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June 24, 2022

VIA eFILING

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

**Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2022-3031672 and R-2022-3031673**

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced matters is the **Prehearing Memorandum of Pennsylvania-American Water Company** (the "Prehearing Memorandum"). Copies of the Prehearing Memorandum have been served in accordance with the enclosed Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



Kenneth M. Kulak

KMK/tp
Enclosures

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

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	DOCKET NOS. R-2022-3031672 R-2022-3031673
	:	
v.	:	
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY	:	
	:	

CERTIFICATE OF SERVICE

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

VIA ELECTRONIC MAIL

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*Counsel for
Pennsylvania American Water Company*

Dated: June 24, 2022

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**PENNSYLVANIA-AMERICAN WATER
COMPANY**

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DOCKET NO. R-2022-3031672 (Water)

DOCKET NO. R-2022-3031673 (Wastewater)

**PREHEARING MEMORANDUM
OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Before Deputy Chief Administrative Law Judge Joel H. Cheskis

**Susan S. Marsh
Elizabeth R. Triscari
Teresa K. Harrold
Kenneth M. Kulak
Catherine G. Vasudevan
Brooke E. McGlenn
Mark A. Lazaroff**

*Counsel for
Pennsylvania-American Water Company*

Dated: June 24, 2022

I. INTRODUCTION

Pennsylvania-American Water Company (“PAWC” or the “Company”) is a public utility that provides water and wastewater services to approximately 740,000 residential, commercial, industrial and governmental customers located in 36 of the 67 counties in Pennsylvania. The Company was formed, with Commission approval, by the merger of the former Pennsylvania-American Water Company into Western Pennsylvania Water Company on February 1, 1989. The Company is a subsidiary of American Water Works Company, Inc. (“American Water”), which is headquartered in Camden, New Jersey.

On April 29, 2022, the Company filed Supplement No. 35 to Original Tariff Water – Pa. P.U.C. No. 5 (“Water Tariff Supplement”) and Supplement No. 34 to Original Tariff Wastewater – Pa. P.U.C. No. 16 (“Wastewater Tariff Supplement”), requesting an increase in its total annual operating revenues to become effective June 28, 2022. The amount of the requested increase equals \$173.2 million or approximately 20.8% above the level of pro forma revenues for the fully projected future test year (“FPFTY”) ending December 31, 2023. By Orders entered June 16, 2022, the Pennsylvania Public Utility Commission (the “Commission”) instituted a formal investigation at Docket Nos. R-2022-3031672 (Water) and R-2022-3031673 (Wastewater) to determine the lawfulness, justness and reasonableness of the Company’s existing and proposed rates, rules and regulations. Accordingly, the Water Tariff Supplement and Wastewater Tariff Supplement were suspended by operation of law until January 28, 2023, unless permitted by Commission order to become effective at an earlier date.

Accompanying the Water and Wastewater Tariff Supplements, the Company filed the extensive and detailed supporting information required by the Commission’s regulations, including the prepared direct testimony of the Company’s initial witnesses and the various exhibits to be sponsored by them. During the course of this case, the Company may submit

additional testimony and exhibits in response to the presentations of, or cross-examination by, other parties. In addition, the Company may revise certain statements and exhibits during the course of the Commission's investigation to reflect known and measurable changes reasonably expected to occur during the applicable test periods.

In support of the Company's proposed rate increase, the Company has presented data for the historic test year ("HTY") ended December 31, 2021, the future test year ("FTY") ending December 31, 2022 and the FPFTY. The Company intends to rely primarily on the FPFTY data in support of its proposed rate increase. It is the Company's belief that the record at the close of this proceeding will demonstrate the justness and reasonableness of its proposed rates.

PAWC plans to file a Motion for leave to file limited-scope Supplemental Direct Testimony to address updates to the Company's pension and other post-employment benefit ("OPEB") expense claims. The pension and OPEB costs included in PAWC's initial water and wastewater rate filing were based on studies prepared by Willis Towers Watson, a national actuarial firm. Due to rapidly changing market conditions, updated actuarial calculations show a substantial change in these expense categories as compared to the initial filing. The Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate have each indicated that they have no objection to the Company's request to file the Supplemental Direct Testimony described above.

II. ISSUES

Generally, every rate case presents two major issues for resolution: (1) the total amount of the revenue increase to which the utility is entitled; and (2) the allocation of the increased revenues among the utility's customer classifications through a rate structure and rate design that will produce the required revenue. As discussed below, the Company's computation of its required revenue increase and its proposed allocation of the increase to each customer

classification have been developed by applying principles and procedures that, for the most part, the Commission has reviewed and approved in numerous prior cases.

A determination of the total revenue increase to which a utility is entitled involves a number of elements that may be grouped under three headings and characterized as the following major sub-issues:

(1) **TOTAL RETURN.** The total return is the operating income required by the utility to achieve an overall fair rate of return on its claimed rate base. Identifying a fair rate of return involves determining the appropriate cost rate, expressed as a percentage, for each form of capital (debt, preferred stock and common equity) the Company and its investors have committed to furnishing water and wastewater service. The total return allowed by the Commission must be sufficient to enable the Company to maintain the financial integrity of its existing capital and to attract additional investment on reasonable terms. In particular, the Company must be permitted a reasonable opportunity to earn a return on the portion of its rate base financed by common equity that is commensurate with the returns on equity realized by investments in other enterprises having similar risks. The appropriate rate of return for the Company, and in particular the appropriate return rate for the Company's common equity, is an issue that is critical to the well-being of the Company and its ability to continue to provide the service that its customers have been receiving and are entitled to receive in the future.

(2) **OPERATING EXPENSES.** Operating expenses consist of the future or ongoing level of the utility's total operating expenses, including depreciation and taxes, that must be recovered from customers through rates in order for a utility to have a reasonable opportunity to achieve its allowed rate of return.

(3) **REVENUES.** This component consists of the total revenue from utility operations that is normally available to the utility under present rates and will be produced by the proposed rate levels.

The increase in revenue and rate levels required to produce a fair rate of return is determined by comparing the revenue produced by the utility's present rates with its total required operating income and anticipated operating expenses, depreciation and taxes.

The allocation of the proposed revenue increase and the Company's proposed rate structure and rate design are explained in the Statement of Specific Reasons for Proposed Increase in Rates submitted with the Company's initial filing and further described in the direct testimony of Ashley E. Everette, Stacey D. Gress, and Charles B. Rea. As set forth therein, the Company's proposed rate structure continues to implement the Commission-approved concept of establishing a uniform set of rates to apply Company-wide. In this case, the Company proposes the following rate structure changes:

- (1) The consolidation of rate zones, where possible, such that the rates charged customers are the same regardless of geographic location;
- (2) An expanded, tiered low-income discount for water and wastewater service based on the customers' percentage of the federal poverty level;
- (3) A revenue stabilization mechanism to align the revenue upon which the Company's rates are established with the revenue that is actually billed to customers;
- (4) An increase of monthly service charges to be more in line with customer cost of service;
- (5) The combining of a portion of the revenue requirement for wastewater operations with the revenue requirement for water operations pursuant to Section 1311(c), which was added to the Code by Act 11 of 2012 ("Act 11");

- (6) A change in annual public fire hydrant rates to reflect 25% of the cost of public fire protection service, pursuant to Section 1328 of the Code; and
- (7) The allocation of the requested rate increase in a manner designed to realign revenues by major customer classes to be more commensurate with the indicated cost of service where possible.

III. WITNESSES

Set forth below are the anticipated case-in-chief witnesses for the Company and a brief description of the subject matter of their testimony and exhibits:

Ashley E. Everett is Senior Director of Rates and Regulatory for PAWC. Her written testimony is set forth in PAWC Statement Nos. 1 and 1-Supplemental, and she is sponsoring portions of PAWC Exhibit 3-A. PAWC Exhibit 3-A is the Company's principal accounting exhibit and, as such, sets forth the development of the Company's revenue requirement and its proposed revenue increase. Ms. Everett's testimony introduces the Company's other case-in-chief witnesses and addresses the following topics: (1) PAWC's need for rate relief and the factors responsible for its revenue deficiency; (2) the affordability of water and wastewater service under present and proposed rates; (4) the source of accounting data and the test years employed by the Company; (5) the development of the Company's combined water and wastewater revenue requirement; (6) the Company's proposal to implement a Revenue Stabilization Mechanism; (7) compliance with Act 40's provisions regarding federal income tax expense; (8) the Company's overall management performance; (9) the Company's commitment in its last base rate case regarding stormwater fees for Combined Sewer Systems ("CSS"); and (10) PAWC's request for deferral accounting of fluctuations in pension and OPEB expense caused by extreme volatility in market conditions.

Jim Runzer is the Vice President of Operations for PAWC. Mr. Runzer's testimony, which is PAWC Statement No. 2, discusses the general operations of the Company; PAWC's commitment to supplying high quality water; initiatives taken to increase efficiency, enhance service and control costs; employee safety and employee training and development; support for employee levels; and efforts to control non-revenue water.

Bruce W. Aiton is the Vice President of Engineering for PAWC. Mr. Aiton's testimony, which is PAWC Statement No. 3, discusses the Company's claim for plant additions to be placed in service during FTY and FPFTY, PAWC's major acquisitions since the last case, operational and regulatory risks associated with the provision of public water and wastewater service, PAWC's proposed modifications to its lead service line replacement plan, the Company's efforts to evaluate the feasibility of adopting a separate stormwater fee for its CSS customers, and issues related to the Company's emergency interconnection agreement with the Middlesex Township Municipal Authority.

Stacey D. Gress is Director of Rates and Regulatory for PAWC. Her testimony, which is PAWC Statement No. 4, discusses the Company's claims for rate base, depreciation and amortization, taxes other than income and acquisitions since its last rate case that the Company has reflected in its proposed rate base in this case, certain specific expense items not covered by other witnesses, proposed tariff changes, the allocation of expenses between water and wastewater operations, and PAWC's rate structure and rate design proposals.

Lori N. O'Malley is a Senior Manager Regulatory Services for American Water Works Service Company, Inc. ("AWWSC"). Her testimony is set forth in PAWC Statement No. 5 and addresses the Company's claims for labor and labor-related expenses, Service Company expenses, miscellaneous expenses and inflation.

Thomas F. Markward is a Principal Regulatory Analyst of Regulatory Services for AWWSC. His testimony is PAWC Statement No. 6 and supports the Company's adjustments for purchased power, waste disposal, purchased water, chemicals, transportation, insurance other than group, and rent.

Bernard J. Grundusky, Jr. is Senior Director of Business Development for PAWC. His testimony, which is PAWC Statement No. 7, describes various acquisitions that have closed since the Company's last base rate case or are expected to close in 2022. He also discusses the Company's proposed wastewater capacity reservation fee discount.

Melissa Ciullo is Vice President of Tax. Her testimony, which is PAWC Statement No. 8, supports the Company's claim for Federal and state income taxes.

J. Cas Swiz is Senior Director of Regulatory Services of AWWSC. His testimony is PAWC Statement No. 9 and discusses PAWC's claim for uncollectible accounts expense and proposed tracking mechanism. He also supports the Company's request to recover the deferred amounts recorded to the regulatory asset for incremental COVID-19 related financial impacts authorized by the Commission's September 15, 2021 Opinion and Order at Docket No. P-2020-3022426.

Charles B. Rea is Senior Director of Regulatory Services of AWWSC. His testimony, which is PAWC Statement No. 10, explains the design of current and proposed tariff rates, presents the Company's affordability analyses for water and wastewater service, describes the Company's analysis of residential, commercial, and municipal water consumption, discusses the Company's claimed revenues, and supports the Company's proposed Revenue Stabilization Mechanism.

John J. Spanos is President of Gannett Fleming Valuation and Rate Consultants LLC. Mr. Spanos' testimony is PAWC Statement No. 11 and explains the development of the depreciated original cost of the Company's utility plant in service and its claims for annual depreciation expense.

Constance E. Heppenstall is Senior Project Manager for rate studies of Gannett Fleming Valuation and Rate Consultants LLC. Ms. Heppenstall's testimony, which is PAWC Statement No. 12, explains the allocation of the cost of service to customer classifications and the identification of stormwater-related costs of service of CSSs.

Ann E. Bulkley is a Principal with The Brattle Group. Ms. Bulkley's testimony, which is PAWC Statement No. 13, provides her recommendation regarding PAWC's authorized return on equity and assesses the reasonableness of the Company's proposed capital structure for ratemaking purposes.

Nathan D. Walker is a Senior Water Resources Planner with Gannett Fleming, Inc. Mr. Walker's testimony presents a Feasibility Study that examines the principal challenges to developing and implementing a separate charge to recover the cost of managing stormwater that enters the CSSs that PAWC owns and operates in its Kane, McKeesport, and Scranton service areas.

John R. Popiolek is a Director in the Retirement Group of Willis Towers Watson. Mr. Popiolek's testimony is set forth in PAWC Statement No. 15 and presents updated projections of changes in the forecast of PAWC's allocated portion of pension and postretirement welfare plan costs due to rapid declines in global investment returns during 2022.

The business addresses and business telephone numbers of the Company's witnesses are set forth in Appendix "A".

IV. DISCOVERY

To date, PAWC has been served with approximately 388 interrogatories¹ many of which contain multiple subparts. PAWC encourages informal exchanges of information and is prepared to meet with representatives of the parties to discuss issues of interest to them.

PAWC proposes that discovery should be conducted in accordance with the Commission's regulations at 52 Pa. Code, Chapter 5, Subchapter D, subject to the following modifications:

1. Answers to written interrogatories and requests for document production, entry for inspection, or other purposes shall be served in-hand within ten (10) calendar days of service.
2. Objections to interrogatories and/or requests for production shall be communicated orally to the propounding party within three (3) calendar days of service of the interrogatories; unresolved objections shall be served in writing to the propounding party within five (5) calendar days of service of the interrogatories and/or requests for production.
3. Motions to dismiss objections and/or direct the answering of interrogatories and/or requests for production shall be filed within three (3) calendar days of service of such motions.
4. Answers to motions to dismiss objections and/or answering of interrogatories and/or requests for production shall be filed within three (3) calendar days of service of written objections.
5. Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
6. Answers to on-the-record data requests shall be served in-hand within five (5) calendar days of the requests.
7. Any discovery or discovery-related pleadings (such as objections, motions, and answers to same) served after served after 4:30 p.m. Monday through Thursday or after 12:00 p.m. on a Friday or the day before a holiday will be deemed to have been served on the

¹ Of the 389 interrogatories served on the Company, 217 were issued by the Office of Consumer Advocate, 141 by the Bureau of Investigation and Enforcement, and 31 by the Office of Small Business Advocate.

next business day for purposes of calculating the due date for any responsive filings.

These modifications are substantially the same as those previously approved by the presiding Administrative Law Judge in PAWC's 2020 base rate case proceeding, with some minor changes. The first change provides that responses to interrogatories and/or requests for production are due within 10 calendar days instead of 15 calendar days after service. The second change provides for the response period to begin on the next business day when discovery or a discovery-related motion is served after 4:30 p.m. Monday through Thursday or after 12 p.m. on the day preceding a holiday. The final change provides that responses to on-the-record data request will be provided within five calendar days.

Pursuant to 52 Pa. Code § 5.341(b) and § 5.342(e), respectively, neither discovery requests and responses, nor objections to interrogatories, are to be served on the Commission or the Administrative Law Judge, although a certificate of service should be filed with the Commission's Secretary.

In addition, by separate Petition being filed contemporaneously with the Company's Prehearing Memorandum, the Company is requesting that the Administrative Law Judge enter a Protective Order to cover confidential and proprietary information and documents. As explained in the Company's Petition, the proposed Protective Order is substantially the same as Protective Orders approved in other recent base rate proceedings.²

² *E.g.*, *Pa. P.U.C. v. Pennsylvania-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371, First Interim Order Granting Respondent's Petition for Protective Order (June 26, 2020) (Administrative Law Judge Conrad A. Johnson); *Pa. P.U.C. v. Pennsylvania-American Water Co.*, Docket No. R-2017-2595853, Protective Order – Order Granting Protective Order (June 6, 2017) (Administrative Law Judges Dennis J. Buckley and Benjamin J. Myers).

V. PROPOSED PROCEDURAL SCHEDULE AND PUBLIC INPUT HEARINGS

PAWC has prepared and attached as Appendix “B” to this Memorandum a proposed schedule for the submission of testimony, the conduct of evidentiary hearings, and the filing of briefs. PAWC believes that the proposed procedural schedule should be acceptable to the parties, subject to approval by the Deputy Chief Administrative Law Judge of any scheduling accommodations in the order of witnesses at hearings.

VI. SETTLEMENT

PAWC is willing to pursue with the parties, and encourages, the possible stipulation of individual issues or more far-ranging settlement discussions that might lead to a comprehensive resolution of this case with some or all of the parties.

VII. SERVICE LIST

PAWC requests that the official service list entry for the Company be as follows:

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PAWC also requests that a copy of all correspondence, discovery, testimony and other materials sent to the Company be provided to:

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VIII. CONCLUSION

Based on the evidence summarized above, it is the position of Pennsylvania-American Water Company that the rates proposed in Supplement No. 35 to Original Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 34 to Original Tariff Wastewater – Pa. P.U.C. No. 16 are just,

reasonable and lawful in all respects and, accordingly, the requested rate increases should be approved by the ALJ and the Commission at the close of this proceeding.

Respectfully submitted,



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Dated: June 24, 2022

APPENDIX “A”

WITNESS CONTACT INFORMATION

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APPENDIX “B”

PROPOSED SCHEDULE

Prehearing Conference	June 27, 2022
Public Input Hearings*	Week of July 18, 2022
Opposing Party Direct Testimony	July 29, 2022
Rebuttal Testimony (all parties)	August 19, 2022
Surrebuttal Testimony (all parties)	September 1, 2022
Evidentiary Hearings* (including oral rejoinder)	September 8-9 and 12-14, 2022
Main Briefs due	September 29, 2022
Reply Briefs due	October 11, 2022
Public Meeting	January 12, 2023
End of Suspension Period	January 28, 2023

*In light of continuing concerns regarding COVID-19, PAWC proposes that the public input hearings and evidentiary hearings be held telephonically