the ratemaking process and would not be able to agree upon the specific rate adjustments that may support their respective conclusions, their agreement as to the amount of increase in the City's annual water revenue for Outside City Service, coupled with the other provisions hereto, provides an appropriate basis for resolution of the instant rate litigation.

20. The Joint Petition is consistent with the Commission's policy favoring negotiated settlements and in the public interest. It reduces administrative burden by resolving, after thorough and extensive discovery, issues between two active parties to the rate investigation; recognizes, through the participation of I&E, ratepayer concerns with the proposed rate increase; and provides the City with additional and necessary cash flow. The statements of the City and I&E in support of the Joint Petition and setting forth their respective bases why the settlement and settlement rates are consistent with the Public Utility Code are attached as Appendices C and D.

21. This Joint Petition is proposed to settle the instant matter and is made without any admission against or prejudice to any positions that any Joint Petitioner might adopt during

subsequent litigation in any case, including further litigation in this case if this Joint Petition is rejected by the Commission or withdrawn by any one of the Joint Petitioners as provided below. This Joint Petition is conditioned upon the Commission's approval of all terms and conditions contained herein. Joint Petitioners agree that the Joint Petition does not expressly or implicitly represent approval of any specific claim or claims made in this proceeding, other than as set forth above, and agree not to contend otherwise in any subsequent proceeding. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this Joint Petition may be withdrawn by any Joint Petitioner upon written notice to the Commission and all parties within three business days by any of the Joint Petitioners. In such event, the Joint Petition shall be of no force and effect.

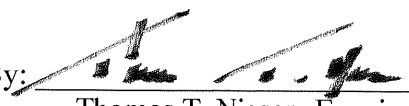
22. In the event that the Commission does not approve the Joint Petition or any Joint Petitioner elects to withdraw as provided above, the Joint Petitioners reserve their respective right to fully litigate the case, including producing witnesses, conducting full cross-examination and presenting briefs and legal argument.

23. Joint Petitioners will make reasonable, good faith efforts to obtain approval of the Joint Petition by the Administrative Law Judge and the Commission without modification. If the Administrative Law Judge in his Recommended Decision recommends that the Commission adopt the Joint Petition without modification as herein proposed, the Joint Petitioners agree to waive the filing of Exceptions. However, the Joint Petitioners do not waive their right to file Exceptions with respect to any modifications to the terms and conditions of this Joint Petition, or any additional matters, proposed by Administrative Law Judge Haas in his Recommended Decision. The Joint Petitioners reserve their right to file Reply Exceptions to any Exceptions which may be filed whether by a Joint Petitioner or other party to the proceeding.

24. In recognition of the foregoing, the Joint Petitioners respectfully request that:
- (a) Administrative Law Judge Haas recommend approval of, and the Public Utility Commission approve, this Joint Petition for Approval of Partial Settlement of Rate Investigation;
 - (b) The City be granted special permission to file a tariff supplement in the form attached hereto as Appendix A to become effective for service on one day's notice, following entry of a Commission Order;
 - (c) The Commission's investigation at R-2020-3020256 be terminated and marked closed;
 - (d) The Commission deem the Complaints of the Office of Small Business Advocate at C-2020-3021576 and the Office of Consumer Advocate at C-2020-3021583 to be satisfied and dismissed with prejudice; and
 - (e) The Commission grant such other relief that may be just, reasonable and appropriate under the circumstances.

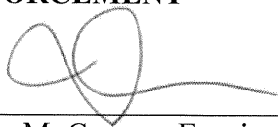
IN WITNESS WHEREOF, the Joint Petitioners hereto have duly executed this Joint Petition for Approval of Partial Settlement of Rate Investigation as of the date indicated herein.

**THE CITY OF BETHLEHEM –
WATER DEPARTMENT**

By: 

Thomas T. Niesen, Esquire
Thomas, Niesen & Thomas, LLC

**THE BUREAU OF INVESTIGATION
AND ENFORCEMENT**

By: 

John M. Coogan, Esquire
Prosecutor

Dated: December 28, 2020

APPENDIX A
Settlement Supplement

Supplement No. ____
to

Tariff Water-PA P.U.C. No. 6

CITY OF BETHLEHEM

Rates, Rules and Regulations
Governing the Furnishing of Water
Directly to Customers

in

the following Townships and Boroughs located within
Lehigh and Northampton Counties, Pennsylvania

Salisbury Township (Portions of)	Lehigh County
Upper Saucon Township (Portions of)	Lehigh County
Lower Saucon Township (Portions of)	Northampton County
Bethlehem Township (Portions of)	Northampton County
Hanover Township (Portions of)	Northampton County
Hanover Township (Portions of)	Lehigh County
East Allen Township	Northampton County
Allen Township (Portions of)	Northampton County
Borough of Fountain Hill	Lehigh County
Borough of Freemansburg	Northampton County
Lower Nazareth Township (Portions of)	Northampton County

-and to-

The Authorities of the Township
of Lower Saucon and to
The Township of Upper Saucon, in the
Counties of Lehigh and Northampton for resale

ISSUED: _____

EFFECTIVE: _____

BY: Robert J. Donchez, Mayor
City of Bethlehem

NOTICE

This Tariff Makes Increases and Changes in Existing Rates
See Page 2

LIST OF CHANGES MADE BY THIS SUPPLEMENT

INCREASES

This supplement makes increases to existing rates, except for Public and Private Fire Protection, resulting in an increase in revenue of \$689,932 for outside City customers or by 8.4%.

CHANGES

This supplement eliminates the Lower Saucon Honor System Rate.

ISSUED: _____

EFFECTIVE: _____

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ISSUED: _____

EFFECTIVE: _____

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PART I. SCHEDULE OF RATES

SECTIONS A AND B. RATES FOR METERED SERVICE AND FIRE PROTECTION.

Schedule A

Meter Rates – General Residential Customer Service

APPLICATION

This schedule applies to all residential customer service.

CUSTOMER CHARGES

All metered residential customers shall pay the following customer charge based on the required size of meter to render adequate service.

Size of Meter	Customer Charge		Size of Meter	Customer Charge	
	Per Month	Per Quarter		Per Month	Per Quarter
5/8"	\$ 8.25	\$ 24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84			

CONSUMPTION CHARGES

In addition to the customer charge all water consumption will be billed at the following rates:

	Rate Per 1,000 Gallons	
For all usage monthly or quarterly	\$4.782	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

(I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

SCHEDULE OF RATES

Schedule B

Meter Rates – General Commercial Customer Service

APPLICATION

This schedule applies to all commercial customer service.

CUSTOMER CHARGES

All metered Commercial customers shall pay the following customer charge based on the 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>	
	<u>Per Month</u>	<u>Per Quarter</u>		<u>Per Month</u>	<u>Per Quarter</u>
5/8"	\$ 8.25	\$24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84			

CONSUMPTION CHARGES

In addition to the customer charge all water consumption will be billed at the following rates:

	<u>Rate Per</u> <u>1,000 Gallons</u>	
For all usage monthly or quarterly	\$ 3.843	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

(I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

SCHEDULE OF RATES

Schedule C

Meter Rates – General Industrial Customer Service

APPLICATION

This schedule applies to all Industrial customer service.

CUSTOMER CHARGES

All metered Industrial customers shall pay the following customer charge based on the 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>	
	<u>Per Month</u>	<u>Per Quarter</u>		<u>Per Month</u>	<u>Per Quarter</u>
5/8"	\$ 8.25	\$ 24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84			

CONSUMPTION CHARGES

In addition to the customer charge all water consumption will be billed at the following rates:

	<u>Rate Per</u> <u>1,000 Gallons</u>	
For all usage monthly or quarterly	\$ 3.843	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

(I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

SCHEDULE OF RATES

Schedule D

Meter Rates – General Public Customer Service

APPLICATION

This schedule applies to all Public customer service.

CUSTOMER CHARGES

All metered Public customers shall pay the following customer charge based on the required size of meter to render adequate service.

Size of Meter	Customer Charge		Size of Meter	Customer Charge	
	Per Month	Per Quarter		Per Month	Per Quarter
5/8"	\$ 8.25	\$ 24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84			

CONSUMPTION CHARGES

In addition to the customer charge all water consumption will be billed at the following rates:

	Rate Per 1,000 Gallons	
For all usage monthly or quarterly	\$3.843	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

(I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

SCHEDULE OF RATES

Schedule G

Meter Rates – Sales for Resale

APPLICATION

This schedule applies to all sale of water to other water utilities or public authorities for resale.

CUSTOMER CHARGES

All metered sales for resale customers shall pay the following customer charge based on the required size of meter to render adequate service. Also applicable for unmetered sales in honor system areas until such time that meters are installed.

Size of Meter	Customer Charge		Size of Meter	Customer Charge	
	Per Month	Per Quarter		Per Month	Per Quarter
5/8"	\$ 8.25	\$ 24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84	Lower Saucen Honor Sys.	1,098.37	3,295.11 (C)

CONSUMPTION CHARGES

In addition to the customer charge all water consumption will be billed at the following rates:

	Rate Per 1,000 Gallons	
For all usage monthly or quarterly	\$ 4.498	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

- (I) Indicates Increase
- (C) Indicates Change

ISSUED: _____

EFFECTIVE: _____

SCHEDULE OF RATES

Schedule H

Meter Rates – Untreated Water Service

APPLICATION

This schedule applies to all sale of untreated water for non-potable use only.

CUSTOMER CHARGE

<u>Size of Meter</u>	<u>Customer Charge</u>		<u>Size of Meter</u>	<u>Customer Charge</u>	
	<u>Per Month</u>	<u>Per Quarter</u>		<u>Per Month</u>	<u>Per Quarter</u>
5/8"	\$ 8.25	\$ 24.75	3"	\$ 174.80	\$524.40
3/4"	13.98	41.94	4"	273.56	820.68
1"	27.14	81.42	6"	547.11	1,641.33
1-1/2"	53.04	159.12	8" or Larger	1,098.37	3,295.11
2"	85.28	255.84			

CONSUMPTION CHARGES

In addition to the customer charge all use of untreated water will be billed at the following rates:

	<u>Rate Per 1,000 Gallons</u>	
For all usage monthly or quarterly	\$ 2.493	(I)

Customer water meter bills will be subject to a penalty of one and one-half percent (1.5%) interest per month on the full unpaid and overdue balance of the bill if not paid within twenty calendar days from the date the bill is mailed. All customers will be given the option of being billed monthly.

(I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

APPENDIX B
Proof of Revenue

CITY OF BETHLEHEM - BUREAU OF WATER

Bethlehem, Pennsylvania

PROOF OF REVENUE
IN SUPPORT OF
SETTLEMENT SUPPLEMENT NO. __ TO
TARIFF WATER PA. P.U.C. NO. 6

GANNETT FLEMING VALUATION AND RATE CONSULTANTS, LLC

Camp Hill, Pennsylvania

CITY OF BETHLEHEM - BUREAU OF WATER
 STATEMENT OF OPERATING REVENUES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2020
 AND THE CALCULATION OF THE SETTLEMENT REVENUE INCREASE FROM INSIDE-CITY AND OUTSIDE-CITY CUSTOMERS BY CUSTOMER CLASSIFICATION

Pursuant To Subsection 53.52 (b)(4) and (c)(5) of Tariff Regulations

Line No.	Customer Classification (1)	Per Books Revenue 31-Dec-19 (2)	Historic Test Year Pro Forma Adjustments Under Present Rates* (3)		Pro Forma, Present Rates, 31-Dec-19 (5)	Ref. (6)	Future Test Year Pro Forma Adjustments Under Present Rates* (7)		Pro Forma, Present Rates 31-Dec-20 (8)	Under Settlement Rates, Supplement No. 15 to Tariff Water Pa-PUC No. 6 (9)		Pro Forma, Settlement Rates 12/31/2020** (11)
			Amount (4)	Amount (4)			Amount (7)	Amount (7)		Percent (9)	Amount (10)	
1	<u>OUTSIDE-CITY</u>											
2	Sales of Water											
3	Residential	\$ 4,336,864	\$ 759	\$ 4,337,624	R5	\$ 8,506	\$ 4,346,130	\$ 4,346,130	8.2%	\$ 354,735	\$ 4,700,865	
4	Commercial	1,362,355	(16,304)	1,346,051	R5	(3,623)	1,342,428	1,342,428	10.6%	142,658	1,485,086	
5	Industrial	382,119	5,071	387,190	R5	5,071	392,261	392,261	12.6%	49,620	441,881	
6	Public	449,621	(8,494)	441,127	R5	(2,831)	438,296	438,296	11.2%	49,247	487,543	
7	Other Water Utilities	802,841		802,841			802,841	802,841	11.7%	93,673	896,514	
8	Private Fire Protection	577,316		577,316	R7	16,155	593,471	593,471	0.0%	-	593,471	
9	Public Fire Protection	325,706		325,706	R7	3,652	329,358	329,358	0.0%	-	329,358	
10												
11	Total Sales of Water	8,236,822	(18,968)	8,217,855		26,930	8,244,785	8,244,785	8.4%	689,932	8,934,717	
12												
13	Other Operating Revenues											
14	Penalties	39,111		39,111			39,111	39,111			39,111	
15	Construction Water	6,108		6,108			6,108	6,108			6,108	
16	Miscellaneous	44,530		44,530			44,530	44,530			44,530	
17												
18	Total Other Revenues	89,748	-	89,748		-	89,748	89,748			89,748	
19												
20	Total Outside City	8,326,571	(18,968)	8,307,603		26,930	8,334,533	8,334,533	8.3%	689,932	9,024,465	
21												
22	Total Inside & Outside City	\$ 21,175,561	\$ 564,797	\$ 21,740,357		\$ 96,103	\$ 21,836,460	\$ 21,836,460	8.6%	\$ 1,875,073	\$ 23,711,533	

*See Schedule 5.

** See Schedule 7.

CITY OF BETHLEHEM - BUREAU OF WATER
 COMPARISON OF PRESENT AND SETTLEMENT RATES

CUSTOMER CHARGES:

Meter Size	Present Customer Charges		Settlement Customer Charges		Quarterly Increase	
	Per Month	Per Quarter	Per Month	Per Quarter	Amount	Percent
5/8	\$ 8.25	\$ 24.75	\$ 8.25	\$ 24.75	\$ -	0.0%
3/4	13.98	41.94	13.98	41.94	-	0.0%
1	27.14	81.42	27.14	81.42	-	0.0%
1-1/2	53.04	159.12	53.04	159.12	-	0.0%
2	85.28	255.84	85.28	255.84	-	0.0%
3	174.80	524.40	174.80	524.40	-	0.0%
4	273.56	820.68	273.56	820.68	-	0.0%
6	547.11	1,641.33	547.11	1,641.33	-	0.0%
8	1,098.37	3,295.11	1,098.37	3,295.11	-	0.0%
10	1,098.37	3,295.11	1,098.37	3,295.11	-	0.0%
12	1,098.37	3,295.11	1,098.37	3,295.11	-	0.0%

CONSUMPTION CHARGES:

Customer Classification	Rate Per Thousand For All Usage	Settlement Rate Per Thousand For All Usage	Increase	
			Amount	Percent
Residential	\$ 4.266	\$ 4.782	\$ 0.516	12.10%
Commercial, Industrial, Public	3.333	3.843	0.510	15.30%
Sales for Resale	3.969	4.498	0.529	13.33%

PRIVATE FIRE LINES:

Size	Present Quarterly Rate	Settlement Rates		Quarterly Increase	
		Monthly	Quarterly	Amount	Percent
Less Than 6-inch	\$ 112.50	\$ 37.50	\$ 112.50	\$ -	0.00%
6-inch	140.55	\$ 46.85	140.55	-	0.00%
8-inch	168.27	\$ 56.09	168.27	-	0.00%
10-inch	195.99	\$ 65.33	195.99	-	0.00%
12-inch	252.06	\$ 84.02	252.06	-	0.00%
Per Thousand Sq. Ft. of Protected Area	2.79	\$ 0.93	2.79	-	0.00%
Per Private Fire Hydrant	78.27	\$ 26.09	78.27	-	0.00%

PUBLIC FIRE HYDRANTS:

Per Public Fire Hydrant	\$ 66.00	\$ 22.00	\$ 66.00	\$ -	0.00%
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CITY OF BETHLEHEM - BUREAU OF WATER

SUMMARY OF APPLICATION OF SETTLEMENT RATES TO CONSUMPTION ANALYSIS AS OF 12/31/2019
 AND PRO FORMA ADJUSTMENTS UNDER SETTLEMENT RATES AS OF 12/31/2020

Customer Classification (1)	Revenues Per Books, 12/31/2019 (2)	Bill Analysis, Revenues, Present Rates (3)	Adjustment Factor (4)=(2)/(3)	Bill Analysis, Revenues, Settlement Rates (5)	Pro Forma Revenues Settlement Rates (6)=(5)X(4)	Pro Forma Historic and Future Test Yr. Adjustments, Settlement Rates (7)	Ref. (8)	Pro Forma Revenues Under Settlement Rates (9)=(6)+(7)
OUTSIDE-CITY								
Residential	\$ 4,336,864	\$ 4,357,510	0.995262	\$ 4,713,175	\$ 4,690,844	\$ 10,020	R9,R12	\$ 4,700,865
Commercial	1,362,355	1,362,644	0.999788	1,507,521	1,507,201	(22,115)	R9,R12	1,485,086
Industrial	382,119	377,608	1.011946	425,263	430,343	11,538	R9,R12	441,881
Public	449,621	442,251	1.016666	492,087	500,288	(12,745)	R9,R12	487,543
Other Water Utilities	802,841	797,666	1.006488	890,735	896,514			896,514
Private Fire	577,316	578,375	0.998169	578,375	577,316	16,155	R14	593,471
Public Fire	325,706	326,304	0.998167	326,304	325,706	3,652	R14	329,358
Total Outside	8,236,822	8,242,358		8,933,460	8,928,212	6,505		8,934,717

CITY OF BETHLEHEM - BUREAU OF WATER
 HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER PRESENT RATES

Adj. Ref.	Explanation					Adjustment Increase (Decrease)
R1	To annualize Inside-City Operating Revenues for the net gain or loss in the number of customers during the twelve months ended 12/31/2019					
	Customer Classification (1)	Number of Customers 31-Dec-18 (2)	Number of Customers 31-Dec-19 (3)	Customer Gain/(Loss) (4)	Average Annual Bill, Present Rates (5)	Annualized Revenue Adjustment (Half Year) (6)
	Residential	21,875	21,856	(19)	\$ 303.77	(2,886)
	Commercial	727	727	-		-
	Industrial	69	70	1	21,621.30	10,811
	Public	301	286	(15)	4,623.00	(34,673)
	Total	22,972	22,939	(33)		(26,748)
R2	To annualize Outside-City Operating Revenues for the net gain or loss in the number of customers during the twelve months ended 12/31/2019					
	Customer Classification (1)	Number of Customers 31-Dec-18 (2)	Number of Customers 31-Dec-19 (3)	Customer Gain/(Loss) (4)	Average Annual Bill, Settlement Rates (5)	Annualized Revenue Adjustment (Half Year) (6)
	Residential	12,802	12,807	5	\$ 303.77	\$ 759
	Commercial	531	522	(9)	3,623.10	(16,304)
	Industrial	51	52	1	10,142.45	5,071
	Public	92	89	(3)	5,662.90	(8,494)
	Total	13,476	13,470	(6)		(18,968)

CITY OF BETHLEHEM - BUREAU OF WATER
 HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER PRESENT RATES

Adj. Ref.	Explanation					Adjustment Increase (Decrease)
R3	To impute Inside-City operating revenues for City-owned properties and 1,438 City fire hydrants not billed by the Bureau of Water.					
	Customer Classification	Number of Bills	Usage, 1,000 Gals.	Present Rates	Revenue	
	<u>INSIDE-CITY - Public</u>					
	5/8" Quarterly	54		\$ 24.75	\$ 1,337	
	3/4" Quarterly	8		41.94	336	
	1" Quarterly	20		81.42	1,628	
	5/8" Monthly	40		8.25	330	
	3/4" Monthly	21		13.98	294	
	1" Monthly	31		27.14	841	
	1-1/2" Monthly	48		53.04	2,546	
	2" Monthly	122		85.28	10,404	
	3" Monthly	12		174.80	2,098	
	4" Monthly	36		273.56	9,848	
	6" Monthly	26		547.11	14,225	
	8" Monthly	24		1,098.37	26,361	
	Consumption		48,194	\$ 3.33	160,632	
	Total	442	48,194		\$ 230,880	\$ 230,880
	<u>INSIDE-CITY -</u>					
	Public Fire Protection Number of Hydrants	1,438		\$ 66.00	\$ 379,632	\$ 379,632
	Total Historic Test Year, Pro Forma Operating Revenue Adjustments Under Present Rates					<u>\$ 564,797</u>

CITY OF BETHLEHEM - BUREAU OF WATER
 FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER PRESENT RATES

Adj. Ref.	Explanation					Adjustment Increase (Decrease)
R4	To adjust Inside-City Operating Revenues for the projected gain in the number of customers during the twelve months ended 12/31/2020					
	Customer Classification	Gain/Loss in Number of Customers, 12 Months Ended		Average Gain/Loss in Customers	Average Annual Bill, Present Rates	Annualized Revenue Adjustment
		31-Dec-18	31-Dec-19			
	Residential	40	(19)	10.5	\$ 303.77	\$ 3,190
	Commercial	5	-	2.5	5,502.91	13,757
	Industrial	-	1	0.5	21,621.30	10,811
	Public	27	(15)	6.0	4,623.00	27,738
	Total	72	(33)	19.5		55,496
R5	To adjust Outside-City Operating Revenues for the projected gain in the number of customers during the twelve months ended 12/31/2020					
	Customer Classification	Gain/Loss in Number of Customers, 12 Months Ended		Average Gain/Loss in Customers	Average Annual Bill, Present Rates	Annualized Revenue Adjustment
		31-Dec-18	31-Dec-19			
	Residential	51	5	28.0	\$ 303.77	\$ 8,506
	Commercial	7	(9)	(1.0)	3,623.10	(3,623)
	Industrial	-	1	0.5	10,142.45	5,071
	Public	2	(3)	(0.5)	5,662.90	(2,831)
	Total	60	(6)	27.0		7,123

CITY OF BETHLEHEM - BUREAU OF WATER
 FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER PRESENT RATES

Adj. Ref.	Explanation	Adjustment Increase (Decrease)																																																									
R6	To adjust Inside-City Operating Revenues for projected gain in the number of private fire lines, private fire hydrants, thousand square feet of protected area and the number of public fire hydrants for the future test year, based on average gain in units over the last six years.																																																										
	<u>INSIDE-CITY - Private Fire Protection:</u>																																																										
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Size	Number of Units		Average Annual Gain in Units	Present Rates				Revenue																																																			
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Size	Number of Units		Average Annual Gain in Units	Present Rates				Revenue																																																			
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Hydrants	1,153	1,236	13.8	66.00	3,652																																																						
	Total Future Test Year, Pro Forma Operating Revenue Adjustments Under Present Rates				\$	96,103																																																					

CITY OF BETHLEHEM - BUREAU OF WATER
 HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER SETTLEMENT RATES

Adj. Ref.	Explanation	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 12/31/2019

Customer Classification	Number of Customers		Customer Gain/(Loss)	Average Annual Bill, Settlement Rates	Annualized Revenue Adjustment (Half Year)	
	31-Dec-18	31-Dec-19				
(1)	(2)	(3)	(4)	(5)	(6)	
Residential	21,875	21,856	(19)	\$ 328.54	(3,121)	\$ (3,121)
Commercial	727	727	-		-	-
Industrial	69	70	1	24,773.10	12,387	12,387
Public	301	286	(15)	5,173.80	(38,804)	(38,804)
Total	22,972	22,939	(33)		(29,538)	

R9 To annualize Outside-City Operating Revenues for the net gain or loss in the number of customers during the twelve months ended 12/31/2019

Customer Classification	Number of Customers		Customer Gain/(Loss)	Average Annual Bill, Settlement Rates	Annualized Revenue Adjustment (Half Year)	
	31-Dec-18	31-Dec-19				
(1)	(2)	(3)	(4)	(5)	(6)	
Residential	12,802	12,807	5	\$ 328.54	\$ 821	\$ 821
Commercial	531	522	(9)	4,020.90	(18,094)	(18,094)
Industrial	51	52	1	11,537.81	5,769	5,769
Public	92	89	(3)	6,372.82	(9,559)	(9,559)
Total	13,476	13,470	(6)		(21,063)	

CITY OF BETHLEHEM - BUREAU OF WATER
 HISTORIC TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
 UNDER SETTLEMENT RATES

Adj. Ref.	Explanation					Adjustment Increase (Decrease)
R10	To impute Inside-City operating revenues for City-owned properties and 1,438 City fire hydrants not billed by the Bureau of Water.					
	Customer Classification	Number of Bills	Usage, 1,000 Gals.	Settlement Rates	Revenue	
	<u>INSIDE-CITY - Public</u>					
	5/8" Quarterly	54		\$ 24.75	\$ 1,337	
	3/4" Quarterly	8		41.94	336	
	1" Quarterly	20		81.42	1,628	
	5/8" Monthly	40		8.25	330	
	3/4" Monthly	21		13.98	294	
	1" Monthly	31		27.14	841	
	1-1/2" Monthly	48		53.04	2,546	
	2" Monthly	122		85.28	10,404	
	3" Monthly	12		174.80	2,098	
	4" Monthly	36		273.56	9,848	
	6" Monthly	26		547.11	14,225	
	8" Monthly	24		1,098.37	26,361	
	Consumption		<u>48,194</u>	\$ 3.84	<u>185,211</u>	
	Total	442	48,194		\$ 255,459	\$ 255,459
	<u>INSIDE-CITY -</u>					
	Public Fire Protection Number of Hydrants	1,438		\$ 66.00	\$ 379,632	\$ 379,632
	Total Historic Test Year, Pro Forma Operating Revenue Adjustments Under Settlement Rates					<u>\$ 584,490</u>

CITY OF BETHLEHEM - BUREAU OF WATER
FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation					Adjustment Increase (Decrease)	
R11	To adjust Inside-City Operating Revenues for the projected gain in the number of customers during the twelve months ended 12/31/2020						
	Customer Classification	Gain/Loss in Number of Customers, 12 Months Ended		Average Gain/Loss in Customers	Average Annual Bill, Settlement Rates	Annualized Revenue Adjustment	
		31-Dec-18	31-Dec-19				
	Residential	40	(19)	10.5	\$ 328.54	\$ 3,450	\$ 3,450
	Commercial	5	-	2.5	6,188.35	15,471	15,471
	Industrial	-	1	0.5	24,773.10	12,387	12,387
	Public	27	(15)	6.0	5,173.80	31,043	31,043
	Total	72	(33)	19.5		62,351	
R12	To adjust Outside-City Operating Revenues for the projected gain in the number of customers during the twelve months ended 12/31/2020						
	Customer Classification	Gain/Loss in Number of Customers, 12 Months Ended		Average Gain/Loss in Customers	Average Annual Bill, Settlement Rates	Annualized Revenue Adjustment	
		31-Dec-18	31-Dec-19				
	Residential	51	5	28.0	\$ 328.54	\$ 9,199	\$ 9,199
	Commercial	7	(9)	(1.0)	4,020.90	(4,021)	(4,021)
	Industrial	-	1	0.5	11,537.81	5,769	5,769
	Public	2	(3)	(0.5)	6,372.82	(3,186)	(3,186)
	Total	60	(6)	27.0		7,761	

CITY OF BETHLEHEM - BUREAU OF WATER
FUTURE TEST YEAR

PRO FORMA OPERATING REVENUE ADJUSTMENTS
UNDER SETTLEMENT RATES

Adj. Ref.	Explanation						Adjustment Increase (Decrease)
R13	To adjust Inside-City Operating Revenues for projected gain in the number of private fire lines, private fire hydrants, thousand square feet of protected area and the number of public fire hydrants for the future test year, based on average gain in units over the last six years.						
	<u>INSIDE-CITY - Private Fire Protection:</u>						
		Number of Units,		Average Annual Gain in Units	Settlement Rates	Revenue	
	Size	31-Dec-13	31-Dec-19				
	Less than 6"	125	133	1.3	112.50	\$ 600	
	6-Inch	169	183	2.3	140.55	1,312	
	8-Inch	58	69	1.8	168.27	1,234	
	10-Inch	2	5	0.5	195.99	392	
	12-Inch	8	11	0.5	252.06	504	
	Sq. Ft. of Area	17,325	22,198	812.1	2.79	9,063	
	Hydrants	378	378	-	78.27	-	
	Total					13,105	\$ 13,105
	<u>INSIDE-CITY - Public Fire Protection:</u>						
		31-Dec-13	31-Dec-19				
	Hydrants	1,425	1,438	2.2	66.00	572	572
R14	To adjust Outside-City Operating Revenues for projected gain in the number of private fire lines, private fire hydrants, thousand square feet of protected area and the number of public fire hydrants for the future test year, based on average gain in units over the last six years.						
	<u>OUTSIDE-CITY - Private Fire Protection:</u>						
		Number of Units,		Average Annual Gain in Units	Settlement Rates	Revenue	
	Size	31-Dec-13	31-Dec-19				
	Less than 6"	44	41	(0.5)	112.50	\$ (225)	
	6-Inch	80	123	7.2	140.55	4,029	
	8-Inch	110	112	0.3	168.27	224	
	10-Inch	7	7	-	195.99	0	
	12-Inch	9	16	1.2	252.06	1,176	
	Sq. Ft. of Area	17,137	21,285	691.4	2.79	7,716	
	Hydrants	437	499	10.3	78.27	3,235	
	Total					16,155	\$ 16,155
	<u>OUTSIDE-CITY - Public Fire Protection</u>						
		31-Dec-13	31-Dec-19				
	Hydrants	1,153	1,236	13.8	66.00	3,652	3,652
	Total Future Test Year, Pro Forma Operating Revenue Adjustments Under Settlement Rates						<u>\$ 103,596</u>

CITY OF BETHLEHEM - BUREAU OF WATER
OUTSIDE CITY

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS
YEAR ENDED DECEMBER 31, 2019

<u>Rate Block</u> <u>1000 Gallons</u> (1)	<u>Number</u> <u>Of Bills</u> (2)	<u>Total</u> <u>Consumption</u> (3)	<u>Present</u> <u>Rate</u> (4)	<u>Revenue</u> (5)	<u>Settlement</u> <u>Rate</u> (6)	<u>Settlement</u> <u>Revenue</u> (7)
<u>Residential - Quarterly</u>						
Customer Charge						
5/8	50,749	0	24.75	1,256,038	24.75	1,256,038
3/4	881	0	41.94	36,949	41.94	36,949
1	363	0	81.42	29,555	81.42	29,555
1 1/2	29	0	159.12	4,614	159.12	4,614
Subtotal	52,022	0		1,327,156		1,327,156
First Block	0	625,963	4.2660	2,670,358	4.7820	2,993,355
Subtotal	0	625,963		2,670,358		2,993,355
Total	52,022	625,963		3,997,514		4,320,511
<u>Residential - Monthly</u>						
Customer Charge						
5/8	92	0	8.25	759	8.25	759
3/4	12	0	13.98	168	13.98	168
1	12	0	27.14	326	27.14	326
1 1/2	368	0	53.04	19,519	53.04	19,519
2	365	0	85.28	31,127	85.28	31,127
3	48	0	174.80	8,390	174.80	8,390
6	18	0	547.11	9,848	547.11	9,848
8	18	0	1,098.37	19,771	1,098.37	19,771
Subtotal	933	0		89,908		89,908
First Block	0	63,312	4.2660	270,088	4.7820	302,756
Subtotal	0	63,312		270,088		302,756
Total	933	63,312		359,996		392,664
Total Class	52,955	689,275		4,357,510		4,713,175
<u>Commercial - Quarterly</u>						
Customer Charge						
5/8	501	0	24.75	12,400	24.75	12,400
3/4	156	0	41.94	6,543	41.94	6,543
1	199	0	81.42	16,203	81.42	16,203
1 1/2	32	0	159.12	5,092	159.12	5,092
2	13	0	255.84	3,326	255.84	3,326
3	4	0	524.40	2,098	524.40	2,098
4	0	0	820.68	0	820.68	0
6	4	0	1,641.33	6,565	1,641.33	6,565
8	9	0	3,295.11	29,656	3,295.11	29,656
Subtotal	918	0		81,883		81,883
First Block	0	41,466	3.3330	138,207	3.8430	159,355
Subtotal	0	41,466		138,207		159,355
Total	918	41,466		220,090		241,238

CITY OF BETHLEHEM - BUREAU OF WATER
 OUTSIDE CITY

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS
 YEAR ENDED DECEMBER 31, 2019

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Rate (6)	Settlement Revenue (7)
<u>Commercial - Monthly</u>						
Customer Charge						
5/8	58	0	8.25	479	8.25	479
3/4	47	0	13.98	657	13.98	657
1	282	0	27.14	7,653	27.14	7,653
1 1/2	1,045	0	53.04	55,427	53.04	55,427
2	1,706	0	85.28	145,488	85.28	145,488
3	415	0	174.80	72,542	174.80	72,542
4	117	0	273.56	32,007	273.56	32,007
6	36	0	547.11	19,696	547.11	19,696
Subtotal	3,706	0		333,949		333,949
First Block	0	242,606	3.3330	808,605	3.8430	932,334
Subtotal	0	242,606		808,605		932,334
Total	3,706	242,606		1,142,554		1,266,283
Total Class	4,624	284,072		1,362,644		1,507,521
<u>Industrial - Quarterly</u>						
Customer Charge						
5/8	16	0	24.75	396	24.75	396
3/4	16	0	41.94	671	41.94	671
1	32	0	81.42	2,605	81.42	2,605
2	0	0	255.84	0	255.84	0
Subtotal	64	0		3,672		3,672
First Block	0	1,718	3.3330	5,726	3.8430	6,602
Subtotal	0	1,718		5,726		6,602
Total	64	1,718		9,398		10,274
<u>Industrial - Monthly</u>						
Customer Charge						
1	8	0	27.14	217	27.14	217
1 1/2	108	0	53.04	5,728	53.04	5,728
2	106	0	85.28	9,040	85.28	9,040
3	84	0	174.80	14,683	174.80	14,683
4	72	0	273.56	19,696	273.56	19,696
6	24	0	547.11	13,131	547.11	13,131
8	0	0	1,098.37	0	1,098.37	0
Subtotal	402	0		62,495		62,495
First Block	0	91,724	3.3330	305,715	3.8430	352,494
Subtotal	0	91,724		305,715		352,494
Total	402	91,724		368,210		414,989
Total Class	466	93,442		377,608		425,263

CITY OF BETHLEHEM - BUREAU OF WATER
OUTSIDE CITY

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS
YEAR ENDED DECEMBER 31, 2019

<u>Rate Block</u> <u>1000 Gallons</u> (1)	<u>Number</u> <u>Of Bills</u> (2)	<u>Total</u> <u>Consumption</u> (3)	<u>Present</u> <u>Rate</u> (4)	<u>Revenue</u> (5)	<u>Settlement</u> <u>Rate</u> (6)	<u>Settlement</u> <u>Revenue</u> (7)
<u>Public - Quarterly</u>						
Customer Charge						
5/8	44	0	24.75	1,089	24.75	1,089
3/4	6	0	41.94	252	41.94	252
1	29	0	81.42	2,361	81.42	2,361
1 1/2	0	0	159.12	0	159.12	0
6	4	0	1,641.33	6,565	1,641.33	6,565
Subtotal	83	0		10,267		10,267
First Block	0	1,340	3.3330	4,466	3.8430	5,149
Subtotal	0	1,340		4,466		5,149
Total	83	1,340		14,733		15,416
<u>Public - Monthly</u>						
Customer Charge						
5/8	36	0	8.25	297	8.25	297
3/4	0	0	13.98	0	13.98	0
1	29	0	27.14	787	27.14	787
1 1/2	179	0	53.04	9,494	53.04	9,494
2	288	0	85.28	24,561	85.28	24,561
3	166	0	174.80	29,017	174.80	29,017
4	106	0	273.56	28,997	273.56	28,997
6	24	0	547.11	13,131	547.11	13,131
Subtotal	828	0		106,284		106,284
First Block	0	96,380	3.3330	321,234	3.8430	370,387
Subtotal	0	96,380		321,234		370,387
Total	828	96,380		427,518		476,671
Total Class	911	97,720		442,251		492,087

CITY OF BETHLEHEM - BUREAU OF WATER
 OUTSIDE CITY

APPLICATION OF PRESENT RATES AND SETTLEMENT RATES TO CONSUMPTION ANALYSIS
 YEAR ENDED DECEMBER 31, 2019

Rate Block 1000 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	Settlement Rate (6)	Settlement Revenue (7)
<u>Other Water Utilities - Quarterly</u>						
Customer Charge						
2	0	0	255.84	0	255.84	0
8	0	0	3,295.11	0	3,295.11	0
Subtotal	0	0		0		0
First Block	0	0	3.9690	0	4.4980	0
Subtotal	0	0		0		0
Total	0	0		0		0
<u>Other Water Utilities - Monthly</u>						
Customer Charge						
5/8		0	8.25	0	8.25	0
3/4		0	13.98	0	13.98	0
1	12	0	27.14	326	27.14	326
1 1/2	12	0	53.04	636	53.04	636
2	36	0	85.28	3,070	85.28	3,070
3	12	0	174.80	2,098	174.80	2,098
4	36	0	273.56	9,848	273.56	9,848
6	36	0	547.11	19,696	547.11	19,696
8	48	0	1,098.37	52,722	1,098.37	52,722
10	10	0	1,098.37	10,984	1,098.37	10,984
Subtotal	202	0		99,380		99,380
First Block	0	175,935	3.9690	698,286	4.4980	791,355
Subtotal	0	175,935		698,286		791,355
Total	202	175,935		797,666		890,735
Total Class	202	175,935		797,666		890,735
<u>Private Fire - Quarterly</u>						
Less than 6"	164		\$ 112.50	18,450	\$ 112.50	18,450
6-Inch	492		140.55	69,151	140.55	69,151
8-Inch	448		168.27	75,385	168.27	75,385
10-Inch	28		195.99	5,488	195.99	5,488
12-Inch	64		252.06	16,132	252.06	16,132
Protected Area	85,141		2.79	237,543	2.79	237,543
Private Hydrants	1,996		78.27	156,227	78.27	156,227
	88,333			578,375		578,375
<u>Public Fire - Quarterly</u>						
Hydrants	4,944		\$ 66.00	326,304	\$ 66.00	326,304
Total Outside City	152,435	1,340,443		8,242,358		8,933,460

CITY OF BETHLEHEM - BUREAU OF WATER
 INSIDE AND OUTSIDE THE CITY

COMPARISON OF BILLS UNDER PRESENT AND SETTLEMENT RATES

RESIDENTIAL - QUARTERLY

5/8 INCH METER

CONSUMPTION 1000 GALLONS	BILLS UNDER PRESENT RATES	BILLS UNDER SETTLEMENT RATES	AMOUNT OF INCREASE	PERCENTAGE OF INCREASE
(1)	(2)	(3)	(4)	(5)
0	\$ 24.75	\$ 24.75	\$ -	0.0%
1	29.02	29.53	0.51	1.8%
2	33.28	34.31	1.03	3.1%
3	37.55	39.10	1.55	4.1%
4	41.81	43.88	2.07	5.0%
5	46.08	48.66	2.58	5.6%
6	50.35	53.44	3.09	6.1%
7	54.61	58.22	3.61	6.6%
8	58.88	63.01	4.13	7.0%
9	63.14	67.79	4.65	7.4%
10	67.41	72.57	5.16	7.7%
11	71.68	77.35	5.67	7.9%
12	* 75.94	82.13	6.19	8.2%
13	80.21	86.92	6.71	8.4%
14	84.47	91.70	7.23	8.6%
15	88.74	96.48	7.74	8.7%
16	93.01	101.26	8.25	8.9%
17	97.27	106.04	8.77	9.0%
18	101.54	110.83	9.29	9.1%
19	105.80	115.61	9.81	9.3%
20	110.07	120.39	10.32	9.4%
25	131.40	144.30	12.90	9.8%
30	152.73	168.21	15.48	10.1%
35	174.06	192.12	18.06	10.4%
40	195.39	216.03	20.64	10.6%
45	216.72	239.94	23.22	10.7%
50	238.05	263.85	25.80	10.8%
60	280.71	311.67	30.96	11.0%
70	323.37	359.49	36.12	11.2%
80	366.03	407.31	41.28	11.3%
90	408.69	455.13	46.44	11.4%
100	451.35	502.95	51.60	11.4%
200	877.95	981.15	103.20	11.8%
300	1,304.55	1,459.35	154.80	11.9%
400	1,731.15	1,937.55	206.40	11.9%
500	2,157.75	2,415.75	258.00	12.0%

*Average Residential Quarterly Usage.

CITY OF BETHLEHEM - BUREAU OF WATER
 INSIDE AND OUTSIDE THE CITY

COMPARISON OF BILLS UNDER PRESENT AND SETTLEMENT RATES

COMMERCIAL - MONTHLY

2 INCH METER

CONSUMPTION 1000 GALLONS	BILLS UNDER PRESENT RATES	BILLS UNDER SETTLEMENT RATES	AMOUNT OF INCREASE	PERCENTAGE OF INCREASE	
(1)	(2)	(3)	(4)	(5)	
0	\$ 85.28	\$ 85.28	\$ -	0.0%	
1	88.61	89.12	0.51	0.6%	
2	91.95	92.97	1.02	1.1%	
3	95.28	96.81	1.53	1.6%	
4	98.61	100.65	2.04	2.1%	
5	101.95	104.50	2.55	2.5%	
6	105.28	108.34	3.06	2.9%	
7	108.61	112.18	3.57	3.3%	
8	111.94	116.02	4.08	3.6%	
9	115.28	119.87	4.59	4.0%	
10	118.61	123.71	5.10	4.3%	
11	121.94	127.55	5.61	4.6%	
12	125.28	131.40	6.12	4.9%	
13	128.61	135.24	6.63	5.2%	
14	131.94	139.08	7.14	5.4%	
15	135.28	142.93	7.65	5.7%	
16	138.61	146.77	8.16	5.9%	
17	141.94	150.61	8.67	6.1%	
18	145.27	154.45	9.18	6.3%	
19	148.61	158.30	9.69	6.5%	
20	151.94	162.14	10.20	6.7%	
25	168.61	181.36	12.75	7.6%	
30	185.27	200.57	15.30	8.3%	
32	191.94	208.26	16.32	8.5%	
35	201.94	219.79	17.85	8.8%	
40	218.60	239.00	20.40	9.3%	
45	235.27	258.22	22.95	9.8%	
50	251.93	277.43	25.50	10.1%	
60	285.26	315.86	30.60	10.7%	
65	*	301.93	335.08	33.15	11.0%
80		351.92	392.72	40.80	11.6%
90		385.25	431.15	45.90	11.9%
100		418.58	469.58	51.00	12.2%
200		751.88	853.88	102.00	13.6%
300		1,085.18	1,238.18	153.00	14.1%
400		1,418.48	1,622.48	204.00	14.4%
500		1,751.78	2,006.78	255.00	14.6%
600		2,085.08	2,391.08	306.00	14.7%
700		2,418.38	2,775.38	357.00	14.8%
800		2,751.68	3,159.68	408.00	14.8%
900		3,084.98	3,543.98	459.00	14.9%
1000		3,418.28	3,928.28	510.00	14.9%

*Average Commercial Monthly Usage.

CITY OF BETHLEHEM - BUREAU OF WATER
 INSIDE AND OUTSIDE THE CITY

COMPARISON OF BILLS UNDER PRESENT AND SETTLEMENT RATES

INDUSTRIAL - MONTHLY

1 1/2 INCH METER

CONSUMPTION 1000 GALLONS	BILLS UNDER PRESENT RATES	BILLS UNDER SETTLEMENT RATES	AMOUNT OF INCREASE	PERCENTAGE OF INCREASE
(1)	(2)	(3)	(4)	(5)
0	\$ 53.04	\$ 53.04	\$ -	0.0%
10	86.37	91.47	5.10	5.9%
50	219.69	245.19	25.50	11.6%
100	386.34	437.34	51.00	13.2%
149	549.66	625.65	75.99	13.8%
150	552.99	629.49	76.50	13.8%
200	719.64	821.64	102.00	14.2%
228	* 812.96	929.24	116.28	14.3%
300	1,052.94	1,205.94	153.00	14.5%
400	1,386.24	1,590.24	204.00	14.7%
500	1,719.54	1,974.54	255.00	14.8%
600	2,052.84	2,358.84	306.00	14.9%
700	2,386.14	2,743.14	357.00	15.0%
800	2,719.44	3,127.44	408.00	15.0%
900	3,052.74	3,511.74	459.00	15.0%
1,000	3,386.04	3,896.04	510.00	15.1%
2,000	6,719.04	7,739.04	1,020.00	15.2%
3,000	10,052.04	11,582.04	1,530.00	15.2%
4,000	13,385.04	15,425.04	2,040.00	15.2%
5,000	16,718.04	19,268.04	2,550.00	15.3%
6,000	20,051.04	23,111.04	3,060.00	15.3%
7,000	23,384.04	26,954.04	3,570.00	15.3%
8,000	26,717.04	30,797.04	4,080.00	15.3%
9,000	30,050.04	34,640.04	4,590.00	15.3%
10,000	33,383.04	38,483.04	5,100.00	15.3%
20,000	66,713.04	76,913.04	10,200.00	15.3%
30,000	100,043.04	115,343.04	15,300.00	15.3%

*Average Industrial Monthly Usage.

CITY OF BETHLEHEM - BUREAU OF WATER
 INSIDE AND OUTSIDE THE CITY

COMPARISON OF BILLS UNDER PRESENT AND SETTLEMENT RATES

OTHER WATER UTILITIES - MONTHLY

8 INCH METER

CONSUMPTION 1000 GALLONS	BILLS UNDER PRESENT RATES	BILLS UNDER SETTLEMENT RATES	AMOUNT OF INCREASE	PERCENTAGE OF INCREASE
(1)	(2)	(3)	(4)	(5)
0	\$ 1,098.37	\$ 1,098.37	\$ -	0.0%
100	1,495.27	1,548.17	52.90	3.5%
200	1,892.17	1,997.97	105.80	5.6%
300	2,289.07	2,447.77	158.70	6.9%
400	2,685.97	2,897.57	211.60	7.9%
500	3,082.87	3,347.37	264.50	8.6%
600	3,479.77	3,797.17	317.40	9.1%
620	3,559.15	3,887.13	327.98	9.2%
700	3,876.67	4,246.97	370.30	9.6%
871	* 4,555.37	5,016.13	460.76	10.1%
900	4,670.47	5,146.57	476.10	10.2%
1,000	5,067.37	5,596.37	529.00	10.4%
1,100	5,464.27	6,046.17	581.90	10.6%
1,200	5,861.17	6,495.97	634.80	10.8%
1,300	6,258.07	6,945.77	687.70	11.0%
1,400	6,654.97	7,395.57	740.60	11.1%
1,500	7,051.87	7,845.37	793.50	11.3%
1,600	7,448.77	8,295.17	846.40	11.4%
1,700	7,845.67	8,744.97	899.30	11.5%
1,800	8,242.57	9,194.77	952.20	11.6%
1,900	8,639.47	9,644.57	1,005.10	11.6%
2,000	9,036.37	10,094.37	1,058.00	11.7%
3,000	13,005.37	14,592.37	1,587.00	12.2%
4,000	16,974.37	19,090.37	2,116.00	12.5%
5,000	20,943.37	23,588.37	2,645.00	12.6%
10,000	40,788.37	46,078.37	5,290.00	13.0%
15,000	60,633.37	68,568.37	7,935.00	13.1%

*Average Other Water Utilities Monthly Usage.

APPENDIX C
Statement in Support of
The City of Bethlehem – Water Department

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3020256
Office of Small Business Advocate	:	C-2020-3021576
Office of Consumer Advocate	:	C-2020-3021583
	:	
v.	:	
	:	
City of Bethlehem – Water Department	:	
	:	

**STATEMENT IN SUPPORT OF
THE CITY OF BETHLEHEM – WATER DEPARTMENT**

TO ADMINISTRATIVE LAW JUDGE STEVEN K. HAAS:

AND NOW, comes the City of Bethlehem – Water Department (“City”), by its attorneys, and submits the following statement in support of the Joint Petition for Approval of Partial Settlement of Rate Investigation (“Joint Petition”)¹ submitted to the Public Utility Commission (“Commission”) by the City and the Bureau of Investigation and Enforcement (“I&E”).

Introduction

The City initiated this proceeding on July 31, 2020 with the filing of Supplement No. 15 to Tariff Water – Pa. P.U.C. No. 6 proposing an increase of \$908,421, or 10.9%, in annual water service revenue for Outside City Customers based on a future test year ending December 31, 2020.²

As of December 31, 2019, the City provided water service to 13,496 customers outside the

¹ The settlement is a partial settlement as defined in 52 Pa. Code Section 69.401 as it resolves all issues but is not joined by all parties. A partial settlement is also sometimes called a “non-unanimous” settlement.

² The City provides water service in the City of Bethlehem and all or parts of eleven other municipalities: (a) in Lehigh County – portions of Salisbury Township, portions of Upper Saucon Township, portions of Hanover Township, and the Borough of Fountain Hill; (b) In Northampton County – portions of Lower Saucon Township, portions of Bethlehem Township, portions of Hanover Township, East Allen Township, portions of Allen Township, portions of Lower Nazareth Township, and the Borough of Freemansburg.

City limits and to 22,940 customers inside the City limits. The City supplies drinking water for residential, commercial, industrial, institutional, resale, and public uses, and for fire protection purposes.³

The City and I&E have agreed that this rate proceeding can be settled without further litigation under the terms set forth in the Joint Petition. The settlement provides for an increase in annual revenue of \$689,932, or 8.4% for Outside City Customers.

The Proposed Partial Settlement is Consistent with Commission Regulations and In the Public Interest

It is the stated policy of the Commission to encourage parties in contested proceedings to enter into settlements.⁴ Settlements eliminate the time, investment of lawyering skills, evidence gathering, witness preparation, witness examination and expenses of litigating a matter to its resolution, which may entail review of the Commission's decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such continuing litigation necessarily entails.⁵

³ The City is the recipient of several awards related to its water service. It has been certified by the Forest Stewardship Council for its forest management practices related to its 23,000 acre water shed in Carbon and Monroe Counties. In 2019, its Water Treatment Plant received its twelfth consecutive Area Wide Optimization Program Award, sponsored by the US EPA and the Association of State Drinking Water Administrators, for outstanding performance in filtration plant operations. *See* City of Bethlehem St. No. 4.

⁴ 52 Pa. Code § 5.231(a). The Commission, moreover, has stated that the results achieved from a negotiated settlement or stipulation in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401.

⁵ *Pa. P.U.C. v. Pennsylvania-American Water Company*, Docket Nos. R-2020-3019369 and R-2020-3019371, Recommended Decision of Administrative Law Judge Conrad Johnson dated December 22, 2020 (“*Recommended Decision of ALJ Johnson*”), mimeo at 122; *See also Pa. P.U.C. v. Buck Hill Water Company*, Docket No. R-2019-3007103, Recommended Decision of Administrative Law Judge F. Joseph Brady dated May 29, 2019 (“*Recommended Decision of ALJ Brady*”), mimeo at 9-10; *Pa. P.U.C. v. Timberlee Valley Sanitation Company*, Docket No. R-2018-3003104, Recommended Decision of Administrative Law Judge Katrina L. Dunderdale dated October 16, 2018, mimeo at 10; *Pa. P.U.C. v. Reynolds Water Company*, Docket No. R-2017-2631441, Recommended Decision of Administrative Law Judge Katrina L. Dunderdale dated May 16, 2018, mimeo at 23; *Pa. P.U.C. v. Imperial Point Water Service Company*, Docket No. R-2012-2315536, Recommended Decision of Administrative Law Judge Katrina L. Dunderdale dated June 25, 2013, mimeo at 11; *Pa. P.U.C. v. The Newtown Artesian Water Company*, Docket No. R-2011-2230259, Recommended Decision of Administrative Law Judge Elizabeth H. Barnes dated September 20, 2011 (“*Recommended*

The Commission addressed the benefits of a Partial Settlement in its recent Opinion and Order approving a Partial Settlement, without modification, in *Pa. P.U.C., et al. v. Philadelphia Gas Works*, Docket No. R-2020-3017206, Opinion and Order entered November 19, 2020 (“*PGW*”), explaining as follows:

The policy of the Commission is to encourage settlements, and the Commission has stated that settlement rates are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code §§ 5.231, 69.401. A full settlement of all the issues in a proceeding eliminates the time, effort and expense that otherwise would have been used in litigating the proceeding, while a partial settlement may significantly reduce the time, effort and expense of litigating a case. Rate cases, in general, are expensive to litigate and settlements may reduce a utility’s rate case expense; an expense which, if reasonable and prudently incurred, is entitled to be recovered from customers through rates approved by the Commission, as a cost of regulation. Therefore, a settlement, whether whole or partial, benefits not only the named parties directly, but, indirectly, all of the customers of the case. It is for these reasons, that settlements are encouraged by long-standing Commission policy.⁶

Consistent with this long-standing policy, the Joint Petition proposes a resolution of all issues. The Commission’s charge is to evaluate the Partial Settlement through the lens of a public interest review.⁷ The Commission addressed the public interest standard in *PGW* as follows:

Despite the policy favoring settlements, it is well understood that the Commission does not simply rubber stamp settlements without further inquiry. In order to accept a settlement such as those proposed here, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. PUC v. C. S. Water and Sewer Assoc.*, 74 Pa. P.U.C. 767 (1991) (*CS Water and Sewer*). The focus of the inquiry for determining whether a proposed settlement should be approved by the Commission is whether the proposed terms and conditions foster, promote and serve the public interest. *Pa. PUC, et al. v. City of Lancaster –*

Decision of ALJ Barnes”), mimeo at 9; *Pa. P.U.C. v. Reynolds Disposal Company*, Docket No. R-2010-2171339, Recommended Decision of Administrative Law Judge Conrad A. Johnson dated January 11, 2011, mimeo at 12; *Pa. P.U.C. v. Lake Spangenberg Water Company*, Docket No. R-2009-2115743, Recommended Decision of Administrative Law Judge Ember S. Jandebour dated March 2, 2010, mimeo at 11; *Pa. P.U.C. v. Reynolds Water Company*, Docket No. R-2009-2102464, Recommended Decision of Administrative Law Judge Katrina L. Dunderdale dated February 16, 2010, mimeo at 5.

⁶ *PGW*, mimeo at 13-14.

⁷ *PGW*, mimeo at 66.

Bureau of Water, Docket Nos. R-2010-2179103, *et al.* (Order entered July 14, 2011), citing *Warner v. GTE North, Inc.*, Docket No. C-00902815 (Order entered April 1, 1996) and *CS Water and Sewer*.⁸

Similarly, in his Recommended Decision recommending approval of a non-unanimous settlement in the PAWC rate proceeding, Judge Johnson stated the following:

While I am mindful of the economic hardship gripping many ratepayers, the Commonwealth, and the nation at large due to the ongoing COVID-19 pandemic, in deciding whether to recommend approval of the Settlement, I am bound by the Commission's policy that encourages settlement and whether the Settlement is in the public interest. *Pa. Pub. Util. Comm'n v. C.S. Water & Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991)⁹

The Joint Petition is consistent with the Commission's policy favoring negotiated settlements and in the public interest. It reduces administrative burden by resolving, after thorough and extensive discovery, issues between two active parties to the rate investigation; recognizes, through the participation of I&E, ratepayer concerns with the proposed rate increase; and provides the City with additional and necessary cash flow. These considerations are traditionally recognized as matters that further the public interest in settlement of rate proceedings. They foster, promote and serve the public interest in this proceeding in the same way that they have fostered, promoted and served the public interest in numerous other settled rate proceedings. I&E is also filing an individual statement in support of the Joint Petition.

The Financial Data Submitted By the City Supports the Settlement Increase Which Will Provide the City with Additional and Necessary Cash Flow

The City is increasing its rates to provide sufficient revenue to enable it to continue to provide reasonable and adequate service, to provide the cash flow necessary to continue to operate, maintain and renew its facilities properly and meet its financial obligations and to be permitted an opportunity to achieve an adequate return on the original cost invested in water property. Its last rate

⁸ *PGW*, mimeo at 15.

increase was in 2014. On a pro forma basis, the City will experience a return of 5.57% at present rate levels. The City is in need of immediate rate relief.¹⁰

Under the presently suspended Supplement No. 15, the quarterly cost of water service to a typical City residential customer using 12,000 gallons per quarter with a 5/8-inch meter would have increased by \$9.61, from \$75.94 to \$85.55 per quarter, or by 12.7%. Under the Joint Petition, the quarterly cost of water service to a typical City residential customer using 12,000 gallons per quarter with a 5/8-inch meter will increase by \$6.19 from \$75.94 to \$82.13 per quarter or by 8.2%.

As is common in general base rate proceedings, the settlement is “black box,” meaning that the City and I&E have not negotiated each and every revenue and expense line item but rather have been able to agree upon a final revenue number based on their individual revenue and expense analysis. The Commission has recognized that “black box” settlements are an important aspect in the process of delivering timely and cost-effective regulation.¹¹ The Commission addressed “black box” settlements in *PGW*:

The Commission has recognized that “black box” settlements can serve an important purpose in reaching consensus in rate cases:

We have historically permitted the use of “black box” settlements as a means of promoting settlement among the parties in contentious base rate proceedings. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company’s revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company’s cost of capital. Reaching an agreement between various parties on each component

⁹ *Recommended Decision of ALJ Johnson*, mimeo at 126.

¹⁰ City of Bethlehem St. No. 1, Attachment 1 at 6.

¹¹ *See Recommended Decision of Administrative Law Judge Brady*, mimeo at 11, and cases cited therein.

of a rate increase can be difficult and impractical in many cases.
(citation omitted)¹¹

The financial data submitted by the City in support of Supplement No. 15 fully supports the substantially reduced annual increase of \$689,932 provided for in the Joint Petition. The financial data, which included the information required by Commission regulation at 52 Pa. Code Section 53.52, was submitted in the form of a traditional rate base/rate of return analysis.¹² The financial data was supported and sponsored by the testimony of Constance E. Heppenstall,¹³ Harold Walker, III¹⁴ and John J. Spanos¹⁵ of Gannett Fleming Valuation and Rate Consultants, LLC. Edward J. Boscola, P.E., the City's Director of Water and Sewer Resources, addressed and explained the City's water system operations.¹⁶

The City's filing was thoroughly investigated by I&E. I&E propounded and the City answered initial and follow up discovery. I&E identified issues in direct testimony and the City replied in rebuttal testimony. It was only after this investigation that the City and I&E were able to engage in substantive discussions and then agree, in settlement, to a reduced increase in annual revenue of \$689,932 for Outside City Service. The settlement increase, at a level reduced from the City's original filing, reflects a compromise of the positions of the City and I&E, which, consistent with Commission policy, fosters and promotes the public interest.

At the originally proposed revenue increase of \$908,421, the City's overall opportunity rate

¹¹ *PGW*, mimeo at 14; *See also Recommended Decision of ALJ Johnson*, mimeo at 125-126.

¹² *See* City of Bethlehem St. No. 1, Attachment A, Rate Study and Data in Support of Supplement No. 15, and Exhibit CEH-1R, Rebuttal Rate Study and Data in Support of Supplement No. 15.

¹³ City of Bethlehem Statements Nos. 1, 1R and 1RJ.

¹⁴ City of Bethlehem Statements Nos. 2, 2R and 2RJ.

¹⁵ City of Bethlehem Statements Nos. 3, 3R and 3RJ.

¹⁶ City of Bethlehem Statements Nos. 4 and 4R.

of return would have been 8.24%.¹⁷ At the substantially reduced settlement increase of \$689,932, the overall opportunity rate of return is 6.72%. While below the return claim originally presented and less than that supported by the testimony of Mr. Walker, the City accepts the reduced return in settlement as it reflects a compromise of the positions of the City and I&E, which, consistent with Commission policy, fosters and promotes the public interest.

In sum, although less than the increase originally sought by the City and supported by required financial data and substantial supporting testimony and less than the increase that the City believes it could have readily supported if it had proceeded to a litigated conclusion with I&E, the City, in settlement, accepts the annual increase of \$689,932 both as a reasonable and appropriate resolution of issues and as a rate level that is just and reasonable for service to Outside City Customers.¹⁸

Scale Back

The Office of Small Business Advocate (“OSBA”) proposed an allocation of revenue and a scale back of rates which was used to determine the proposed settlement rates. The OSBA’s proposal incorporates the change in demand factors for the Sales for Resale class and modifies the increases by customer class based on the cost of service presented on page 3 of Exhibit CEH-3, page 3 of 3. Although the OSBA is not a party to the Joint Petition, I&E and the City accepted the OSBA’s scale back as appropriate for settlement purposes. The settlement scale back resolves competing positions in the allocation of revenue among Outside City Customers and does so in a

¹⁷ City of Bethlehem St. No. 1 at 10.

¹⁸ The public interest is furthered when a utility is provided with sufficient revenue to meet its obligations under Section 1501 of the Public Utility Code, 66 Pa. C.S. §1501, to provide safe, reliable and adequate service. The courts have long recognized that, in order to function in the public interest, the utility must have rates which are sufficient to recover legitimate operating costs, and at the same time not result in an excessive return. *Recommended Decision of ALJ Barnes*, citing *Orlosky v. Pa. P.U.C.*, 171 Pa. Superior. Ct. 409, 89 A.2d 903 (1952).

mutually acceptable way with resulting class settlement increases in a narrow range of 8.2% to 12.6%.¹⁹ The City submits that the scale back, which is cost based, furthers the public interest.

Elimination of Lower Saucon Honor System Rate

Supplement No. 15 also proposed the elimination of the Lower Saucon Honor System Rate. The installation of three master meters on distribution mains delivering water to the Lower Saucon Authority Honor System area was completed in 2017. The Seidersville Road metered connection was activated on November 18, 2016. The Clauser Drive metered connection and the Black River Road metered connection were both activated on April 1, 2017. All water service to the Lower Saucon Authority System is now fully master metered.²⁰ No customer receives service under the Honor System Rate and no revenue from the Rate is included in the City's revenue requirement calculation. No party opposed the removal of the Honor System Rate from the tariff and the City and I&E have agreed that this tariff change may go into effect as filed. The City submits that this unopposed tariff revision is reasonable and appropriate.

Unaccounted For Water

There are a number of ways to calculate Unaccounted for Water ("UFW"). Historically, the City has used the Department of Environmental Protection Chapter 110 method for calculating UFW. It also has used the Delaware River Basin Commission Water Audit methodology since the 2012 reporting year. The DEP and DRBC calculation methods differ, slightly, from the Commission's Section 500 calculation method in their calculations.²¹ In settlement, the City has agreed to begin using the Commission's Section 500 method. Doing so will aid the Commission in

¹⁹ As presented in Appendix A – Proof of Revenue, settlement percentage increases by class are 8.2% - Residential; 10.6% - Commercial; 12.6% - Industrial; 11.2% - Public; and 11.7% - Other Water Utilities. Private and Public Fire Protection rates do not increase under the settlement. The City proposed no increase to Fire Protection Rates in its original filing. City of Bethlehem St. No. 1 at 19.

²⁰ City of Bethlehem St. No. 4 at 10.

²¹ City of Bethlehem St. No. 4R.

its review of future City rate cases. Easing future rate case review will further the public interest and is reasonable and appropriate.

The City has also agreed, in settlement, to take steps to maintain UFW below 20% and, in its next base rate case, if UFW is above 20%, provide a narrative explanation of possible reasons for it. The public benefit of this settlement term is readily apparent and the City accepts it, in settlement, as reasonable and appropriate.

Demand Study

The City and I&E agree the Demand Study presented in Exhibit CEH-2 and revised in Exhibit CEH-3 is acceptable. The City prepared and submitted the Demand Study pursuant to the Joint Petition for Settlement at Docket No. R-2013-2390244.²² The City monitored inside and outside City customers for a total of 161 residential customers, 30 commercial and public customers, 16 industrial customers and all 17 of the sales for resale customers. The results of the Demand Study were used in the City's cost of service study presented in Exhibit CEH-2R – Rebuttal Cost of Service Allocation Study for the Test Year Ended December 31, 2020.²³ No party contested the Demand Study. The City submits that the Demand Study should be accepted.

COVID Pandemic Concerns

The City is aware of the difficulties faced by City residents and neighbors as a result of the COVID pandemic. Although not part of the Joint Petition, the City has voluntarily taken steps to assist customers during this time. As explained in City Hearing Exhibit No. 1:

1. In order to best serve its customers, the City is continuing with a moratorium on all service terminations regardless of whether or not a customer is

²² City of Bethlehem St. No. 1 at 3.

²³ The Demand Study included in the record as Exhibit CEH-2 was prepared in April 2020. Additional data for the Sales for Resale class was gathered during the Summer of 2020 and submitted with Ms. Heppenstall's direct testimony as Exhibit CEH-3 – Revised Table II-7 of the Demand Study. The original and revised data was brought together and used in Exhibit CEH-2R – Rebuttal Cost of Service Allocation Study for the Test Year Ended December 31, 2020..

classified as a “protected customer” as defined in the Order at M-2020-3019244. This moratorium has been in effect since the March 13, 2020 Emergency Order and shall continue until March 31, 2021 unless modified by the Commission.

2. The City is continuing to offer payment arrangements for customers who have difficulty making payments or who otherwise have significant overdue balances. This City effort predates the Covid-19 pandemic and shall continue indefinitely.
3. The City is waiving all new late payment charges for all customers until March 31, 2021.

The elected City officials weighed the impact of a rate increase on water customers while in the midst of the COVID-19 pandemic and determined that the need for a rate increase to adequately operate and maintain the City’s water system was justified and required even during this challenging period. The City’s elected officials would be the most qualified to make this decision as they are close to their constituents and the situation in Lehigh and Northampton Counties.²⁴ The City, even at the proposed rate level, has one of the lowest rates for water service in the region.²⁵

Conclusion

The Joint Petition, which occurred only after extensive discovery and discussion, is the result of arms’ length negotiation between the City and I&E. The settlement increase of \$689,932 will provide the City with additional and necessary cash flow to meet operating expenses and the opportunity to earn a reasonable return on investment. Through the settlement, all matters of interest between the City and I&E are addressed and the uncertainty of litigation with I&E and the related time and burden of doing so are avoided. The City submits that the Joint Petition is reasonable and in the public interest; that the proposed settlement rates are just and reasonable; and that the Commission should approve the Joint Petition without modification.

²⁴ City of Bethlehem St. No. 1R at 3.

²⁵ City of Bethlehem St. No. 1R at 4.

WHEREFORE the City of Bethlehem respectfully requests that Administrative Law Judge Steven K. Haas and the Public Utility Commission accept the foregoing in support of the Joint Petition for Approval of Partial Settlement of Rate Investigation and further that Administrative Law Judge Haas recommend approval of, and the Public Utility Commission approve, the Joint Petition for Approval of Partial Settlement of Rate Investigation.

Respectfully submitted,

By  _____

Thomas T. Niesen, Esquire
THOMAS, NIESEN & THOMAS, LLC
212 Locust Street, Suite 302
Harrisburg, PA 17101

*Attorneys for
The City of Bethlehem*

Dated: December 28, 2020

APPENDIX D
Statement in Support of the
Bureau of Investigation and Enforcement

needs to ratepayers, utilities, and regulated community as a whole. In all proceedings, including those resolved through negotiated settlements, I&E must ensure that the public interest is served and comment on how resolution of a proceeding will benefit the public interest.²

2. Based on I&E's analysis of the City's base rate filing, acceptance of this proposed Partial Settlement is in the public interest and I&E recommends that the Administrative Law Judge and the Commission approve the Partial Settlement in its entirety and without modification.

3. On July 31, 2020, the City filed Supplement No. 15 to its Tariff Water-Pa. P.U.C. No. 15 to become effective September 29, 2020. The City requested an overall increase to its total annual operating revenues for water service by \$908,421 (10.9%).

4. I&E entered its appearance on August 14, 2020. The Office of Consumer Advocate ("OCA") filed a Notice of Appearance and Formal Complaint on August 27, 2020. The Office of Small Business Advocate ("OSBA") filed a Notice of Appearance and Formal Complaint on August 27, 2020.

5. By Order entered September 17, 2020, the Commission instituted a formal investigation to determine the lawfulness, justness, and reasonableness of the existing and proposed rates, rules, and regulations. Pursuant to 66 Pa. C.S. §1308(d), the filings were

² See *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 Pa. P.U.C. 1 (Pa. P.U.C. 1985) ("The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest").

suspended by operation of law until April 29, 2021, unless permitted by Commission Order to become effective at an earlier date.

6. On September 23, 2020, the City declined mediation and filed a tariff suspension, suspending its proposed tariff to April 29, 2021.

7. Administrative Law Judge Steven K. Haas (“ALJ Haas”) was assigned to this proceeding to conduct hearings and issue a Recommended Decision.

8. ALJ Haas held a prehearing conference on October 8, 2020 during which the parties agreed to a procedural schedule, including the service of testimony among the parties and the dates for evidentiary hearings.

9. In accordance with the procedural schedule established at the prehearing conference, I&E served all active parties the following pieces of testimony and accompanying exhibits:

I&E Witness Brenton Grab

Operating and Maintenance Expenses

Direct Testimony

1. I&E Statement No. 1
2. I&E Exhibit No. 1

Surrebuttal Testimony

1. I&E Statement No. 1-SR
2. I&E Exhibit No. 1-SR

I&E Witness Anthony Spadaccio

Rate of Return

Direct Testimony

1. I&E Statement No. 2
2. I&E Exhibit No. 2

Surrebuttal Testimony

1. I&E Statement No. 2-SR

I&E Witness Esyan Sakaya

Rate Base/Revenue Allocation/UFW

Direct Testimony

1. I&E Statement No. 3
2. I&E Exhibit No. 3

Surrebuttal Testimony

1. I&E Statement No. 3-SR
2. I&E Exhibit No. 3-SR

10. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple settlement discussions with parties to the proceeding. Following extensive settlement negotiations, and before hearings began, I&E reached a partial settlement with the City.

11. ALJ Haas presided over an evidentiary hearing on December 17, 2020.

II. TERMS AND CONDITIONS OF SETTLEMENT

12. It is the policy of the Commission to encourage settlements.³ The Commission issued the following policy statement that articulates general settlement guidelines and procedures for major rate cases:

In the Commission’s judgment, the results achieved from a negotiated settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding. It is also the Commission’s judgment that the public interest will benefit by the adoption of §§ 69.402—69.406 and this section which establish guidelines and procedures designed to encourage full and partial settlements as well as stipulations in major section 1308(d) general rate increase cases.⁴

³ 52 Pa. Code § 5.231.

⁴ 52 Pa. Code § 69.401. This policy statement also notes that “[a] partial settlement is a comprehensive resolution of all issues in which less than all interested parties have joined.”

13. This policy statement highlights the importance of settlement in Commission proceedings, including partial settlements. The instant rate case was filed on July 31, 2020, and over the past five months, the parties engaged in extensive formal and informal discovery, preparation of testimony, and lengthy settlement discussions. The signatories to the Joint Petition actively participated and represented their respective positions in the settlement process. As such, the issues raised by I&E have been satisfactorily resolved through discovery and discussions with the City and are incorporated in the Joint Petition. I&E represents that the Partial Settlement satisfies all applicable legal standards and results in terms that are preferable to those that may have been achieved at the end of a fully litigated proceeding. Accordingly, for the reasons articulated below, I&E maintains that the proposed Partial Settlement is in the public interest and requests that the following terms be approved by the ALJ and the Commission without modification:

A. Revenue Requirement (Joint Petition ¶ 16(a))

The City's proposed rate increase was \$908,421. However, pursuant to the Joint Petition, settlement rates are designed to produce additional annual operating revenue of \$689,932.⁵ I&E fully supports the revenue levels compromised upon in the Partial Settlement. I&E's support is based on its witnesses' analysis of the ratemaking claims contained in the City's base rate filing, including operating and maintenance expenses,

⁵ Joint Petition at p. 3.

rate base, taxes, cash working capital, rate structure, capital structure, and cost of equity and debt.

The Partial Settlement is a “black box” settlement, meaning there is no agreement upon individual issues; instead, the Joint Petitioners have agreed to an overall increase to base rates that is approximately \$218,000 less than what was requested by the City. Black box settlements benefit ratepayers and utilities by allowing for the resolution of a contested proceeding in a manner that avoids significant expenditure of time and resources related to further litigation. The Commission has endorsed the use of black box settlements, as discussed in an Order approving such a settlement:

We have historically permitted the use of “black box” settlements as a means of promoting settlement among the parties in contentious base rate proceedings [citations omitted]. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company’s revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company’s cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases. For these reasons, we support the use of a “black box” settlement in this proceeding....⁶

The Commission has also recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”⁷ The Partial Settlement in this proceeding promotes the public interest

⁶ *Pa. P.U.C. v. Peoples TWP LLC*, Docket No. R-2013-2355886, p. 28 (Order entered December 19, 2013).

⁷ *Pa. P.U.C. v. C S Water and Sewer Associates*, 74 Pa. P.U.C. 767 (Pa. P.U.C. 1991).

because a review of the testimony demonstrates that the Joint Petition reflects a compromise of positions. Therefore, I&E submits that the Partial Settlement balances the interests of Bethlehem and its customers in a fair and equitable manner. Ratepayers will continue to receive safe and reliable service at just and reasonable rates while allowing Bethlehem sufficient additional revenues to meet its operating and capital expenses and providing the opportunity to earn a reasonable return on its investment. Accordingly, I&E submits that the revenue requirement reflected in the proposed Partial Settlement is in the public interest and requests that it be approved by the ALJ and the Commission without modification.

B. Rate Design and Scale Back (Joint Petition ¶ 16(a))

Bethlehem's proposed distribution of revenue among the customer classes and rate design generally was a matter of interest to all parties in the proceeding.⁸ Issues related to rate design and scale back were extensively addressed by I&E in testimony and thoroughly vetted in settlement negotiations. The settlement rates in Appendix A to the Joint Petition are designed based on the approximate revenue allocation and scale back of rates recommended by OSBA.

In Direct Testimony, I&E acknowledged that the City's proposed revenue allocation moved the relative rate of return towards the goal of 1.00.⁹ Regarding a scale back of rates, I&E recommended no scale back to the customer charges, the Private Fire

⁸ See Bethlehem St. No. 1; Bethlehem St. No. 1-R; Bethlehem St. No. 1-SR; Bethlehem St. No. 1-RJ; I&E St. No. 3; I&E St. No. 3-SR; OCA St. No. 4; OCA St. No. 4-R; OCA St. No. 4-SR; OSBA St. No. 1; OSBA St. No. 1-R; OSBA St. No. 1-SR.

⁹ I&E St. No. 3, p. 18.

rates, and the Public Fire rates because these rates were not increased by the City.¹⁰ Additionally, if the Commission granted less than the full increase, I&E recommended that all usage rates be scaled proportionally to the increase proposed by the City for each usage rate because a proportional scale back will still satisfy the goal of moving the relative rate of return of classes towards 1.00, i.e. the cost of service.¹¹ I&E avers this movement is consistent with the Commonwealth Court's decision regarding revenue allocation in *Lloyd v. Pa. P.U.C.*¹²

In OSBA's direct testimony, OSBA recommended corrections to the City's cost of service study regarding the Sales for Resale class, and recommended that any scale back be proportional.¹³ In rebuttal testimony, the City agreed with the scale back that reflects the change in the Sales for Resale class demand factors as proposed by OSBA.¹⁴ In surrebuttal, I&E confirmed its agreement with the OSBA's recommendations because they reflected the corrections to the Sales for Resale class and otherwise reflected the same proposal I&E made in direct testimony.¹⁵ Accordingly, I&E submits that the rate design and scale back reflected in the proposed Partial Settlement is consistent with *Lloyd v. Pa. P.U.C.* and in the public interest, and requests that it be approved by the ALJ and the Commission without modification.

¹⁰ I&E St. No. 3, p. 18.

¹¹ I&E St. No. 3, p. 18.

¹² 904 A.2d 1010 (Pa. Cmwlth. 2006) ("*Lloyd v. Pa. P.U.C.*").

¹³ OSBA St. No. 1.

¹⁴ City St. No. 1-R, pp. 17-18.

¹⁵ I&E St. No. 3-SR, p. 18.

C. Other Tariff Changes – Elimination of Lower Saucon Honor System Rate (Joint Petition ¶ 16(b))

Appendix A implements the proposed elimination of the Lower Saucon Honor System Rate as proposed in Supplement No. 15. Although not addressed by I&E witnesses in this proceeding, I&E agrees this proposed elimination is reasonable and appropriate. Lower Saucon Authority (“LSA”) is one of the Sales for Resale customers served by the City, and a portion of the LSA system served by the City was previously unmetered and charged an “honor system” rate.¹⁶ By Order entered October 14, 2011, the Commission directed the City to install meters in the unmetered portion of LSA’s system.¹⁷ In the City’s last base rate filing, I&E recommended that the City work with LSA to ensure that meters can be installed in the unmetered portion of the LSA system in accordance with the Commission’s October 2011 Order.¹⁸ In this proceeding, the City explains that all water service to the LSA system is now fully metered.¹⁹ Therefore, consistent with I&E position in the City’s last base rate filing and the Commission’s October 2011 Order, I&E submits it is appropriate to eliminate the Lower Saucon Honor System Rate and the ALJ and the Commission should approve this settlement term without modification.

¹⁶ See I&E Statement No. 3, p. 29 (Docket No. R-2013-2390244).

¹⁷ *Pa. P.U.C. v. City of Bethlehem*, Docket No. R-00072492 (Order entered October 14, 2011) (“October 2011 Order”).

¹⁸ I&E Statement No. 3, p. 31 (Docket No. R-2013-2390244).

¹⁹ City St. No. 4, p. 10.

D. Unaccounted for Water (“UFW”) (Joint Petition ¶ 16(c))

Starting with 2020, the City will begin using the Commission Section 500 method for its calculation of UFW. I&E’s witnesses did not take a position regarding use of the Commission’s Section 500 method for calculation of UFW. However, I&E noted that, using the methodology submitted by the City in this proceeding, UFW for the years ending 2017, 2018, and 2019 averages 21.1%.²⁰ Additionally, the City’s UFW has been steadily increasing, from 15.6% in 2017, to 21.4% in 2018, to 26.3% in 2019.²¹ The Commission’s policy statement on water conservation is set forth in 52 Pa. Code § 65.20(4), which states, in part, that “[l]evels of unaccounted-for water should be kept within reasonable amounts. Levels above 20% have been considered by the Commission to be excessive.”

The City is unsure of the reasons that UFW has recently increased.²² To comply with the Commission’s policy statement, I&E recommended that the City identify the reasons for its increase in UFW and take steps to maintain UFW below 20% by the time of its next base rate proceeding.²³ Through this settlement, the City agrees it will take steps to maintain UFW below 20% and, in its next base rate case, if UFW is above 20%, provide a narrative explanation of possible reasons for it. These terms substantially comply with I&E’s recommendations in this proceeding. Most importantly, the City agrees it will take steps to maintain UFW below 20% by the time of its next base rate

²⁰ I&E St. No. 3, p. 14; I&E Ex. No. 3, Sch. 6, p. 4, col. C, line 4.

²¹ I&E St. No. 3, p. 15; I&E Ex. No. 3, Sch. 6, p. 4.

²² I&E Statement No. 3, p. 15; I&E Ex. No. 3, Sch. 5.

²³ I&E Statement No. 3, p. 15.

proceeding. This is necessary to come into compliance with the Commission's policy statement on water conservation.²⁴ As explained by I&E, reducing UFW benefits customers by reducing electric, chemical, and pumping expenses.²⁵ If the City fails to maintain UFW below 20% by the time of its next base rate proceeding, I&E may recommend an adjustment to the City's next base rate claim to account for excessive UFW. I&E therefore submits that this settlement term is in the public interest and should be approved by the ALJ and Commission without modification.

E. Customer Class Demand Study (Joint Petition ¶ 16(d))

I&E agrees the City's demand study as described in City of Bethlehem Statement No. 1 and presented as Exhibits CEH-2 and revised in Exhibit CEH-3 is acceptable. Additionally, the City's presentation of a demand study with the current base rate filing was a settlement term approved by the Commission in the City's last base rate filing.²⁶ Accordingly, I&E submits the City's demand study is appropriate and this settlement term should be accepted by the ALJ and Commission without modification.

F. Other Issues

The remaining issues raised by I&E have been satisfactorily resolved through discovery and discussions with the City and are incorporated into the black box

²⁴ I&E also notes that the Commission just recently entered an Advance Notice of Proposed Rulemaking Order on September 17, 2020 at Docket No. L-2020-3021932 regarding the replacement of the policy statement at 52 Pa. Code § 65.20 with a Commission regulation to implement the International Water Association/American Water Works Association Water Audit Methodology as a best management practice in water loss control in Pennsylvania. Therefore, it is possible that issues related to the City's UFW may be subject to new regulations by the time of City's next base rate proceeding. Nonetheless, this settlement term reflects consideration of the Commission's current policy statement on UFW.

²⁵ I&E Statement No. 3, p. 15.

²⁶ *Pa. P.U.C. v. City of Bethlehem – Bureau of Water*, Docket No. R-2013-2390244 (Order entered July 9, 2014).

resolution of the revenue requirement in this proceeding. A black box settlement does not identify resolution of all issues on a line-by-line basis, and therefore no representation of the resolution of any issue not specifically identified is possible for future proceedings.

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

14. Based upon I&E's analysis of the filing, acceptance of this proposed Partial Settlement is in the public interest. I&E represents that all issues raised in its testimony have been satisfactorily resolved through discovery and discussions with the City, or are incorporated or considered in the resolution proposed in the Partial Settlement. The specific terms and conditions in this Partial Settlement were carefully discussed and negotiated among I&E and the City. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Partial Settlement is not necessary as I&E represents that the Partial Settlement maintains the proper balance of the interests of I&E and the City.

15. I&E further submits that the acceptance of this Partial Settlement will negate the need for evidentiary hearings, which would create extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of briefs, and the potential of filed exceptions and/or appeals, all yielding substantial savings for the Commission and parties, and ultimately all customers, as well as certainty on the disposition of issues.

16. If ALJ Haas recommends that the Commission adopt the Partial Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive

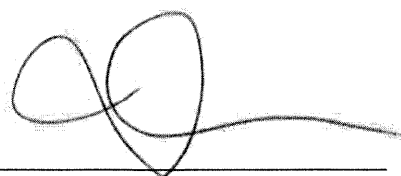
its right to file Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by the ALJ in his Recommended Decision. I&E also does not waive the right to file Replies in the event any party files Exceptions.

17. The Partial Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Partial Settlement in any way, it may be withdrawn by any Joint Petitioner. Additionally, I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Partial Settlement is rejected by the Commission or otherwise properly withdrawn by I&E or the City.

18. I&E is satisfied that no further action is necessary and considers its investigation of this rate filing complete.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement supports the *Joint Petition for Approval of Partial Settlement of Rate Investigation* as being in the public interest and respectfully requests that Administrative Law Judge Steven K. Haas recommend, and the Commission approve, the terms and conditions contained in the Partial Settlement.

Respectfully submitted,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line extending to the right.

John M. Coogan, Esq.
Attorney I.D. #313920
Prosecutor
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120
(717) 783-6151

Dated: December 28, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3020256
Office of Small Business Advocate	:	C-2020-3021576
Office of Consumer Advocate	:	C-2020-3021583
	:	
v.	:	
	:	
City of Bethlehem – Water Department	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this 28th day of December 2020, served a true and correct copy of the foregoing Joint Petition for Approval of Partial Settlement of Rate Investigation, upon the persons and in the manner indicated below:

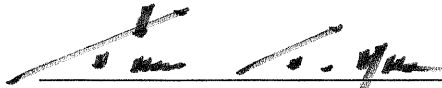
VIA ELECTRONIC MAIL

The Honorable Steven K. Haas
Administrative Law Judge
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
sthaas@pa.gov

John M. Coogan, Prosecutor
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
jcoogan@pa.gov

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Thomas T. Niesen



Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
Harrisburg, PA 17105-3265
EFILING - FILING DETAIL

Date Created	Filing Number
12/28/2020	1972244

Your filing has been electronically received. Upon review of the filing for conformity with the Commission's filing requirements, a notice will be issued acknowledging acceptance or rejection (with reason) of the filing. The matter will receive the attention of the Commission and you will be advised if any further action is required on your part.

The date filed on will be the current day if the filing occurs on a business day before or at 4:30 p.m. (EST). It will be the next business day if the filing occurs after 4:30 p.m. (EST) or on weekends or holidays.

Docket Number: R-2020-3020256

Case Description: PaPC et al v The City of Bethlehem - Water Department

Transmission Date: 12/28/2020 2:08 PM

Filed On: 12/28/2020 2:08 PM

eFiling Confirmation Number: 1972244

File Name	Document Type	Upload Date
Joint Petition for Approval of Partial Settlement - (R-2020-3020256).pdf	Settlement Agreement	12/28/2020 2:07:17 PM

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ATTACHMENT B

**STIPULATION OF
THE CITY OF BETHLEHEM AND
OFFICE OF CONSUMER ADVOCATE**

PRIVILEGED AND CONFIDENTIAL
FOR SETTLEMENT PURPOSES ONLY

Pa. P.U.C. v. City of Bethlehem - Water Department

Docket No. R-2020-3020256

Stipulation Term Sheet – December 23, 2020

The City of Bethlehem – Water Department and the Office of Consumer Advocate stipulate the following in resolution of matters raised in testimony of Office of Consumer Advocate witness Terry Fought.

1. Valve Exercising

The City will exercise approximately 900 valves per year in the jurisdictional areas so that all valves are exercised at least once in a 5-year period.

In addition, the City will establish and document an ongoing program and schedule for maintenance or replacement of inoperable valves identified as such in the annual valve exercise program, subject to availability of resources to affect such improvements.

2. Fire Hydrants

For the sixty-five (65) fire hydrants in its jurisdictional areas that cannot provide minimum flow of 500 gpm at 20 psig, the City will test these hydrants no later than October 31, 2021 to confirm capacity and will appropriately mark those that do not meet the minimum flow and pressure requirements as recommended.

3. Pressure Surveys

Regarding the City's four small community well systems, the City will perform pressure surveys in accordance with regulatory requirements starting in calendar year 2021.

4. Unaccounted for Water ("UFW")

Going forward, and starting with the UFW calculation for calendar year 2020, the City will begin using the Commission Section 500 method for the purpose of assisting the Commission in its review of future rate cases. The City will take steps to maintain UFW below 20% and, in its next base rate case, if UFW is above 20%, provide a narrative explanation of possible reasons for it.

5. Customer Complaints

The City shall establish and maintain a single complaint log in live Excel format that satisfies 52 Pa. Code § 65.3. The following categories shall be part of the log so that the data can be sorted by date and location: dirty water, taste, odor, color, customer property damage, leaking meter, request for meter testing, request for water testing, incomplete surface restoration, and lead service lines.

6. Customer Meter Age

The City will submit a schedule to OCA and the Commission indicating the number and size of meters that need to be replaced or tested in order to comply with the requirements of 52 Pa. Code § 65.8. within seven years. The schedule will be submitted within 6 months of the entry of an order in this proceeding.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3020256
Office of Small Business Advocate	:	C-2020-3021576
Office of Consumer Advocate	:	C-2020-3021583
	:	
v.	:	
	:	
City of Bethlehem – Water Department	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this 30th day of December 2020, served a true and correct copy of the foregoing Main Brief of the City of Bethlehem, upon the persons and in the manner indicated below:

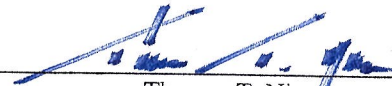
VIA ELECTRONIC MAIL

The Honorable Steven K. Haas
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Public Utility Commission
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John M. Coogan, Prosecutor
Pennsylvania Public Utility Commission
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