



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 NORTH STREET, HARRISBURG, PA 17120

May 27, 2022

IN REPLY PLEASE
REFER TO OUR FILE

Docket No. M- 2022-3031196
Utility Code: 230073

TERESSA K. HARROLD
DIRECTOR, CORPORATE COUNSEL
PENNSYLVANIA AMERICAN WATER COMPANY
852 WESLEY DRIVE
MECHANICSBURG, PENNSYLVANIA 17055
teressa.harrold@amwater.com

Re: Annual Asset Optimization Plan (AAOP) for Pennsylvania-American Water Company – Wastewater Division at Docket No. M-2022-3031196

Dear Ms. Harrold:

On March 2, 2022, Pennsylvania-American Water Company – Wastewater Division (PAWC-WD) filed its Annual Asset Optimization Plan (AAOP), pursuant to 52 Pa. Code § 121.6. On April 12, 2022, via Secretarial Letter, the Commission issued a data request to PAWC-WD. On April 25, 2022, via Secretarial letter, the Commission extended the consideration period for PAWC-WD's AAOP to May 31, 2022. PAWC-WD filed its data request response on April 26, 2022.

The Commission's regulations require utilities with an approved Distribution System Improvement Charge (DSIC) to file annually an AAOP with the Commission. The AAOP shall be filed 60 days after the prior 12 months of the company's Long-Term Infrastructure Improvement Plan (LTIIIP) has expired, and pursuant to this timeframe for each successive AAOP. 52 Pa. Code § 121.6(a).

The AAOP must include:

- 1) A description that specifies all of the eligible property repaired, improved, and replaced in the prior 12-month period under its LTIIIP and prior year's AAOP.
- 2) A description of the eligible property to be repaired, improved, and replaced in the upcoming 12-month period.

The Commission is charged with reviewing each AAOP only to determine whether the utility is in substantial compliance with the repairs, improvements, or replacements of the specific eligible property in its approved LTIIIP, for the corresponding 12-month timeframes. 52 Pa. Code § 121.6(d). The Commission has delegated the review of AAOPs to the Bureau of Technical Utility Services (TUS).

Timely Filing

52 Pa. Code § 121.6(a)

A utility with an approved DSIC shall file with the Commission, for informational purposes, an AAO plan. The AAO plan shall be filed annually with the Commission 60 days after the 12 months of its LTIP has expired and under this time frame for each successive year of the term of the LTIP.

PAWC-WD's AAOP complies with this requirement.

Content

52 Pa. Code § 121.6(b)

An AAO plan must include:

- (1) A description that specifies all the eligible property repaired, improved and replaced in the prior 12-month period under its LTIP and prior year's AAO plan.*
- (2) A description of the eligible property to be repaired, improved and replaced in the upcoming 12-month period.*

PAWC-WD's AAOP substantially complies with this requirement.

Substantial Adherence to LTIP

52 Pa. Code § 121.6(d)

An AAO plan will be reviewed by the Commission only to determine whether the utility is in substantial compliance with the repairs, improvements or replacements of the specific eligible property in its approved LTIP for the corresponding 12-month time frames.

52 Pa. Code § 121.6(e)

Absent any major modifications to the LTIP or Commission action to reject an AAO plan within 60 days of its submission to the Commission, the AAO plan will be deemed approved. The Commission may extend its consideration period if necessary.

52 Pa. Code § 121.6(f)

If an AAO plan is rejected by the Commission, the utility will be notified of the plan's deficiencies and actions needed to repair, improve or replace eligible property to bring the utility into compliance with the work schedule in its approved LTIP. If the utility concludes that it needs to revise its LTIP to comply with the Commission's determinations, it shall file a petition for modification under § 121.5.

PAWC-WD reported that its actual DSIC-eligible expenditures in 2021 were \$25.59 million, which is a 21.97 % increase from the original LTIIIP target level of \$20.98 million. PAWC-WD reported that in 2021, it replaced 68,360 linear feet (LF) of the 83,786 LF of main scheduled to be replaced as projected in its LTIIIP. PAWC-WD also reported variations in categories to be improved or replaced in 2021. In additional information provided to the Commission, PAWC-WD stated that its spending exceeds budgetary levels primarily due to a sharp uptick in the pricing of materials. PAWC-WD stated that pipe, fittings, and asphalt have increased in price by more than 25%. PAWC-WD has several of its systems under Compliance Orders from Pennsylvania Department of Environmental Protection or US Environmental Protection Administration to correct deficiencies in the systems and have committed to linear footage improvements through its LTIIIP. PAWC-WD stated that it continued to work towards its linear footage commitments despite the increased material costs.

PAWC-WD's AAOP projects substantially higher LTIIIP expenditures for 2022 as compared to the approved LTIIIP. Projected spending is \$30.05 million as compared to the LTIIIP projected amount of \$20.36 million, which is a 47.59% increase. PAWC-WD is reminded that if it believes it will reach the 20% spending threshold before the LTIIIP's final year, it should file a petition for modification or new LTIIIP. PAWC-WD's AAOP projects that it will replace 83,251 LF of main out of the 91,038 LF projected in its LTIIIP. PAWC-WD states that the additional investment for 2022 is due to inflation and system evaluations that required correction.

The Commission Order entered on April 16, 2020, at Docket No. P-2014-2431005, (April 2020 Order) directed PAWC-WD to provide the following information in its AAOPs: updated information on its pipeline materials and diameters for all its wastewater systems; detailed information on the amount of sewer pipe that is replaced or rehabilitated each year; and a baseline and update on the progress of the inflow and infiltration (I&I) reduction for each of its wastewater systems. PAWC-WD has complied with the April 2020 Order by providing the additional information via its April 26, 2022, data request response.

Compliance with the LTIIIP is evaluated on a multiyear basis over the life of the LTIIIP. Construction and budget variations in individual years can be expected and it is reasonable to expect that over a multi-year timeframe, much of this variation will be mitigated.

The AAOP does not propose a Major Modification to the company's LTIIIP.

Conclusion

Upon review of Pennsylvania-American Water Company – Wastewater Division's Annual Asset Optimization Plan filed on March 2, 2022, it appears that the filing substantially complies with the requirements of 52 Pa. Code § 121.6 and it is approved. This approval is contingent upon the possibility that subsequent audits, reviews and inquiries, in any Commission proceeding, may be conducted pursuant to 52 Pa. Code § 121.

If you are dissatisfied with the resolution of this matter, you may, as set forth in 52 Pa. Code § 5.44, file a petition with the Commission within twenty (20) days after the date of this

letter. Please direct any questions regarding this filing to Ken Shaffer, TUS, at kennshaffe@pa.gov.

Sincerely,

A handwritten signature in black ink, reading "Rosemary Chiavetta". The signature is written in a cursive style with a large initial "R".

Rosemary Chiavetta
Secretary

cc: Patricia Wiedt, LAW
Richard Kanaskie, BIE
Dan Searfoorce, TUS
John Van Zant, TUS