

June 4, 2025

Via Electronic Filing

Matthew L. Homsher, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: PA Public Utility Commission v. The Pittsburgh Water and Sewer Authority d/b/a
Pittsburgh Water's Petition for Authorization to Increase DSIC Water P-2025-XXXXX
and Wastewater Charge – P-2025-XXXXX

Dear Secretary Homsher:

Enclosed for electronic filing please find The Pittsburgh Water and Sewer Authority d/b/a Pittsburgh Water's Petition For Authorization To Increase Water and Wastewater DSIC Charge Caps To 7.5% with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Deanne M. O'Dell

DMO/jls
Enclosure

cc: Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of Pittsburgh Water's Petition For Authorization To Increase Water and Wastewater DSIC Charge Caps To 7.5% upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

Via Email Only

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Deanne M. O'Dell, Esq.

Dated: June 4, 2025

I. INTRODUCTION AND BACKGROUND

1. In Pittsburgh Water's 2020 Rate Proceeding, Pittsburgh Water was permitted to implement a levelized, 5% DSIC for both the water and wastewater utilities. As Pittsburgh Water stated at the time, the DSIC:

will produce a permanent source of PAYGO funding to finance water distribution and wastewater projects which will not be contingent on base rate case determinations. Moreover, it will help to reduce Pittsburgh Water's reliance on long-term debt financing, thus reducing its present heavily leveraged position. Finally, it is fair to both Pittsburgh Water and its ratepayers, as it assures that the amount billed via the DSIC will be earmarked exclusively for eligible infrastructure projects and any dollars billed but not expended will be returned to ratepayers. Thus, the settlement allowance of a 5% DSIC is eminently reasonable.¹

2. Since that time, the DSIC has operated as intended, permitting Pittsburgh Water to finance a portion of its approved Long-Term Infrastructure Improvement Plan ("LTIIIP") for its water and wastewater operations through this automatic adjustment clause. This has permitted Pittsburgh Water to finance a portion of its ambitious capital improvement plan with "PAY-GO" or internally generated funds. This, in turn, has reduced Pittsburgh Water's reliance on long-term debt financing, reduced costs to ratepayers, and helped to support Pittsburgh Water's current bond rating.

3. Because of the salutary effects on the Company and its ratepayers of reducing the reliance on and cost of debt, Pittsburgh Water believes that a modest increase in its DSIC "cap" to 7.5% is warranted. This DSIC cap increase would permit Pittsburgh Water to increase the amount of PAY-GO financing from its DSIC that it will be able to apply to implementing the DSIC eligible portion of its Capital Improvement Program ("CIP") and will

¹ *Pa. Pub. Util. Comm'n v. Pittsburgh Water and Sewer Auth.*, R-2020-3017951, R-2020-3017970, P-2020-3019019.

offset somewhat the effects of inflation and other factors, such as trade tariffs, that have increased the cost of all construction. The increased DSIC cap will also further reduce costs to ratepayers and will help Pittsburgh Water to further “deleverage” its capital structure so that it is not so dependent on long term debt. Therefore, Pittsburgh Water submits that increasing the DSIC cap to 7.5% for both its water and wastewater operations is necessary and in the public interest, as well as helping to ensure and maintain adequate, efficient, safe, reliable and reasonable service.

II. PETITION FOR WAIVER

4. Pittsburgh Water is a municipal authority organized and existing under the Pennsylvania Municipality Authorities Act.² Pittsburgh Water provides water service to approximately 80,000 residential, commercial and industrial customers in: portions of the City of Pittsburgh (“City”); the Borough of Millvale; and portions of Reserve, O’Hara, and Blawnox Townships, Allegheny County. Pittsburgh Water also provides wastewater conveyance service to approximately 113,000 customers located in the City and also conveys wastewater for portions of twenty-four (24) neighboring communities.

5. As a result of the passage of Act 2017-65, Pittsburgh Water’s rates and service are now regulated by the PUC. In addition to mandating that Pittsburgh Water file an initial tariff and a compliance plan (66 Pa. C.S. § 3204(a), (b)), the Act specifically authorizes Pittsburgh Water “to petition for the establishment of a distribution system improvement charge.”³

6. The names, addresses, and telephone number of Pittsburgh Water’s counsel are:

² 53 Pa. C.S. §§ 5601, *et seq.*

³ 66 Pa. C.S. § 3205(b).

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A. Legal Authority

7. On February 14, 2012, Act 11 was signed into law. That Act authorizes a utility to establish a DSIC to provide for the timely recovery of reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable, and reasonable service. The provisions of Act 11 were codified in Chapter 13 of the Public Utility Code,⁴ and related Commission regulations were promulgated as Chapter 121 to Title 52 of the Pennsylvania Code.⁵

8. Act 11 and the Commission's regulations require a utility to submit a LTIIP in order to be qualified to recover eligible improvement costs through a DSIC.⁶

9. Act 11 also contains certain statutory limitations. A water utility's DSIC may not exceed 7.5% of the amount billed to customers under the utility's applicable distribution rates,⁷ while other utilities, including a wastewater utility, are limited to 5%, absent the Commission authorizing a higher cap.

10. Section 1358 of the Public Utility Code grants the Commission the legal authority to establish a maximum allowable DSIC at a percentage higher than 5% for wastewater,

⁴ 66 Pa. C.S. §§ 1350–1360.

⁵ 52 Pa. Code §§ 121.1–121.8.

⁶ 66 Pa. C.S. § 1353; 52 Pa. Code § 121.3.

⁷ 66 Pa. C.S. § 1358(a).

electric or natural gas utilities, “in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” Specifically, Section 1358(a)(1) states:

[T]he distribution system improvement charge may not exceed 5% of the amount billed to customers under the applicable rates of the wastewater utility or distribution rates of the electric distribution company, natural gas distribution company or city natural gas distribution operation. The commission may upon petition grant a waiver of the 5% limit under this paragraph for a utility in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.⁸

11. Act 11 (Section 1358(b) of the Public Utility Code) establishes that the cap for water utilities shall not exceed 7.5%.

B. Background of Pittsburgh Water LTIP and DSIC Filings

12. On September 28, 2018, Pittsburgh Water filed its original LTIP petitions, at Docket Nos. P-2018-3005037 (water) and P-2018-3005039 (wastewater). In Orders entered on August 27, 2020, at Docket Nos. P-2018-3005037 (water) and P-2018-3005039 (wastewater), the Commission approved Pittsburgh Water’s LTIPs.

13. On or about March 6, 2020, Pittsburgh Water filed a base rate case proposing to increase its water and wastewater rates and utilize the DSIC mechanism that was presently in its Water and Wastewater Tariffs to recover a portion of its DSIC eligible expenditures authorized by its LTIP.⁹ As part of that filing, Pittsburgh Water requested a waiver or suspension of the DSIC limitation (or cap) and approval to establish the maximum allowable DSIC rate to an amount representing 10% of the amount billed to customers under the applicable rates for water and wastewater service (exclusive of any reconciliation amount).

⁸ 66 Pa. C.S. § 1358(a).

⁹ Pittsburgh Water’s rate case was filed at Docket Nos. R-2020-3017951 (water) and R-2020-3017970 (wastewater).

14. Pittsburgh Water and the Parties settled the 2020 rate proceeding, which Settlement was approved by the Commission.¹⁰ As part of the Settlement, Pittsburgh Water and the parties agreed, *inter alia*, that: (i) Pittsburgh Water could establish a water and wastewater DSIC with a cap of 5% beginning January 1, 2021 (with any request for a cap increase coming at a subsequent base rate increase filing); (ii) initially, Pittsburgh Water will utilize DSIC revenue only for PAYGO funding of DSIC-eligible projects, with the right, subject to certain conditions, to use the DSIC to recover bond-financed capital expenditures that were included in Pittsburgh Water's LTIP; and (iii) the DSIC shall be levelized at the DSIC cap amount over 12 months.¹¹

15. On October 6, 2022, Pittsburgh Water filed its Second LTIP petitions for its Water Operations at Docket No. P-2022-3035953 and Wastewater Operations at Docket No. P-2022-3035956. By Orders entered January 12, 2023 The PUC approved Pittsburgh Water's Second LTIP.¹² Pittsburgh Water's second LTIP detailed its plans to replace a number of categories of water and wastewater distribution plant, in conjunction with its broader Capital Investment Program, including, on the water side, lead service lines, small diameter water mains, water relay equipment, and transmission and distribution valves,¹³ as well as small diameter sewer rehabilitation and sewer reconstruction on the wastewater side.¹⁴

16. Pittsburgh Water continues to utilize DSIC revenues to fund the water and wastewater projects as set forth in the Second LTIP. Pittsburgh Water also provides quarterly

¹⁰ *Pa. Pub. Util. Comm'n v. Pittsburgh Water and Sewer Auth.*, R-2020-3017951, R-2020-3017970, P-2020-3019019 (Order entered December 3, 2020).

¹¹ *Id.*

¹² *Petition of the Pittsburgh Water and Sewer Auth. for Approval of its Second Long-Term Infrastructure Improvement Plan for its Water, Wastewater Operations*, P-2022-3035953, Docket No. P-2022-3035956. Opinion and Order entered January 12, 2023.

¹³ PUC Order approving Pittsburgh Water LTIP (P-2022-3035953) at 10.

¹⁴ PUC Order approving Pittsburgh Water Wastewater LTIP (P-2022-3035956) at 11.

information about the use of its water and wastewater DSIC funds as well as an annual reconciliation for both water and wastewater. Pittsburgh Water also provides a yearly Annual Asset Optimization Plan (“AAOP”) detailing the use of DSIC revenue for the water and wastewater projects approved in the LTIIP. Pittsburgh Water’s most recent AAOP for its wastewater operations for calendar year 2024 was approved by Secretarial Letter dated March 21, 2025.¹⁵ Pittsburgh Water’s most recent AAOP for its water operations for calendar year 2024 was approved by Secretarial Letter dated May 7, 2025.¹⁶

C. Standard for Evaluating DSIC CAP Increase

17. Pittsburgh Water’s current Water and Wastewater DSIC cap is 5%. Pursuant to Section 1358 of the Public Utility Code, a water utility is authorized to have a DSIC with a cap not to exceed 7.5%. 66 Pa. C.S. § 1358(a)(2). Accordingly, the standard for judging Pittsburgh Water’s request to increase its existing DSIC cap to the statutorily authorized level would be the same as for any other rate: that the request was just, reasonable, and non-discriminatory.¹⁷

18. For wastewater, the statute indicates that the maximum cap is 5%, but that a utility may receive a waiver from the Commission and increase the cap, “in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” 66 Pa. C.S. § 1358(a)(1).

19. In addition, the Public Utility Code Chapter 32 permits the PUC, upon request of Pittsburgh Water, to “suspend or waive” any provision of the Public Utility Code presumably in order to take account of Pittsburgh Water’s special circumstances as the only Commission-regulated municipal authority in the Commonwealth. 66 PA. C.S. § 3202(b).

¹⁵ *Re: Annual Asset Optimization Plan (AAOP) for the Pittsburgh Water and Sewer Auth.*, Docket No. M-2025-3053648.

¹⁶ *Re: Annual Asset Optimization Plan (AAOP) for the Pittsburgh Water and Sewer Auth.*, Docket No. M-2025-3053647.

¹⁷ 66 Pa. C.S. § 1301, 1304.

D. Pittsburgh Water Request to Increase Water and Wastewater DSIC Cap to 7.5%

20. As noted, the DSIC statute authorizes a DSIC charge of up to 7.5% for water utilities and gives the Commission the authority to authorize DSIC charges for wastewater utilities that exceed the 5% baseline cap “in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.”¹⁸ Pittsburgh Water submits that Pittsburgh Water’s request meets this standard.

21. Pittsburgh Water’s recently approved Second LTIP outlines how Pittsburgh Water plans to implement a program to rehabilitate, improve, and replace aging water and wastewater distribution infrastructure at an accelerated pace for the five-year period from 2023–2027. Pittsburgh Water’s recently approved AAOP for calendar year 2024 sets forth how Pittsburgh Water has successfully utilized DSIC revenue to make progress on its LTIP.

22. The Second LTIP identifies the various eligible water and wastewater system projects, the project schedules, and the associated costs.¹⁹ In its Second LTIP, Pittsburgh Water continues to prioritize the acceleration of its LSLR and SDWMR Programs.²⁰ Pittsburgh Water’s current goal is to eliminate all public and private-side lead service lines (where feasible and permitted) from its system in the next several years and to accelerate the number of miles of main replacement per year under its annual SDWMR program.

23. From 2023–2027, Pittsburgh Water projected in its Second LTIP that it will spend approximately \$286.7 million on water-eligible projects and \$27 million on sewer-eligible projects. By any measure, these are very large amounts.

¹⁸ 66 Pa. C.S. § 1358(a).

¹⁹ See, *Pittsburgh Water LTIP*, Approved by Order Entered, January 12, 2023, at Docket No. P-2022-3035953; *Wastewater LTIP*, Approved by Order entered January 12, 2023, at Docket No. P-2022-3035956.

²⁰ *Id.*

24. As previously authorized, Pittsburgh Water is authorized and currently uses the DSIC to provide “PAY-GO” funding that supplements Pittsburgh Water’s financing by the issuance of long-term bonds, PENNVEST loans and grants, and other governmental grants or loans. PAY-Go financing is dollars from rates actually expended in the DSIC period to acquire and install DSIC-eligible facilities.

25. Pursuant to Pittsburgh Water’s current LTIP, Pittsburgh Water anticipates that at current rates, and at the current 5% cap, revenue from the Water DSIC will produce \$7.4 million in 2026, which will provide enough funding to rehabilitate an additional two and a half miles of small diameter main per year. Pittsburgh Water’s Wastewater DSIC will produce approximately \$2.7 million in 2026, sufficient to rehabilitate an additional several thousand linear feet of sewer main.

26. Pittsburgh Water’s proposed increase in DSIC financed distribution improvements would have a variety of salutary effects. First, and as noted, Pittsburgh Water seeks to accelerate the rate of which projects within the LTIP are completed. Increasing the water DSIC cap to 7.5% will generate an additional \$6.5 million in the FPFTY and \$986,051 in FY 2027 that can be used to increase the amount of work completed under currently planned projects. This could result in an additional 5,400 linear feet of small diameter water main replaced in FPFTY and 820 linear feet of small diameter water main replaced in FY2027.

27. Increasing the DSIC cap to 7.5% for the sewer utility will generate an additional \$2.3 million in the FPFTY and \$386,485 in FY 2027 of internally generated funds that can be used to increase the amount of work completed under these projects. This could result in an additional 13,300 of linear feet of sewer main rehabilitated in FPFTY and 2,250 linear feet of sewer main rehabilitated in FY2027.

28. The increase in the DSIC cap would also provide cost savings to ratepayers, as well as bring Pittsburgh Water closer to its goal of funding at least 10% of capital improvements with internally generated funds—as measured on a five-year basis.

29. Second, the rate of inflation over the past several years has resulted in the loss of purchasing power at the current DSIC rate of 5%. Increasing the rate to 7.5% will provide the necessary infusion of cash to make up for this loss.

30. Third, Pittsburgh Water also seeks to increase its level of internally generated funds in an effort to reduce its financial leverage or debt ratio. Pittsburgh Water’s financial leverage (liabilities divided by assets) continues to remain high with the percentage being 86% at the end of 2026. However, the chart below clearly shows that the implementation of the DSIC starting in 2021 has helped to reduce this ratio by 12%. In fact, if the DSIC increase is granted, Pittsburgh Water estimates that the debt ratio will fall below 85% by the end of FY 2027.

Debt Ratio Percentage FY 2018–2027			
Fiscal Year	Total Assets	Total Liabilities	Debt Ratio
2018	864,343	967,243	112%
2019	947,934	1,058,762	112%
2020	1,035,990	1,160,406	112%
2021 ²¹	1,148,020	1,228,601	107%
2022	1,283,404	1,274,911	99%
2023	1,364,660	1,331,157	98%
2024	1,525,977	1,443,762	95%
2025*	1,620,466	1,497,552	92%
2026*	1,697,064	1,465,709	86%
2027*	1,788,571	1,505,227	84%

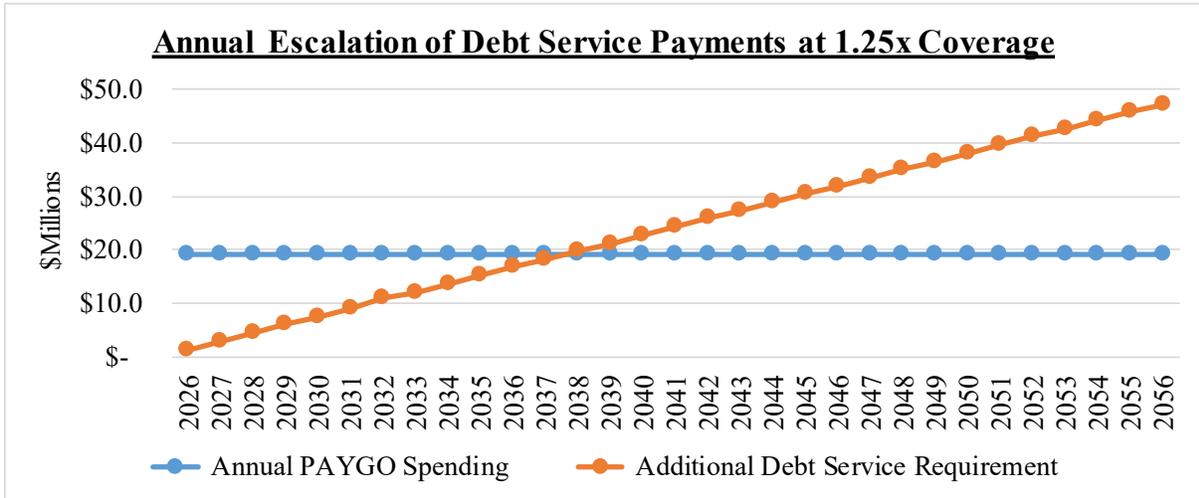
* *Estimate*

²¹ Implementation of the DSIC.

31. Fourth, increasing the DSIC cap will result in a greater percentage of dollars being recovered through the DSIC—a reconcilable surcharge. Because the DSIC is reconcilable, it assures that Pittsburgh Water will collect in rates only those amounts that it actually expends for the portions of its DSIC eligible projects set forth in the LTIIP. To the extent that Pittsburgh Water does not actually expend the dollars billed in the DSIC, it will refund the unexpended amounts in the next year. This is fair and reasonable to both Pittsburgh Water and its ratepayers.

32. Permitting Pittsburgh Water to slightly increase its DSIC billings will mean that more of its capital improvement program will be covered by its LTIIP. This will give the Commission and the Parties more insight and more opportunities to review and comment upon Pittsburgh Water’s capital addition plans, something that some parties have raised as a positive development in the past.

33. Finally, using a “PAY-GO” method of financing, rather than long term debt, is also less expensive to ratepayers over time. This is because, when Pittsburgh Water finances construction through long term debt, it must recover in its rates both the debt service associated with the long-term debt issuance together with the debt service coverage. The combination of the debt service and debt service coverage, and the fact that Pittsburgh Water must regularly issue new debt to fund construction projects, results in the PAY-GO funding method being cheaper for customers after the first several bond issuance (Pittsburgh Water is planning to use borrowed funds, either PENNVEST loans or publicly issued Revenue Bonds each year for the foreseeable future). This is demonstrated in the following chart:



(includes PAYGO proposed to be produced by base rates)

34. As such, Pittsburgh Water submits that increasing the cap for its Water DSIC to 7.5% is reasonable, and its proposed increase to its Wastewater DSIC to 7.5% is necessary to ensure and maintain adequate, efficient, safe, reliable and reasonable service, and is otherwise in the public interest in that it will enable Pittsburgh Water to implement the capital improvements authorized in its Second LTIP in a more cost-effective fashion that is better for ratepayers and supports the financial health of Pittsburgh Water in the most cost effective manner available.

III. CONCLUSION

WHEREFORE, Pittsburgh Water respectfully requests that the Commission:

- (i) authorize a Water Distribution System DSIC cap at the 7.5% of intrastate revenue as permitted by Section 1358 (b) of the Public Utility Code; (ii) waive the provisions of Section 1358(a) of the Public Utility Code and authorize Pittsburgh Water to implement a 7.5% cap for its wastewater DSIC; (iii) pursuant to Section 3201 of the Code, 66 Pa. C.S. § 3201, waive or suspend the requirements of Section 1358, or any other Section of the Public Utility Code determined by the Commission to be necessary to implement this request; and (iv) grant any other relief deemed to be in the public interest.

Respectfully submitted,



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Dated: June 4, 2025

Counsel for
The Pittsburgh Water and Sewer Authority
d/b/a Pittsburgh Water

VERIFICATION

I, Edward Barca, hereby state that: (1) I am the Director of Finance for Pittsburgh Water and Sewer Authority d/b/a Pittsburgh Water; (2) the facts above set forth in the foregoing Petition are true and correct to the best of my knowledge, information and belief; and (3) I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

06/03/2025 | 3:25 PM PDT

Dated

DocuSigned by:
Edward Barca
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Edward Barca, Director of Finance
Pittsburgh Water and Sewer Authority d/b/a Pittsburgh
Water