



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

IN REPLY, PLEASE
REFER TO OUR FILE

April 17, 2023

Docket No. M-2023-3038633
Utility Code: 230073

TERESA 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-2023-3038633

Dear Ms. Harrold:

On March 1, 2023, Pennsylvania-American Water Company – Wastewater Division (PAWC-WD) filed its Annual Asset Optimization Plan (AAOP), pursuant to 52 Pa. Code § 121.6.

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 (LTIIP) 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 LTIIP 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 LTIIP, 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.

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 2022 were \$26.20 million, which is a 28.68% increase over its LTIP target level of \$20.36 million. PAWC-WD reported that it replaced 79,406 linear feet (LF) of the 91,038 LF of main scheduled to be

replaced in 2022. PAWC-WD also reported variations in categories to be improved or replaced in 2022. PAWC-WD stated that their increase in spending is largely due to inflation.

PAWC-WD's AAOP projected LTIIIP expenditures for 2023 that are substantially higher (70.56% increase) than the amount projected in its LTIIIP. PAWC-WD's AAOP estimated expenditures of \$40.68 million in 2023 as compared to the LTIIIP-projected amount of \$23.84 million. PAWC-WD reported that in 2023 it plans to replace 79,406 LF of main as compared to the 104,704 LF projected in its LTIIIP. PAWC-WD stated that its additional investment for 2023 is due to inflation and costs associated with including newer acquisitions in its projected plan.

It is noted that PAWC-WD's actual LTIIIP expenditures as reported in its prior AAOPs¹ when added to PAWC-WD's expenditure projections for 2023 would exceed by 20% the total LTIIIP expenditures and appear to be a major modification.² Such a major modification would require PAWC-WD to file a petition for modification of its LTIIIP.³ However, PAWC-WD filed a second LTIIIP on March 8, 2023, that covers the years 2024 through 2028. PAWC-WD's current LTIIIP ends in 2023. Any petition for modification would then just be for 2023. Therefore, in order to reduce the administrative burden, and to avoid the potential costs to PAWC-WD and its ratepayers, we will approve the instant AAOP without requiring PAWC-WD to file a petition for modification. Our discretion in this matter is not an endorsement of PAWC-WD's actions and PAWC-WD is reminded that it is expected to comply with regulatory requirements for LTIIIPs and AAOPs.

Pursuant to a Commission Order entered April 16, 2020, at Docket No. P-2014-2431005 (April 2020 Order), PAWC-WD was directed to provide additional information in its AAOPs, beginning with its AAOP for calendar year 2020. The information required was: 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 an update on the progress of the inflow and infiltration (I&I) reduction for each of its wastewater systems. PAWC-WD appears to have substantially complied with the April 2020 Order.

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.

Accordingly, while noting our discretion on the apparent major modification discussed above, PAWC-WD's AAOP appears to substantially conform to the schedule set forth in the company's LTIIIP.

Conclusion

Upon review of Pennsylvania-American Water Company's Wastewater Division's AAOP filed on March 1, 2023, 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

¹ See Docket No. M-2020-3019258, Docket No. M-2021-3024340, and Docket No. M-2022-3031196.

² See 52 Pa. Code § 121.2, definition of a major modification.

³ See 52 Pa. Code § 121.5(a).

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, Bureau of Technical Utility Services at (717) 787-2359 or kennshaffe@pa.gov.

Sincerely,

A handwritten signature in cursive script, reading "Rosemary Chiavetta".

Rosemary Chiavetta
Secretary

cc: Patti Wiedt, LAW
Richard Kanaskie, BIE
Dan Searforce, TUS
John Van Zant, TUS