

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2025-3057237
Office of Small Business Advocate	:	C-2025-3057935
Office of Consumer Advocate	:	C-2025-3057993
James M. Blevins	:	C-2025-3058103
Nicholas Cammauf	:	C-2025-3058728
	:	
v.	:	
	:	
City of Lancaster - Bureau of Water	:	

**RECOMMENDED DECISION**

Before  
Erin L. Gannon  
Administrative Law Judge

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	HISTORY OF THE PROCEEDING .....	2
III.	PUBLIC INPUT HEARINGS .....	5
IV.	PROPOSED FINDINGS OF FACT .....	9
V.	TERMS OF THE SETTLEMENT .....	13
VI.	CONDITIONS OF SETTLEMENT .....	18
VII.	LEGAL STANDARDS .....	19
	A. General Rate Increase .....	19
	B. Legal Standards for Settlements .....	21
	C. Black Box Settlement .....	22
	D. Substantial Evidence .....	23
VIII.	DISCUSSION OF THE TERMS OF SETTLEMENT .....	23
	A. Revenue Requirement and Rates (Settlement ¶¶ 15-18) .....	24
	1. Lancaster’s Filing .....	24
	2. Proposed Settlement .....	26
	3. Disposition .....	33
	B. Reporting (Settlement ¶ 19) .....	34
	C. Low-Income Customer Service (Settlement ¶¶ 20(a)-(c), 21) .....	36
	D. PFOA Issues (Settlement ¶ 20(d)) .....	39
	E. Tariff Provisions (Settlement ¶ 21) .....	41
	F. Rate Structure/Rate Design (Settlement ¶ 22) .....	43
	1. Residential Customer Charge .....	43
	2. Revenue Allocation and Rates .....	46
	G. Depreciation Rates (Settlement ¶ 23) .....	48
	H. Fire Protection Rates (Settlement ¶ 24) .....	50
	I. Recommended Modifications to Compliance Filings .....	52
	1. Tariff Supplement .....	52
	2. Proof of Revenues .....	53

J.	Conclusion.....	54
IX.	RECOMMENDATION .....	55
X.	CONCLUSIONS OF LAW .....	55
XI.	ORDER.....	57
	Appendix .....	i-iii

## I. INTRODUCTION

This decision recommends the Commission approve, with minor modifications concerning corrections to the tariff supplement and proof of revenues, the unanimous Joint Petition for Complete Settlement of Rate Investigation (Joint Petition or Settlement) filed on February 26, 2026. With those modifications, I recommend approval of the Joint Petition because it is in the public interest and supported by substantial evidence.

The Joint Petition is signed by the City of Lancaster – Bureau of Water (the City or Lancaster), the Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), and the Office of Small Business Advocate (OSBA) (collectively, Joint Petitioners or settling parties). The two consumers who filed formal complaints in this matter did not file a response or objection to the Settlement.<sup>1</sup>

The settling parties propose that rates for customers located outside the City of Lancaster (outside-City customers) be designed to produce approximately \$4,700,000 in additional annual operating revenues, instead of the City’s filed-for rate increase of approximately \$7,005,217. Stated otherwise, this is an increase of 20.3% to Lancaster’s outside-City operating revenues, compared to the filed-for increase of 30.2%. Additionally, the Settlement provides for enhancements to service and low-income customer education, outreach and evaluation. Settlement ¶¶ 19-21.

The effective date of the tariff supplement was suspended until June 29, 2026. Therefore, the last reasonable public meeting by which the Commission must act is June 18, 2026.

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<sup>1</sup> As discussed below, the two Formal Complainants did not elect to be active participants but were served with all notices, orders, and the settlement in this matter.

## II. HISTORY OF THE PROCEEDING

On September 30, 2025, Lancaster filed Supplement No. 49 to Tariff Water – PA P.U.C. No. 6 with the Commission to become effective November 29, 2025. The City requested that the Commission approve general rate increases to its water rates pursuant to Section 1308 of the Public Utility Code. 66 Pa.C.S. § 1308. The proposed tariff supplement would increase Lancaster’s total annual operating revenues for water service by \$7,005,217 (30.2% for outside-City customers) based on a fully projected future test year (FPFTY) ending March 31, 2027.

On October 1, 2025, OSBA filed a Notice of Appearance. On October 10, 2025, I&E filed a Notice of Appearance. On October 10, 2025, OSBA filed a Formal Complaint and Public Statement. On October 15, 2025, OCA filed a Formal Complaint, Public Statement, and Notice of Appearance. On October 23, 2025, consumer James M. Blevins filed a Formal Complaint. The three Formal Complaints were assigned the following docket numbers, respectively: C-2025-3057935, C-2025-3057993, and C-2025-3058103.

On November 6, 2025, the Commission suspended the proposed tariff supplement by operation of law until June 29, 2026. The matter was assigned to the Office of Administrative Law Judge (OALJ) for Alternative Dispute Resolution, if possible, and for the prompt scheduling of such hearings as may be necessary to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in Supplement No. 49, in addition to the City’s existing rates.

I was assigned as presiding officer and, on November 6, 2025, the Commission issued a Prehearing Conference Notice, scheduling a telephonic prehearing conference for November 18, 2025.

I issued a Prehearing Conference Order on November 6, 2025, establishing procedural rules for the prehearing conference, interventions, and initial requirements for service.

On November 4, 2025, the City filed a Petition for Protective Order, and I issued a Protective Order on November 7, 2025.

The initial prehearing conference was held as scheduled on November 18, 2025. Lancaster, I&E, OCA and OSBA were present and represented by counsel. All existing complaints against the rate filing were consolidated.

On November 20, 2025, consumer Nicholas Cammauf filed a Formal Complaint, which was assigned Docket No. C-2025-3058728.

On November 26, 2025, the Commission issued notice of in-person and telephonic public input hearings to be held on December 15, 2025 and December 16, 2025.

On December 15, 2025, I held two in-person public input hearings at the Manheim Township Municipal Office. Several members of the public attended and four customers testified.

On December 16, 2025, I held two telephonic public input hearings, where two customers testified.

On December 17, 2025, I issued a Scheduling Order memorializing the litigation schedule that was established at the prehearing conference. In the Order, I directed that Mr. Cammauf's complaint and any additional formal complaints would be deemed consolidated with the rate filing docket without further order pursuant to 52 Pa.

Code §§ 5.32 and 5.61. The consumer complainants did not choose to participate in the proceeding as active parties.

Also, on December 17, 2025, the Commission issued notice for in-person evidentiary hearings to be held in Harrisburg on January 26, 2026 and January 27, 2026.

On January 21, 2026, Counsel for the City advised, via email, that the active parties had agreed to mutual waivers of cross examination of all witnesses and requested that all witnesses be excused from the evidentiary hearing and all testimony and exhibits be permitted to be entered into the record by stipulation. Pursuant to this request, the first day of evidentiary hearings scheduled for January 26, 2026 was canceled.

The City requested to provide its rejoinder testimony in writing on January 26, 2026, in lieu of oral rejoinder. I granted the request, as it was unopposed, but declined to cancel the remaining day of evidentiary hearings before that testimony was served on me and the parties. Following my review of the rejoinder testimony and exhibits, I canceled the evidentiary hearing scheduled for January 27, 2026.

On January 28, 2026, I issued a Briefing and Settlement Order, which provided instructions to the parties regarding deadlines and requirements for filing briefs or settlement petitions. The Order also directed that any objections to a proposed settlement must be filed and served on the parties by March 17, 2026.

On January 29, 2026, the active parties filed a Motion for Admission of Testimony and Exhibits and Joint Stipulation for Admission of Evidence (Motion and Stipulation), which was granted and adopted by order issued on February 9, 2026. The Appendix to this decision contains a complete list of all admitted testimony and exhibits in this proceeding.

The Joint Petition for Settlement was filed with the Commission on February 26, 2026. Joining in the Settlement were the City, I&E, OCA, and OSBA. The City emailed the Settlement to the consumer complainants on February 26, 2026. In the cover letter, the consumers were instructed that any written objections to the Settlement should be provided to the Commission's Secretary's Bureau, the undersigned Administrative Law Judge and the other parties by March 17, 2026.

On February 27, 2026, the City mailed a hard copy of the Settlement to Mr. Cammauf, with the same notice regarding the deadline for filing objections.<sup>2</sup>

As of the date of this Recommended Decision, no objections or comments on the Settlement have been received.

The record in this consolidated proceeding closed on March 17, 2026, the last date to file objections or comments to the Settlement. This matter is ready for decision. For the reasons discussed below, I am recommending that the Commission approve the Settlement in its entirety with minor modifications involving corrections to the tariff supplement and proof of revenue.

### III. PUBLIC INPUT HEARINGS

#### Summary of Testimony

Four public input hearings were held in this proceeding, responsive to public interest and requests by Pennsylvania Senator James Andrew Malone and the

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<sup>2</sup> On his Formal Complaint form, Mr. Cammauf requested service by mail. The Commission's records show Complainant subsequently registered an eService account with the Commission, thereby agreeing to accept electronic service. The City served the Settlement to Mr. Cammauf by email. On February 27, 2026, via email copied to all parties, I asked the City to mail a courtesy copy of the Settlement to Mr. Cammauf.

Office of Consumer Advocate. Tr. 15-18. Two public input hearings were held on December 15, 2025, at 1:00 p.m. and 6:00 p.m., at the Manheim Township Municipal Building, in Manheim Township, Pennsylvania. Two telephonic public input hearings were held on December 16, 2025, at 1:00 p.m. and 6:00 p.m.

Over the course of these four hearings, a total of six people provided sworn testimony. Pennsylvania State Representative Steven Mentzer, 97<sup>th</sup> District, spoke on behalf of Lancaster’s outside-City customers in the Townships of Pequea, Manor, Manheim, East Lampeter and West Lampeter, in Lancaster County. Three customers from Manheim Township testified in person and two customers from West Lampeter Township provided testimony by telephone.

All six witnesses opposed the City’s proposal to increase rates for outside-City customers by 30%. The magnitude of the proposed rate increase was of particular concern to these customers because:

- outside-City customers are experiencing increases in other categories of costs, including their sewer utility rates and expected increases to electric and gas rates, medical coverage, and Lancaster County property taxes;
- there are vulnerable populations in the service territory, including low-income and fixed-income customers, who will be unduly impacted;
- the City has not complied with drinking water standards for Perfluorooctanoic Acid (PFOA) in recent periods; and
- the City has not shown that increasing rates for outside-City customers (only) – and setting them higher than inside-City rates – will address

perfluoroalkyl substances (PFAS), improve customer service, or is otherwise justified.

*See* Tr. 72-74 (Mentzer); Tr. 78-79 (Baldwin); Tr. 82 (Margel); Tr. 87-88, 102, 105-08 (Hershey-Kelley); Tr. 130, 132 (Van Cleve); Tr. 146-52 (Debakey).

In further regard to water quality, customers provided testimony and copies of customer and public notices stating that the City's drinking water sourced from the Conestoga River had elevated levels of PFAS. Hershey-Kelley Exh. 1 at 2. The notices state that the City's running annual average violates the Maximum Contaminant Level (MCL) for PFOA. Hershey-Kelley Exh. 2 at 1; Hershey-Kelley Exh. 4 at 7, 12; *see also* City St. 3R at 3-4.

Additionally, two customers testified that they do not know how they could reduce their consumption to mitigate higher water bills, short of taking extreme measures like digging a well or bathing in the Conestoga. Tr. 85 (Margel); Tr. 132 (Van Cleve).

One customer testified that several times he has not been able to reach a City representative by phone. Tr. 147, 150-51 (Debakey). On one recent occasion when he had zero water pressure, his calls to the City's water department and the City's main number kept ringing and went to voicemail, and he never got a follow-up call. Tr. 147, 150.

#### City of Lancaster's Response

The City submitted testimony from Tina Campbell, Director of Administrative Services, in which she responded to Mr. Debakey's testimony that the City has not shown that a rate increase for outside-City customers is justified. City St. 1R at 5. Ms. Campbell recognized the importance of transparency for the rate case. She

stated that the City will add a tab to its water website that includes a list of projects and the purpose of those projects “to ensure that the customers understand the projects the City is doing, why they were necessary and the benefits provided by the projects.” City St. 1R at 5.

Additionally, Ms. Campbell addressed Mr. Debakey’s testimony about not being able to reach the City to get information when he had no water pressure. She explained how this could have occurred by testifying:

Lancaster County Dispatch reported a broken hydrant on 1725 Windy Hill Rd, which is close to Mr. Debakey’s residence, on November 23, 2025, the day before the Thanksgiving holiday. Transmission and Distribution staff were notified and operators fixed the hydrant that same day. The operators (who take emergency calls) received 40 plus calls from that area about the same incident, and given the volume of calls and duplication of reporting, the names and addresses of all those who called were not recorded by the operator. The City acknowledges that Mr. Debakey’s call could have been missed and the City apologizes for any inconvenience he had in making a second call to the City.

City St. 1R at 5.

Relevant to the public input hearing testimony raising concerns about the affordability of the rate increase for the City’s low-income population, Ms. Campbell testified that there is likely a much lower concentration of average poverty rates in the outside-City customer base than the inside-City customer base. Responding to a customer’s testimony that a low-income customer in Lancaster City would not be able to afford this increase, Ms. Campbell stated that (1) the rate increase is not proposed for inside-City customers and (2) the inside-City customers currently pay higher water rates than outside-City customers. City St. 1R at 4.

Christine Volkay-Hilditch, the City’s Deputy Director of Public Works, Utilities, acknowledged that there was an issue with PFOA compliance for five quarters but states that the City was in compliance with the Pennsylvania Department of Environmental Protection (PADEP) maximum contaminant level in the last quarter of 2025. City St. 1R at 3. The City believes that PFOA concentrations in the Conestoga River increased due to drought conditions in 2024-2025, causing the violation. City St. 1R at 4. Ms. Volkay-Hilditch stated that “[t]he City is currently working with the [PADEP] to negotiate a consent order and agreement to ensure that the City addresses PFOA.” *Id.*

#### IV. FINDINGS OF FACT

##### The Initial Filing

1. The City is a Commission-regulated water system serving approximately 32,060 customers outside of the City of Lancaster, in Lancaster Township, Manheim Township, Millersville Borough, West Lampeter Township, Pequea Township and portions of Manor, West Hempfield, East Hempfield, and East Lampeter Townships. City St. 2 at 3-4; City Exh. GRH-3, Exh. D II-1 Att.

2. The City provides water service to approximately 17,221 customers inside the City of Lancaster, and in total serves approximately 49,281 customers. City Exh. GRH-3, Exh. D II-1 Att.

3. On September 30, 2025, the City filed Supplement No. 49 to Tariff Water – Pa. P.U.C. No. 6 to become effective November 29, 2025.

4. The proposed tariff supplement contained changes in rates calculated to recover an estimated increase in base rate revenues of \$7,005,217, or 30.2%. City St. 3 at 3; City Exhs. CVH-2, GRH-1.

5. Lancaster’s most recent rate increase was approved effective on June 29, 2022. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2021-3026682 (Opinion and Order entered May 12, 2022).

6. As of March 31, 2025, the City served approximately 49,281 customers, in the following customer classes and locations:

<b>Customer</b>	<b>Inside City</b>	<b>Outside City</b>	<b>Total</b>
<b>Residential</b>	14,960	29,663	44,623
<b>Commercial</b>	1,864	1,892	3,756
<b>Industrial</b>	41	69	110
<b>Private Fire</b>	356	431	787
<b>Public</b>	0	5	5
<b>Total</b>	17,221	32,060	49,281

City Exh. GRH-3, Exh. D II-1 Att.

7. As of September 30, 2025, Lancaster’s finished water distribution system included two high service pump stations, over 640 miles of distribution and transmission main, over 5,000 hydrants, 48,499 customer water meters and service lines, 13,581 valves, five booster pumping stations, a 15 million gallon reservoir, four storage tank facilities, five pressure reducing valve stations, and a supervisory control and data acquisition (SCADA) system. City St. 2 at 5.

8. The City has a Community Action Program (CAP), which operates in a similar manner to hardship programs, providing low-income customers with a lump-sum financial credit that does not require repayment. OCA St. 4 at 7-8.

9. Based on data through October 31, 2025, nine outside-City households are enrolled in the CAP. City St. 1R at 4, n.2.

10. Lancaster does not currently offer a bill discount or an arrearage forgiveness program. OCA St. 4 at 12-13; City St. 1R at 5.

11. Lancaster's outside-City residential customer arrearages grew from 11% in 2022 to 17% in 2024, and 18% year-to-date through September 2025. OCA St. 4 at 10 (citing attachment to City response to OCA-4-20).

12. The City's drinking water sourced from the Conestoga River had elevated levels of Perfluorooctanoic Acid in 2024 and 2025. City St. 3R at 3-4; Hershey-Kelley Exhs. 1, 2; Hershey-Kelley Exh. 4 at 7; OCA St. 4 at 21.

13. For five quarters, Lancaster's running annual average for PFOA violated the Maximum Contaminant Level. City St. 3R at 3-4; Hershey-Kelley Exh. 1 at 2; Hershey-Kelley Exh. 2 at 1; Hershey-Kelley Exh. 4 at 7, 12; OCA St. 4 at 19-20.

14. The City was in compliance with the Pennsylvania Department of Environmental Protection MCL in the last quarter of 2025. City St. 3R at 3; OCA St. 4SR at 5.

15. The City is currently working with the PADEP to negotiate a consent order and agreement to address PFOA. City St. 3R at 4; OCA St. 4 at 19-20; OCA St. 4SR at 5.

16. The current residential customer charge for 5/8-inch meters is \$7.95 per month. Settlement ¶ 22, App. A at 4, App. B at 1.

17. The City used the Equal Life Group (ELG) depreciation procedure to calculate the as-filed depreciation expense in this proceeding. City St. 5 at 3.

18. Both the ELG and the Average Life Group (ALG) procedures are designed to recover the total service value of an asset over the asset's service life. City St. 5RJ at 2; OCA St. 2 at 45.

19. Presently, Lancaster does not charge the outside municipalities a hydrant, or public fire, charge; it recovers the costs for public fire protection from its retail customer classes in customer charges. City St. 4R at 20.

20. Approximately 4,179 public fire hydrants are located outside of the City and approximately 1,265 public fire hydrants are located inside of the City. City Exh. GRH-2R, Sch. E at 18.

#### Other Parties

21. The Bureau of Investigation and Enforcement was created by the Commission pursuant to 66 Pa.C.S. § 308.2(a)(7) as a prosecutory bureau for purposes of, *inter alia*, representing the public interest in ratemaking matters before the OALJ. *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Final Procedural Order entered Aug. 11, 2011).

22. The Office of Consumer Advocate is a statutory advocate that is empowered to represent the interests of Pennsylvania utility consumers in matters before

the Commission, including utility rate requests, pursuant to Act 1976-161 of the General Assembly, as amended, 71 P.S. §§ 3-901–3-907.

23. The Office of Small Business Advocate is a statutory advocate authorized by the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41–399.50, to represent the interests of Pennsylvania small business consumers of utility services in matters before the Commission, including rate requests.

24. Two customers filed *pro se* Formal Complaints in this matter, which were assigned docket numbers C-2025-3058103 and C-2025-3058728.

#### Letters of Opposition

25. More than twenty individuals filed informal complaints or letters in opposition to the rate increase.

### V. TERMS OF THE SETTLEMENT

The Joint Petition is an 11-page document containing 44 numbered paragraphs. Additionally, the Settlement includes Appendices A through F, which are the Settlement tariff supplement, proof of revenues, and the respective statements in support of the City, I&E, OCA, and OSBA.<sup>3</sup>

The Joint Petitioners set forth the agreed-upon settlement terms at pages 3 to 7 of the Joint Petition, which address revenues, rates, reporting, customer service, low-income programs, PFOA, tariff changes, rate structure and design, depreciation, and fire

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<sup>3</sup> For brevity and clarity, the respective statements in support are referenced herein as App. C (City), App. D (I&E), App. E (OCA) and App. F (OSBA).

protection cost allocation. These Settlement terms are stated verbatim below with the heading and subheading identifications used in the Joint Petition for ease of reference.

15. The City shall be permitted to establish rates for outside-City customers which will produce an overall increase in annual operating revenues of approximately \$4,700,000. These rates, as determined in accordance with the Proof of Revenues, attached hereto as Appendix B, will be effective for service rendered on and after June 29, 2026. In sum, for outside customers, the increase in revenues by class from present rates as proposed in this Joint Petition are as follows:

**Commission Jurisdictional Area Customer Revenues**

<b>Customer Classification</b>	<b>Revenue at Present Rates</b>	<b>Revenue at Settlement Rates</b>	<b>Revenue Increase</b>
Residential	\$10,728,219	\$12,942,140	\$2,213,921
Commercial	\$8,358,266	\$9,914,407	\$1,556,141
Industrial	\$1,531,162	\$1,831,749	\$300,587
Large Industrial	\$1,000,202	\$1,178,948	\$178,746
Other Water Utilities	\$543,555	\$642,447	\$98,892
Private Fire	\$446,682	\$502,954	\$56,272
Public Fire	-	\$295,420	\$295,420
<b>Total</b>	<b>\$22,608,086</b>	<b>\$27,308,065</b>	<b>\$4,699,978</b>

16. Joint Petitioners agree that adoption and approval of this Joint Petition by ALJ Gannon and the Commission is in the public interest. Under this Joint Petition, the monthly bill for a residential customer with a 5/8-inch meter, using 4,500 gallons of [sic] per month, shall increase from \$29.53 to \$35.44, or by approximately 20.0%, rather than from \$29.53 to \$38.32 (or 29.8%) as originally requested. Similarly, the monthly bill for a commercial customer with a 2-inch meter, using 73,100 gallons per month, shall increase from \$361.75 to \$423.78, or by approximately 17.1%, rather than from \$361.75 to \$460.14 (or 27.2%) as originally requested. And, the monthly bill for an industrial customer with a 2-inch meter, using 419,600 gallons per month, shall increase from \$1,730.08 to \$1,986.49, or by

approximately 14.8%, rather than from \$1,730.08 to \$2,159.72 (or 24.8%) as originally requested.

17. The Petition for Settlement provides for a sound and reasonable revenue requirement and appropriately balances the interests and concerns of the City, I&E, OCA and OSBA. In addition, adoption and approval of the Joint Petition will avoid the need for continued litigation of this proceeding, including the time and expense of briefing.

18. In addition to, and in consideration of, the agreed-upon overall increase in annual operating revenues for Commission jurisdictional area customers of approximately \$4,700,000, Joint Petitioners also agree to the various terms and conditions set forth herein below.

19. Reporting. The City agrees that it shall provide Fully Projected Future Test Year (“FPFTY”) reporting to I&E, OCA and OSBA updating the Original Cost of Utility Plant in Service as presented in Schedule 4 of Exhibit GRH-1 to the Direct Testimony of Gregory R. Herbert (City of Lancaster Statement No. 4) (including actual capital expenditures, plant additions, and retirements) on a monthly basis, for the fiscal year ending March 31, 2026 by July 1, 2026, and for the fiscal year ending March 31, 2027 by July 1, 2027.

20. Customer Service. The City shall implement the following for its outside customers:

(a) The City shall provide information on its water website for customers regarding the Community Action Program (“CAP”), which information will specifically state that CAP is open to “all” customers so that outside-City customers are informed that CAP is not exclusive to customers living in the City of Lancaster.

(b) As part of its planned 2026 internal working group, the City will assess the following and report on its findings in the next base rate case:

- (i) Offering a discount billing option for low-income customers;
- (ii) Offering an Arrearage Management Plan for residential and commercial customers; and
- (iii) Use of the Asset Limited, Income Constrained, Employed (“ALICE”) tool provided by the United Way for collecting and tracking data for low-income customers and the City’s ability to track essential metrics related to affordability for ALICE households, including:

- (1) Average residential bills relative to ALICE income standards;
- (2) Participation in low-income programs for jurisdictional low-income customers; and
- (3) Arrears and payment plan arrangements for the jurisdictional ALICE population.

(c) The City shall actively review customer accounts to identify late payments of payment plans in default and proactively reach out to those customers to advise them of potential options that may be available to assist them with payment, such as providing information about CAP.

(d) The City shall continue its efforts to address perfluorooctanoic acid- (“PFOA”) related issues, as they arise.

21. *Tariff Changes.* The City shall implement the following changes in Tariff Supplement No. 51 to Water Tariff – PA P.U.C. No. 6, as reflected in Appendix A:

(a) The language in Section 5.4 shall be replaced with the following: –“The Bureau of Water has contracted with a third-party to complete new service installation inspections. Customers and Developer shall be responsible for payment of the fee incurred by the Bureau of Water for inspection

of the new service installation and shall make payment to the Bureau of Water within thirty (30) days of Date of Presentation to the Developer. If a Customer or Developer requests documentation supporting the fee, such as a request for invoices, the City shall provide the requested information. All meters for new service installations shall be installed within thirty (30) days of receipt of the meter from the Bureau of Water.”

(b) The City shall otherwise be permitted to update the tariff to effectuate the agreed settlement rates and to reflect the changes proposed in connection with its initial filing, as described more fully and as set forth in detail in Appendix A.

22. *Rate Structure/Rate Design.* Joint Petitioners agree to the distribution of revenue among customer classes in this Joint Petition as set forth in the attached Proof of Revenues at Appendix B. The City is authorized to raise the Residential Customer Charge to \$10.25. The design and structure of rates for residential customers of the City under this Joint Petition are developed based upon the fixed and volumetric charges contained within the Rate Schedules set forth in Appendix B.

23. *Depreciation Rates.* The City shall be permitted to use the depreciation rates as proposed in its initial filing, as described more fully and as set forth in detail in the Direct Testimony of John J. Spanos, City of Lancaster Statement No. 5, and supporting Depreciation Studies, at Exhibits JJS-1 through 3.

24. *Fire Protection.* The City shall allocate 12.5% of the Public Fire Protection costs to municipalities receiving that service through implementation of Public Fire rates. In the City’s next base rate proceeding, the City shall propose to increase that percentage to the statutorily permitted 25.00%.

## VI. CONDITIONS OF SETTLEMENT

The Joint Petition contains standard conditions that are routinely included in settlement petitions presented to the Commission. Settlement ¶¶ 25-28. These conditions provide, among other things, that the Settlement represents a compromise of competing positions, that the Settlement is made without admission against, or prejudice to, any positions that would be advanced in this or any other proceeding. Settlement ¶ 25.

The Settlement is further conditioned upon its approval by the Commission without modification, and that if the Commission should disapprove or modify any of its terms and conditions, any Joint Petitioner can withdraw upon written notice to the Commission and active Parties within three business days of the entry of the Commission's Order and in that case, resume litigation within ten days after the entry of the order. Settlement ¶ 25. The Joint Petitioners agree that the Settlement shall be considered to have the same effect as full litigation of the instant matter, resulting in the establishment of rates that are Commission-made rates. Settlement ¶ 26.

The Joint Petitioners agreed to waive the filing of exceptions in the event I recommended that the Commission adopt the Settlement without modification but reserved the right to file exceptions should I address additional matters or otherwise modify the terms and conditions of the Settlement. Settlement ¶ 27.

I find that these standard provisions in the Joint Petition are a reasonable part of a comprehensive settlement and are in the public interest.

## VII. LEGAL STANDARDS

### A. General Rate Increase

The Commission applies certain principles in deciding any general rate increase case brought pursuant to Section 1308 of the Public Utility Code (Code), 66 Pa.C.S. § 1308(d). A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of its property dedicated to public service. *Pa. Gas & Water Co. v. Pa. Pub. Util. Comm'n*, 341 A.2d 239 (Pa. Cmwlth. 1975). In determining what constitutes a fair rate of return, the Commission is guided by the criteria set forth in *Bluefield Water Works & Improvement Co. v. Pub. Service Comm'n of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). In *Bluefield*, the United States Supreme 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 reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

*Bluefield* at 692-93.

Section 1301(a) of the Code mandates 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.” 66 Pa.C.S. § 1301(a). “In determining just and reasonable rates, the [Commission] has discretion to determine the proper balance between the interests of ratepayers and utilities.” *Popowsky v. Pa. Pub. Util. Comm’n*, 665 A.2d 808, 812 (Pa. 1995). The term “just and reasonable” is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formula; rather, the Commission is granted the power to balance the prices charged to utility customers and returns on capital to utility investors. *Pa. Pub. Util. Comm’n v. Pa. Gas & Water Co.*, 424 A.2d 1213, 1219 (Pa. 1980).

The public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request, as set forth in the statute at Section 315(a):

**Reasonableness of rates.** -- In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa.C.S. § 315(a).

In a general rate increase proceeding, the burden of proof does not shift to parties challenging a requested rate increase. The utility has the burden of establishing the justness and reasonableness of every component of its rate request throughout the rate proceeding. Other parties to the proceeding do not have the burden of proof to justify an adjustment to the public utility’s filing. In this regard, the Pennsylvania Supreme Court stated:

[T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations.

*Berner v. Pa. Pub. Util. Comm'n*, 116 A.2d 738, 744 (Pa. 1955).

However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims it has made in its filing that no other party has questioned. In this regard, the Pennsylvania Commonwealth Court stated:

While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

*Allegheny Center Assocs. v. Pa. Pub. Util. Comm'n*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990). In analyzing a proposed general rate increase, the Commission also determines a rate of return to be applied to a rate base, measured by the aggregate value of all the utility's property used, and useful, in the public service. In determining a proper rate of return, the Commission calculates the utility's capital structure and the cost of the different types of capital during the period in issue. The Commission has wide discretion, because of its administrative expertise, in determining the cost of capital. *Equitable Gas Co. v. Pa. Pub. Util. Comm'n*, 405 A.2d 1055 (Pa. Cmwlth. 1979).

## B. Legal Standards for Settlements

In this general rate increase case, Lancaster, I&E, OCA, and OSBA have reached a full settlement. Commission policy promotes settlements. 52 Pa. Code §§ 5.231, 69.401. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve precious administrative hearing resources. The

Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401.

In order to approve a settlement such as proposed here, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. The York Water Co. – Water Div.*, Docket No. R-2025-3053442 (Opinion and Order entered Feb. 26, 2026) (*York Water*) (citing *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Recommended Decision issued Aug. 26, 2004, Final Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assoc.*, 74 Pa. P.U.C. 767 (1991) (*C.S. Water and Sewer*)). Because the Joint Petitioners request that the Commission enter an order adopting the Settlement without modification, they share the burden of proof to show that the terms and conditions of the Settlement are in the public interest. 66 Pa.C.S. § 332(a); *York Water*. Substantial evidence consistent with the statutory requirements must support the proposed settlement. *Popowsky v. Pa. Pub. Util. Comm'n*, 805 A.2d 637 (Pa. Cmwlth. 2002) (*Emporium*); *ARIPPA v. Pa. Pub. Util. Comm'n*, 792 A.2d 636 (Pa. Cmwlth. 2001) (*ARIPPA*).

### C. Black Box Settlement

In this case, the Joint Petitioners have reached what is referred to as a “black box” settlement where the settlement provides for an increase in the utility’s revenues but does not indicate how the parties calculated the increase. The Commission has permitted “black box” settlements as a means of reaching consensus in base rate proceedings. *York Water*; *Pa. Pub. Util. Comm'n v. Citizens' Elec. Co. of Lewisburg*, Docket No. R-2010-2172665 (Order entered Jan. 13, 2011). The Commission has observed that determining a utility’s revenue requirement is a calculation that involves many complex and interrelated adjustments affecting expenses, depreciation, rate base, taxes, and the utility’s cost of capital. Reaching an agreement among the parties on each

component can be difficult and impractical. As a result of this complexity, the Commission has supported the use of “black box” settlements. *Pa. Pub. Util. Comm’n v. Peoples TWP LLC*, Docket No. R-2013-2355886 (Opinion and Order entered Dec. 19, 2013) (*Peoples TWP*); *Pa. Pub. Util. Comm’n v. Columbia Water Co.*, Docket No. R-2017-2598203 (Opinion and Order entered Mar. 1, 2018).

#### D. Substantial Evidence

The requirement that settlements be supported by substantial evidence is grounded in the statutory requirement that decisions of the Commission must be supported by substantial evidence. 2 Pa.C.S. § 704. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. *Norfolk & W. Ry. Co. v. Pa. Pub. Util. Comm’n*, 413 A.2d 1037 (Pa. 1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 166 A.2d 96 (Pa. Super. 1961); *Murphy v. Pa. Dept. of Pub. Welfare, White Haven Ctr.*, 480 A.2d 382 (Pa. Cmwlth. 1984).

The Settlement will be analyzed under the legal standards above.

### VIII. DISCUSSION OF THE TERMS OF SETTLEMENT

The Joint Petitioners must establish, with substantial evidence, that approval of the terms and conditions of the Settlement are in the public interest. 66 Pa.C.S. § 332(a); *York Water; C.S. Water and Sewer; Emporium; ARIPPA*. As more fully explained below, I find that the terms of the Joint Petition are just and reasonable and necessary for the City to provide safe and adequate water service to its customers. Therefore, I conclude that the terms are in the public interest.

At the outset, I note that not every area of the Settlement was of interest to every settling party. Therefore, their respective statements in support only address those subject areas on which those parties took a position. Further, to the extent any settling party's position is not discussed below, that is due to the support being repetitive of another party and/or my focus on the support I found most persuasive. The reader is referred to Appendices C through F of the Settlement – the four individual Statements in Support of Settlement submitted by each of the Joint Petitioners – for their analysis of their positions.

I will address the various Settlement terms in the order in which they appear on pages 4 to 10 of the Joint Petition.

A. Revenue Requirement and Rates (Settlement ¶¶ 15-18)

1. Lancaster's Filing

In its initial filing, the City sought approval from the Commission to implement outside-City rates designed to produce approximately \$7,005,217 in additional annual operating revenues, based on a FPFTY ending March 31, 2027.<sup>4</sup> City St. 3 at 3; City Exhs. CVH-2, GRH-1. Lancaster's current base rates have been in effect since June 29, 2022. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2021-3026682 (Opinion and Order entered May 12, 2022).

According to Lancaster, its proposed increase is necessary for the following reasons:

- (i) to provide sufficient revenues to enable it to continue the proper discharge of its public duty to furnish adequate, safe,

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<sup>4</sup> In rebuttal, the City adjusted its claim to \$6,941,619. City St. 4R at 24.

and reliable water service pursuant to the safe drinking water standards prescribed and enforced by the Pennsylvania Department of Environmental Protection; (ii) to ensure compliance with emerging regulations related to utilities, (iii) to provide the cash flow necessary to continue to operate, maintain and renew its facilities and infrastructure properly and meet its financial obligations, including state-mandated Minimum Municipal Obligation payments to the City's employee pension plans and semi-annual debt service payments for all debt issuances; (iv) to provide sufficient cash flow for once-in-a-generation projects such as replacement of transmission mains; and (v) to afford the opportunity to achieve an adequate rate of return on the original cost invested in the water property.

City St. 1 at 6.

Regarding rate of return, Lancaster's rate increase request was calculated using a recommended rate of return of 7.75%, based on an imputed capital structure of 47% long-term debt and 53% common equity, a cost of debt of 4.20%, and a return on equity (ROE) of 10.9%. City St. 6 at 2, 13; City St. 6, Exh. HW-1, Sch. 3. Alternatively, if the Commission determines to adjust the cost of common equity to reflect the income tax status of the utility's investors,<sup>5</sup> Lancaster witness Walker proposed a 13% adjustment, which produces a 9.48% ROE and a 6.99% overall rate of return.<sup>6</sup>

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<sup>5</sup> I&E calls this an implied tax rate adjustment and explains the purpose as follows: "[it] recognizes that interest paid to municipal bondholders is exempt from taxation while interest paid to corporate bondholders is not exempt. Accordingly, a municipal bondholder requires less interest from their bond to receive the same yield as that of a corporate bondholder." I&E St. 2 at 40.

<sup>6</sup> In rebuttal testimony, the City updated its claimed overall rate of return to 6.65% for outside-City customers based on revisions to revenues, expenses, and rate base but did not change its underlying recommendations regarding capital structure, cost rates, or the tax adjustment. City Exh. GRH-1R, Sch. 1 at 3; City Exh. GRH-3R, Sch. 1 at 1; *see* I&E St. 2SR at 5.

I&E reproduced this information in table form:

<b>CITY OF LANCASTER - WATER FUND</b>			
<b>Summary of Cost of Capital (<u>Without Tax Adjustment</u>)</b>			
<b>Type of Capital</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost Rate</b>
Long-Term Debt	47.00%	4.20%	1.97%
Common Equity	<u>53.00%</u>	10.90%	<u>5.78%</u>
Total	<u>100.00%</u>		<u>7.75%</u>

<b>CITY OF LANCASTER - WATER FUND</b>			
<b>Summary of Cost of Capital (<u>With Tax Adjustment</u>)</b>			
<b>Type of Capital</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost Rate</b>
Long-Term Debt	47.00%	4.20%	1.97%
Common Equity	<u>53.00%</u>	9.48%*	<u>5.02%</u>
Total	<u>100.00%</u>		<u>6.99%</u>

\* 9.48% (ROE 10.90% x (1 - Implied Tax Rate 13.00%))

I&E St. 2 at 6; see City Exh. HW-1, Sch. 21.

## 2. Proposed Settlement

Under the Settlement, Lancaster would be permitted to implement rates designed to produce approximately \$4,700,000 in additional annual operating revenues. Settlement ¶ 16, App. B at 3. This is about 67% of the original request, or a reduction of approximately \$2,300,000 to the increase for outside-City customers. Settlement, App. E (OCA) at 8. The rate increase in the Settlement reflects an increase in total annual revenues of 20.3%, compared to the requested increase of 30.2%. *Id.*

As set forth in paragraph 16 of the Settlement, for outside-City customers, the increase in revenues by class from present rates as proposed in the Joint Petition are as follows:

**Commission Jurisdictional Area Customer Revenues**

<b>Customer Classification</b>	<b>Revenue at Present Rates</b>	<b>Revenue at Settlement Rates</b>	<b>Revenue Increase</b>
Residential	\$10,728,219	\$12,942,140	\$2,213,921
Commercial	\$8,358,266	\$9,914,407	\$1,556,141
Industrial	\$1,531,162	\$1,831,749	\$300,587
Large Industrial	\$1,000,202	\$1,178,948	\$178,746
Other Water Utilities	\$543,555	\$642,447	\$98,892
Private Fire	\$446,682	\$502,954	\$56,272
Public Fire	-	\$295,420	\$295,420
<b>Total</b>	<b>\$22,608,086</b>	<b>\$27,308,065</b>	<b>\$4,699,978</b>

Paragraph 17 of the Settlement provides a typical monthly bill for the City’s residential, commercial and industrial classes and the percentage rate increase those customer classes will experience under the Settlement rates compared to existing rates. It provides:

Under this Joint Petition, the monthly bill for a residential customer with a 5/8-inch meter, using 4,500 gallons of [sic] per month, shall increase from \$29.53 to \$35.44, or by approximately 20.0%, rather than from \$29.53 to \$38.32 (or 29.8%) as originally requested. Similarly, the monthly bill for a commercial customer with a 2-inch meter, using 73,100 gallons per month, shall increase from \$361.75 to \$423.78, or by approximately 17.1%, rather than from \$361.75 to \$460.14 (or 27.2%) as originally requested. And, the monthly bill for an industrial customer with a 2-inch meter, using 419,600 gallons per month, shall increase from \$1,730.08 to \$1,986.49, or by approximately 14.8%,

rather than from \$1,730.08 to \$2,159.72 (or 24.8%) as originally requested.

The same information is provided in table form below:

Customer Class	Meter Size (inches)	Usage (gallons per month)	Increase to Monthly Bill	
			As-Filed Rates (%)	Settlement Rates (%)
Residential	5/8	4,500	29.8	20.0
Commercial	2	73,100	27.2	17.1
Industrial	2	419,600	24.8	14.8

Customer Class	Meter Size (inches)	Usage (gallons per month)	Increase to Monthly Bill	
			As-Filed Rates (\$)	Settlement Rates (\$)
Residential	5/8	4,500	8.79	5.91
Commercial	2	73,100	98.39	62.03
Industrial	2	419,600	429.64	256.41

In the Joint Petition, all settling parties state that adoption and approval of this Joint Petition is in the public interest and, further, that the Settlement provides for a sound and reasonable revenue requirement and appropriately balances the interests and concerns of the City, I&E, OCA, and OSBA. Settlement ¶¶ 16, 17. In addition, the settling parties aver that adoption and approval of the Joint Petition will avoid the need for continued litigation of this proceeding, including the time and expense of briefing. Settlement ¶ 17. Settlement paragraph 18 reflects the settling parties' agreement that approval of the City's base rate increase should be approved subject to the additional terms and conditions of the Settlement. Settlement ¶ 18.

In their respective statements in support, I&E, OCA, and OSBA summarized their principal recommended adjustments to the City’s filed-for revenue requirement and the bases for their support of the Settlement.

Regarding the revenue requirement provisions of the Settlement, I&E compared the City and I&E positions on the revenue increase and rate of return. For revenues, I&E pointed out that the Settlement revenue increase of approximately \$4,700,000 falls between the City’s initial filing (\$7,005,217) and I&E’s final recommended increase of \$3,543,989. Settlement, App. D (I&E) at 9-10. Regarding return, I&E noted that their respective recommendations for cost of common equity were 10.08% (I&E) and 10.90% (Lancaster), with no tax rate adjustment. With tax adjustments of 22% and 13%, respectively, the ROEs were 7.86% (I&E) and 9.48% (Lancaster). *Id.* at 9. I&E also challenged the City’s capital structure. I&E recommended a hypothetical capital structure of 42.87% common equity to 57.13% long-term debt in place of Lancaster’s claimed hypothetical capital structure of 53% common equity to 57.00% long-term debt. I&E St. 2 at 13-17; City St. 6 at 14; City Exh. HW-1, Sch. 1.

For comparison with the City’s proposed rate of return position, shown above, the I&E’s position is provided here:

<b>I&amp;E Recommendation CITY OF LANCASTER - WATER FUND Summary of Cost of Capital (<u>With Tax Adjustment</u>)</b>			
<b>Type of Capital</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost Rate</b>
Long-Term Debt	57.13%	4.20%	2.40%
Common Equity	<u>42.87%</u>	7.86%	<u>3.37%</u>
Total	<u>100.00%</u>		<u>5.77%</u>

I&E St. 2 at 7; I&E St. 2SR at 3.

I&E fully supports the negotiated overall revenue levels as fair, just, and in the public interest as follows:

While the overall revenue requirement is a “black box” compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the Parties.

Settlement, App. D (I&E) at 10.

The OCA also addresses the parties’ differing rate of return positions. Settlement, App. E (OCA) at 6-7. The OCA’s rate of return position is shown below:

<u>Capital Component</u>	<u>Proposed Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Debt	47.0%	4.20%	1.97%
Fund Equity	<u>53.0%</u>	8.80%	<u>4.66%</u>
Total	100.0%		6.64%

OCA St. 2 at 42.

In addition to return, the OCA’s primary adjustments to revenue requirement included a recommended change to the procedure used for the calculation of the City’s ratemaking depreciation expense and accumulated depreciation. The parties’ positions on the Equal Life Group (ELG) or Average Life Group (ALG) procedures are discussed below, in Section VIII.G (Depreciation Rates).

The OCA's final recommendation for the outside-City revenue requirement increase was \$2,854,613. Settlement, App. E (OCA) at 7; OCA St. 1SR at 15. This incorporated, *inter alia*, its recommended common equity cost rate of 8.80% and \$1.02 million downwards adjustment to depreciation expense.

In support of the Settlement terms addressing revenue requirement, the OCA states the revenue increase will provide sufficient funds to adequately, efficiently, safely, and reasonably maintain the City's distribution system "while avoiding the harsh rate impact that an increase at the full request would have caused." Settlement, App. E (OCA) at 8. Like I&E, the OCA submits that based on its analysis of the City's filing, discovery responses, and testimony, the revenue increase under the Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The OCA also supports the agreed-on revenue requirement because it is more than \$2.3 million below the amount that the City filed for, will not go into effect until the end of the suspension period, and includes consumer protections that it says might not otherwise be achieved by litigating this case. *Id.* at 8-9. Taken together, in the OCA's view, these factors demonstrate a reasonable compromise among the parties that serves the public interest.

Additionally, the OCA emphasized: "It is unlikely that the parties would have been able to reach consensus on each disputed recommendation in this matter as policy and legal positions differed widely among the parties." Settlement, App. E (OCA) at 6.

The OSBA did not take a position on a specific total revenue requirement in this proceeding but addressed certain issues that impact the revenue requirement and cost allocations. OSBA St. 1 at 1; OSBA St. 1SR at 2. Those issues included present rate revenue, proposed rates, and the scale back of rates and revenue. *See* OSBA St. 1SR at 2-12.

The OSBA finds it just and reasonable that the City will be permitted to establish rates for outside-City customers designed to produce the Settlement's overall revenue increase in annual revenues of approximately \$4,700,000, which is 67.1% of the original request of \$7,005,000. Settlement, App. F (OSBA) at 2. The OSBA supports that the increase for the Commercial class will be \$1,556,000 or 63.2% of the \$2,463,000 original increase proposed because it is beneficial to small business consumers. Settlement, App. F (OSBA) at 2. The OSBA highlights that the difference between the two percentages is partly due to the settlement term reflecting the City's agreement to begin charging municipalities for public fire protection service, which reduces the allocation to the other retail classes by \$295,000. *Id.* This settlement term (paragraph 24) is discussed further below, in Section VIII.H.

The OSBA also supports the Settlement rates for commercial customers, which provide for a lesser rate increase, on the basis that “[a]ny savings is beneficial to the small business customers.” Settlement, App. F (OSBA) at 2. Additionally, the OSBA finds that other, non-revenue requirement provisions of the Settlement are just, reasonable, and beneficial to the outside-City small business customers. While the OSBA does not comment on Settlement paragraph 17, it supports adoption and approval of the Joint Petition because it will avoid the need for continued litigation of this proceeding, including the time and expense of briefing. *Id.*

The City represents that the Settlement reached by the parties is the result of extensive discovery, negotiations and compromises by all parties and is in the public interest. Settlement, App. D (City) at 2. Regarding the Settlement revenue and rate provisions, the City emphasizes the reduced impact of the rate increase on residential customer bills, compared to its original request. *Id.* at 4. As discussed further below, in the City's view, this lesser increase addresses the concerns raised in testimony at the public input hearings regarding the rates increase requested in the City's initial filing. *Id.* at 7.

### 3. Disposition

I find the terms in the Joint Petition concerning the revenue requirement increase for the City’s water service to be reasonable and in the public interest.

Here, as previously indicated, the Settlement is a “black box” agreement, which means that it does not reflect a specific resolution of every element of the revenue requirement but rather represents the Joint Petitioners’ agreed upon final revenue increase amount based on their respective analyses of the various revenue and expense items. The advantages of achieving a “black box” settlement with respect to the revenue requirement in this matter are apparent. Due to the complexity in determining a company’s revenue requirement, a settlement might not have been reached in this proceeding if the Joint Petitioners had to reach a consensus with respect to every element of the City’s revenue requirement.<sup>7</sup> Further litigation of this matter would have resulted in the expenditure of additional time, resources, and monies; the costs of which might have been ultimately passed on to the Lancaster’s outside-City ratepayers in a future base rate proceeding.

Additional support for the use of a “black box” approach here is the fact that, based on the revenue requirement litigation positions of the City, I&E, OCA, and OSBA, the agreed-upon revenue requirement increase and allocation appears to fall squarely within the range of likely outcomes that would have resulted from a fully litigated proceeding. While the Settlement neither identifies nor reflects an overall rate of return or underlying cost rates or capital structure, the testimony and statements supporting the Settlement establish the comprehensive investigation and analysis of these

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<sup>7</sup> As noted in the earlier discussion of applicable law, the Commission has recognized that determining revenue requirement involves many complex and interrelated adjustments: “Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases.” *Peoples TWP*, at 28; *see also York Water* (2026).

issues performed by the settling parties, in coming to the agreed-upon revenue requirement.

Lastly, the agreed-upon revenue increase represents a significant reduction from the amount Lancaster arguably could have supported. As such, the outside-City customers benefit not only from having their economic burden reduced, but also from the fact that the agreed-upon revenue increase affords the City with revenue sufficient to cover its expenses and to continue to invest in its facilities as necessary to provide safe, effective, and reliable service.

Consequently, I recommend that the Commission approve these Settlement paragraphs 15 to 18 without modification.

B. Reporting (Settlement ¶ 19)

Pursuant to Settlement paragraph 19, the City will provide FPFTY reporting to I&E, OCA, and OSBA updating the Original Cost of Utility Plant, including actual capital expenditures, plant additions, and retirements, on a monthly basis, for the period ending March 31, 2026 by July 1, 2026, and for the period ending March 31, 2027 by July 1, 2027. I&E supports this provision as it resolves an issue raised by I&E witness Sakaya. App. D (I&E) at 11. Mr. Sakaya stated:

Through use of an FPFTY, a utility is allowed to require ratepayers, in essence, to pre-pay a return on a utility's projected investment in future plant that is not in place and providing service at the time the new rates take effect and are not subject to any guarantee of being completed and placed into service. While the FPFTY provides for such projections, there should be some timely verification of the actual spending as it compares to the projections claimed in the rate filing.

I&E St. 3 at 6-7.

The OSBA also supports this provision, emphasizing that transparency is always beneficial to all consumers and, in the next base rate proceeding, that the reported information will enable the parties and the Commission to compare projected with actual plant additions. App. F (OSBA) at 3.

I find that this term is reasonable and in the public interest as it will aid the Commission and parties to compare actual numbers to the Borough's projections to gauge the accuracy of projected investments in future rate proceedings. Further, this provision is consistent with the requirements of Section 315(e) of the Public Utility Code for utilities to provide appropriate data evidencing the accuracy of estimates used to set FTY and FPFTY rates. 66 Pa.C.S. § 315(e).

However, I recommend a minor amendment to Settlement paragraph 19 to ensure that documents are properly filed with the Commission as follows (amendment in bold):

19. Reporting. The City agrees that it shall provide Fully Projected Future Test Year ("FPFTY") reporting to **the Commission at Docket No. R-2025-3057237**, I&E, OCA and OSBA updating the Original Cost of Utility Plant in Service as presented in Schedule 4 of Exhibit GRH-1 to the Direct Testimony of Gregory R. Herbert (City of Lancaster Statement No. 4) (including actual capital expenditures, plant additions, and retirements) on a monthly basis, for the fiscal year ending March 31, 2026 by July 1, 2026, and for the fiscal year ending March 31, 2027 by July 1, 2027.

C. Low-Income Customer Service (Settlement ¶¶ 20(a)-(c), 21)

The City has a Community Action Program (CAP), which operates in a similar manner to hardship programs, providing low-income customers with a lump-sum financial credit that does not require repayment. Settlement, App. E (OCA) at 11; *see* OCA St. 4 at 7-8. The City budgets \$50,000 annually for the CAP. OCA St. 4 at 7, n.14 (citing City response to OCA Set 4-33); I&E Exh. 4-R, Sch. 1. The City does not currently offer a bill discount or an arrearage forgiveness program. OCA St. 4 at 8; City St. 1R at 5.

The OCA raised a concern that enrollment in the CAP is low, particularly given that the City is proposing to increase outside-City rates, and because the City has not confirmed the number of low-income households in its outside-City customer base. OCA St. 4 at 3-4; OCA St. 4SR at 2-3. The City does not maintain an official record or tracking system for identifying low-income customers. *Id.* Further, the OCA identified that outside-City residential customer arrearages are growing: from 11% in 2022 to 17% in 2024, and 18% year-to-date through September 2025. OCA St. 4 at 10 (citing attachment to City response to OCA-4-20). The City agreed that participation by outside-City customers is low (9 households enrolled) but clarified that there is higher participation inside the City’s municipal boundaries where the household median income is lower (95 households enrolled).<sup>8</sup> City St. 1R at 4. The City agreed to provide information on the City’s utility website regarding the CAP program. *Id.* at 5.

Settlement Paragraph 20(a) reflects this commitment, with the OCA’s additional clarification that the website will specify the program is open to “all” customers so that outside-City customers are informed that the program is available

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<sup>8</sup> The City’s counts for outside- and inside-City participation are based on data through October 31, 2025 and November 30, 2025, respectively. City St. 1R at 4, n.2.

whether they live inside or outside the City of Lancaster’s boundaries. The OCA supports this settlement term as being a reasonable compromise that serves the public interest by making information about the CAP fund more visible and accessible to low-income residents. Settlement, App. E (OCA) at 11-12.

Also regarding CAP enrollment, the OCA recommended that (1) the City use a tool through United Way called “ALICE” (Asset Limited, Income Constrained, Employed) as a method of identifying and tracking households in the City’s service territory that could be eligible for low-income programs and (2) Lancaster actively review customer accounts regarding late payments or payment plan defaults, reaching out to determine if affected customers qualify for the CAP program. Settlement, App. E (OCA) at 12-14; OCA St. 4 at 4, 10. The City agreed to consider using ALICE for future tracking, stating that the tool may prove to be helpful as the City researches where the highest concentrations of ALICE households are in the City’s service area. City St. 1R at 3. I&E supported these OCA recommendations as reasonable since participation by outside-City customers in the CAP is relatively low and noting the concern expressed by individual customers at the public input hearings about rising rates and affordability. Settlement App. D (I&E) at 13; I&E St. 4R at 5.

Additionally, the OCA recommended the City implement two-year pilot programs for arrearage management and bill discounts for income-eligible customers. Settlement, App. E (OCA) at 12-14; OCA St. 4 at 14-18. According to the OCA, these programs would respond to the City’s growing jurisdictional arrears amounts since 2022 and concerns about affordability, increasing rates along with an increased cost of living, and the low participation in the CAP program. The City opposed these recommendations, in part, as follows:

The City is creating an internal working group in 2026 to review the water utility functions including overall financial projections and individual household costs. A

discount billing option for low-income customers is part of this discussion, which would help with arrearages. The City will also include in its planned review, whether it has the capacity to adopt an AMP, such as the pilot AMP program recommended by Ms. Wise. At this time, the City does not have sufficient information or resources to agree to implement the two-year pilot AMP program proposed.

City St. 1R at 5. I&E opposed the OCA's recommendation for two-year pilots noting that the City made no claim for uncollectibles in this case, and raising questions about a municipal system with large numbers of non-jurisdictional customers implementing these types of programs, budget and funding, and review of the pilot programs since the City does not file rate cases every two years. Settlement, App. D (I&E) at 12; I&E St. 4R at 6-7.

Settlement paragraphs 20(b) and (c) reflect the settling parties' agreement to resolve their differences about programs for income-eligible customers and outreach. The OCA supports subparagraph (b), based on its assessment that approximately 9% of customers receiving water from the City live in poverty and 31% live at the ALICE threshold for survival and self-sufficiency and that the suggested programs can reduce arrears, collection costs, and terminations. Settlement, App. E (OCA) at 12-13. As such, the OCA finds the Company's willingness to investigate new methods for assisting low-income customers represents a reasonable compromise that serves the public interest. Likewise, the OCA submits that the proactive outreach provided in subparagraph (c) will help customers who will likely benefit from the City's assistance and will help the CAP to accomplish its purpose. *Id.* at 13-14.

The City, more generally, agrees that "[i]mplementation of these customer service measures properly address the concerns of OCA and are therefore in the public interest." Settlement, App. C (City) at 5-6.

I&E avers that the settled-upon terms are a full and fair compromise that provides all stakeholders with regulatory certainty and resolution of the various low-income concerns, which is in the public interest. Settlement, App. D (I&E) at 13.

The OSBA supports the provision in Settlement paragraph 20(b)(ii), providing for the City to assess and report about offering an arrearage management plan for commercial customers. OSBA states that “[e]stablishing a payment plan for commercial customers will help prevent the utility from terminating service and help small businesses in difficulty manage their finances.” Settlement, App. F (OSBA) at 3. Additionally, the OSBA supports the City’s commitment in paragraph 20(c) to actively review customer accounts to identify late payments of payment plans in default and proactively reach out to those customers because it will help small businesses who are financially struggling. *Id.*

Based on the positions set forth in the parties’ testimony and Statements in Support, as summarized above, I find that paragraphs 20(a) through (c) of the Settlement provide a balanced and reasonable resolution of the low-income issues raised in this proceeding. Taken together, their approval is in the public interest because they support outreach, education and enrollment of eligible customers in the CAP, and provide the City’s commitment to assess and report on additional tools and programs to assist customers to pay their bills and avoid termination. This has particular value in the context of a rate increase and growing customer arrearages.

#### D. PFOA Issues (Settlement ¶ 20(d))

As discussed in Section III above, during the public input hearings in this matter, customers raised health and safety concerns about levels of PFOA in the City’s drinking water. Witness Hershey-Kelley provided documents from the City and PADEP about the elevated levels of PFOA, which stated that the City was out of compliance with

PADEP requirements in five quarters in 2024 and 2025. Tr. 87-88, 102, 105-08 (Hershey-Kelley), 146, 149 (Debakey); Hershey-Kelley Exhs. 1, 2, 4; City St. 3R at 3-4; OCA St. 4 at 19-23.

The OCA also raised the City's compliance with PFOA requirements as an issue in this proceeding. The OCA's witness testified regarding the potential negative health effects of PFOA exposure and initially proposed a water quality improvement plan with compliance performance tracking, as well as public communication of updates on corrective actions to water quality and continued evaluation. Settlement, App. E (OCA) at 15; OCA St. 4 at 21, 23.

Lancaster acknowledged the issue with PFOA compliance but did not agree with the OCA's recommendation. The City emphasized that it was in compliance with the PADEP MCL in the last quarter of 2025. City St. 3R at 3. The City identified concentrations due to drought conditions as a possible cause for its past PFOA exceedances. *Id.* at 3-4. Additionally, the City stated:

The City does not agree with this recommendation primarily because it is already working with PADEP to address PFOA compliance. Accordingly, a separate water quality improvement plan would be redundant and a waste of the City's resources. The City is currently working with the PADEP to negotiate a consent order and agreement to ensure that the City addresses PFOA.

City St. 3R at 4.

As set forth in its Statement in Support, the OCA agreed with the City that because the City is working with PADEP to negotiate a consent order and because the City achieved compliance in that last quarter of 2025, a second compliance plan would be unnecessary. Settlement, App. E (OCA) at 16 (citing OCA St. 4SR at 5).

The settling parties' resolution of the PFOA issues is provided in the Settlement as follows: "The City shall continue its efforts to address perfluorooctanoic acid, PFOA-related issues, as they arise." Settlement ¶ 20(d).

The OCA avers that this settlement term "balances the need to avoid duplicative regulatory burdens while expressing the ongoing importance of efforts to address PFOA to ensure safe, clean drinking water for the City's customers." Settlement, App. E (OCA) at 14-17. In the OCA's view, this represents a reasonable compromise that serves the public interest, and the Commission should accept it without modification.

The City agrees and also states that the settlement provision is responsive to the public input hearing testimony relaying concerns about PFOAs. Lancaster states that Settlement paragraph 20(d) "will ensure that the City will continue its efforts to address these PFOA-related issues in a timely matter." Settlement, App. C (City) at 5-6.

For the reasons provided by the City and the OCA, I find this settlement term is in the public interest and recommend that it be approved.

E. Tariff Provisions (Settlement ¶ 21)

Page 14 of the tariff supplement filed by the City in this proceeding included a new provision to recover the cost of connecting new customers. Tariff Rule 5.4 provided:

The Bureau of Water has contracted with a third-party to complete new service installation inspections. Developer shall be responsible for payment of the fee incurred by the Bureau of Water for inspection of the new service installation and shall make payment to the Bureau of Water within thirty (30) days of Date of Presentation to the developer. All meters for new service installations shall be

installed within thirty (30) days of receipt of the meter from the Bureau of Water.

City Exh. CVH-2 at 14. No objections were raised to the City adding tariff language and recovering third-party new service installation inspection fees. OSBA witness Kubas recommended that, if the fees are approved, the tariff language should be modified in two respects.<sup>9</sup> OSBA St. 1SR at 5. Lancaster generally accepted the OSBA's recommendation, and proposed the following language (changes are shown with strikethrough and underline), which the OSBA accepted:

The Bureau of Water has contracted with a third-party to complete new service installation inspections. Customers and Developer shall be responsible for payment of the fee incurred by the Bureau of Water for inspection of the new service installation and shall make payment to the Bureau of Water within thirty (30) days of Date of Presentation to the ~~developer~~.Developer. If a Customer or Developer requests documentation supporting the fee, such as a request for invoices, the City shall provide the requested information. All meters for new service installations shall be installed within thirty (30) days of receipt of the meter from the Bureau of Water.

City St. 3R at 4-5; OSBA St. 1SR at 6. The City and OSBA's resolution of this issue is memorialized in Settlement paragraph 21(a), and also set forth in the tariff supplement attached as Appendix A to the Settlement.

In support of paragraph 21(a), the City states that the revisions to Rule 5.4 serve to resolve the OSBA's concern and clarify that this tariff supplement section is applicable to both developers and customers, as intended by the City. Settlement, App. C (City) at 6; App. F (OSBA) at 4. The OSBA submits that it is reasonable for the City to

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<sup>9</sup> The OSBA made a third, related recommendation, that the City reflect the projected annual revenue as miscellaneous revenue, which was withdrawn because the City showed where that revenue was already reflected. OSBA St. 1SR at 7 (citing (City St. 4R at 18).

provide the supporting documentation to justify the individual fee being charged, if requested, since the exact fee is not specified in the tariff. OSBA St. 1 at 7-8; Settlement, App. F (OSBA) at 4.

In paragraph 21(b) of the Settlement, the Joint Petitioners agree that the City shall otherwise be permitted to update the tariff supplement to effectuate the Settlement rates and to reflect the changes proposed in connection with its initial filing, as more fully set forth in Appendix A to the Settlement. Settlement, App. C (City) at 6, App. D (I&E) at 13.

The City avers that the remaining tariff supplement updates will aid customers because they provide clarity. Settlement, App. C (City) at 6. I&E supports the terms of Settlement paragraph 21(a) and (b) as a full and fair compromise and a resolution that is in the public interest. Settlement, App. D (I&E) at 14.

Consistent with testimony and supporting statements, I agree with the City, I&E, and OSBA that the tariff change provisions of the Settlement should be approved as they are reasonable and in the public interest. However, see Section VIII.I of this decision as to my recommended modifications to Appendices A and B to clearly and fully reflect the Settlement.

F. Rate Structure/Rate Design (Settlement ¶ 22)

1. Residential Customer Charge

In its filing, the City proposed increasing the monthly customer charge for its residential classes from \$7.95 to \$11.62, a 46.2% increase. The OCA recommended that the increase in fixed, monthly customer charges for the Residential, Commercial, Industrial, Large Industrial, and Other Water Utilities customer classes be limited to the

overall system average increase the Commission authorizes for outside-City customers. Settlement, App. E (OCA) at 17 (citing OCA St. 3 at 18). According to the OCA, its recommendation followed the principles of gradualism. *Id.* In its testimony, the City continued to support its as-filed increase of \$3.67 per month for residential customers, asserting that the dollar magnitude of the proposed increase was small. City St. 4R at 20; *see also* City Exh. GRH-2, Sch. H at 2.

Settlement paragraph 22 reflects the settling parties' agreement to increase the 5/8-inch residential customer charge to \$10.25 per month and to set volumetric charges based on the rate schedules set forth in Appendix B (Settlement proof of revenues). This is a \$2.30 or 29% increase over the existing charge, or approximately 63% of the increase proposed in the City's initial filing. Settlement, App. E (OCA) at 17.

In the OCA's view, this compromise is within the results that might have been obtained through litigation considering the various positions of the City, the OCA, and other parties. The OCA contends that this lesser increase of 29% will continue to provide customers with the opportunity to have more control over their bill through their volumetric usage. Settlement, App. E (OCA) at 17.

The other parties did not specifically address the residential customer charge in their supporting statements but support the overall rate structure and design achieved through the Settlement as being just and reasonable. Settlement, App. C (City) at 7, App. D (I&E) at 13-15, App. F (OSBA) at 2, 4.

The Settlement customer charge increases for all meter sizes are as follows:

<b>Meter Size Classification</b>	<b>Current Monthly Customer Charge</b>	<b>Settlement Monthly Customer Charge</b>
5/8"	\$7.95	\$10.25
3/4"	9.30	11.99
3/4 x 1"	16.70	21.53
1"	21.10	27.20
1-1/2"	33.20	42.81
2"	51.90	66.92
3"	102.40	132.03
4"	159.90	206.16
6"	318.00	410.00
8"	503.60	649.30
10"	666.20	858.94
12"	1,004.55	1,295.17

Settlement, App. C (City) at 3; Settlement, App. B at 1.

I agree that the proposed residential customer charge should be approved as being in the public interest. The Settlement allocation between fixed customer charges and volumetric rates appears to reasonably balance revenue stability with affordability and conservation concerns. *See Pa. Pub. Util. Comm'n v. Pennsylvania-American Water Co.*, Docket No. R-2023-3043189 (Opinion and Order entered Jul. 22, 2024). This objective is further served by the agreement reached regarding the allocation of public fire protection costs (Settlement paragraph 24). As discussed in Section VIII.H, that term of settlement provides for the City to continue recovering its full cost of service related to public fire hydrants while reducing the amount recovered in fixed rates from residential and other retail customers.

## 2. Revenue Allocation and Rates

In addition to the residential customer charge, paragraph 22 of the Settlement also provides the settling parties' agreement that revenue will be allocated among the customer classes according to the proof of revenues in Appendix B to the Joint Petition. The Settlement rates are, likewise, based on the rate schedules in Appendix B.

In its testimony, I&E raised concerns regarding Lancaster's scaling back of new rates based on the actual amount approved by the Commission. Settlement, App. D (I&E) at 14-15. I&E notes that the parties took various positions on rate structure and rate design. Based on its consideration of the record evidence and the parties' good faith negotiations, "I&E supports these settled upon rate structure and rate design terms as a full and fair compromise that provides Lancaster Water, the Joint Petitioners, the jurisdictional ratepayers, and the Commission with a resolution which is in the public interest." *Id.*

As discussed above for Settlement paragraph 15, the OCA did not propose to modify the City's proposed class cost of service study (CCOSS), revenue allocation and rates, other than its recommendations for public fire protection service costs (discussed in Section VIII.H, below) and a lower residential customer charge. Settlement, App. E (OCA) at 20-21. As those changes were largely adopted in the Settlement and reflected in the proof of revenues used to set rates, the OCA supports the adoption of the terms in Settlement paragraph 22 as reasonable.

The OSBA supports the revenue allocation by class, as discussed in the context of the overall revenue increase, pointing to the benefit to small business customers from a smaller bill increase than proposed in the City's initial filing. Settlement, App. F (OSBA) at 2, 4.

Lancaster also supports the Settlement rates and charges as being just and reasonable and in the public interest. Settlement, App. C (City) at 3, 7. With specific regard to residential rates, Lancaster states:

The rate structure agreed upon by this settlement address the concerns of several members of the public who provided testimony regarding the rate increase requested in the City's initial filing, including Ms. Claire Van Cleve, Mr. Roy Baldwin, Ms. Bernadette Margel, and Representative Steven Mentzer, given that the monthly bill of a typical residential 5/8-inch metered residential customer residing in the Commission jurisdictional area who utilizes 4,500 gallons of water per quarter will increase from by approximately 20.0%, rather than by 29.8% as originally requested.

*Id.* at 7.

Consistent with the discussion in Section VIII.A. above, I agree with Lancaster that the reductions in revenue requirement and rates reflected in the Settlement recognize the concerns broadly raised at the public input hearings that the proposed 30% increase to residential bills was unaffordable. *See, e.g.*, Tr. 72-74 (Mentzer), 78-79 (Baldwin), 82 (Margel), 87-88, 102, 105-08 (Hershey-Kelley), 130, 132 (Van Cleve), 146-152 (Debakey).

Although I will recommend modifications to the proof of revenues submitted as Appendix B to the Settlement, overall, I find the proof of revenues, and the design and structure of rates developed based on the fixed and volumetric charges contained therein, to be reasonable and in the public interest. As discussed in more detail regarding Settlement paragraph 15 (revenue allocation), the parties took varying positions on the scale back of rates and revenue allocation for private and public fire protection in their testimony but generally accepted the City's CCOSS, as updated in rebuttal, as a reasonable identification of outside-City customer class costs of service, as updated in

rebuttal. City Exh. GRH-2R; I&E St. 3SR at 8; OCA St. 3SR at 2-5; OSBA St. 3SR at 10-11. I note that the settling parties to this case support the cost allocation and rate design agreed upon in the Settlement.

Consequently, I recommend that the Commission approve the provisions of Settlement paragraph 22. Section VIII.I of this decision addresses my corrections to the proof of revenue, which do not alter the substance of the agreements reflected in Settlement paragraph 22.

#### G. Depreciation Rates (Settlement ¶ 23)

The City used the Equal Life Group (ELG) depreciation procedure to calculate the as-filed depreciation expense in this proceeding. City St. 5 at 3. The OCA proposed that Lancaster use the Average Life Group (ALG) procedure to determine depreciation expense,<sup>10</sup> arguing that it would significantly reduce the revenue requirement immediately recovered through rates while still allowing the City reasonable recovery of depreciation expense. OCA St. 2, 45-46, 49-51; OCA St. 2SR at 8-9. Using the ALG depreciation procedure, the OCA proposed a \$1,021,101 reduction to the City's depreciation expense. OCA St. 1 at 20; OCA Exh. LKM-9.

Lancaster opposed the OCA's proposal, asserting that the ELG procedure has been the predominant method used in Pennsylvania since the 1980s. City St. 5R at 13. The City further stated that both procedures are designed to recover the total service value of an asset over the asset's service life, but the ELG procedure more appropriately matches the recovery of the asset's cost to the period of time over which it is providing service. City St. 5RJ at 2 ("Over time, properly aligned depreciation tends to mitigate

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<sup>10</sup> The City's witness refers to the OCA's recommended procedure as the Average Service Life (ASL) procedure. Both terms reference the same procedure. City St. 5R at 3, n.2.

overall customer rates compared with an approach that produces a higher rate base over extended periods.”)

Pursuant to the Settlement, the depreciation rates proposed in Lancaster’s initial filing will be used. Although the City and the OCA continue to disagree regarding the proper depreciation method, both parties submit that this provision is in the public interest and should be adopted. Settlement, App. C (City) at 7; App. E (OCA) at 21-22. The OCA states that it determined to preserve this issue for litigation in a later proceeding while moving forward with settlement discussions in this proceeding, based on the reduction in the proposed revenue increase agreed to by the Joint Petitioners. Settlement, App. E (OCA) at 22.

I note that I&E sponsored testimony citing the need for the City to update its depreciation expense, which the City addressed in rebuttal. I&E St. 3, at 5-6; City St. at 4R at 13-14; City Exh. GRH-4R. I&E did not challenge the depreciation rates. It supports the settlement of the depreciation rates “as a full and fair compromise that provides Lancaster Water, the Joint Petitioners, the jurisdictional ratepayers, and the Commission with a resolution which is in the public interest.” Settlement, App. D (I&E) at 15.

I agree with the City, OCA, and I&E that adoption of Lancaster’s as-filed depreciation rates is a reasonable compromise in the context of the overall resolution of this proceeding. It provides certainty for the City about the depreciation rates it will utilize following this case, while the Settlement’s black box revenue requirement provides a lesser revenue increase than proposed in the City’s initial filing using the City’s proposed depreciation rates. Further, all settling parties aver that the overall rates agreed to as part of the Settlement of revenue requirement are just and reasonable and should be approved as in the public interest. Therefore, this term of Settlement is reasonable and in the public interest.

#### H. Fire Protection Rates (Settlement ¶ 24)

Presently, the City does not charge the outside municipalities a hydrant (public fire) charge. City St. 4R at 20. It recovers the costs for public fire protection from its retail customer classes as part of its customer charge. *Id.* The OCA recommended that the City implement a Public Fire rate that recovers 25% of the costs to provide public fire protection from the municipalities serving outside-City customers, with the remainder recovered through retail customer fixed charges. OCA St. 3 at 12. Lancaster disagreed with charging the municipalities. City St. 4R at 21-22. If a Public Fire rate was required, however, the City recommended that there be a phase-in over two base rate cases, with Public Fire rates in the instant case limited to recovering 10% of the costs of public fire service. *Id.* at 22.

To resolve the issue, the settling parties agreed that Lancaster will allocate 12.5% of the public fire protection costs to municipalities receiving that service through implementation of Public Fire rates. In the City's next base rate proceeding, the City will propose to increase that percentage to the statutorily permitted 25%. Settlement ¶ 24; 66 Pa.C.S. § 1328(b)(1).

Lancaster summarized its support for this settlement provision as follows:

While the City was not an advocate for the implementation of public fire rates, it believes the compromise reached in this settlement whereby the City has agreed to adopt these news rates, but on a gradual basis, at only half of the allowable percentage of allocation of the costs to serve, appropriately benefits those customers who will be impacted by the new rate.

Settlement, App. C (City) at 8.

In its Statement in Support, the OCA posits that allocating 12.5% of the public fire protection costs to municipalities follows good public policy because municipalities have at least some ability to control those costs while individual customers do not. Settlement, App. E (OCA) at 19. As a part of an all-party resolution of all issues in this proceeding, the OCA submits that this resolution represents a reasonable compromise between the parties and is in the public interest. *Id.*

I&E also supports this term of the Settlement as being a full and fair compromise, and responsive to concerns it raised in testimony regarding increases to the public and private fire protection rates and its recommendation that fire protection rates be included in a scale back of rates. Settlement, App. D (I&E) at 15.

The OSBA did not oppose the OCA's recommendation regarding public fire protection service in its testimony and identifies in its Statement in Support that the movement of costs to that class slightly reduces the rate increase for small business customers. Settlement, App. F (OSBA) at 2.

I agree with the settling parties that allocating a portion of the public fire protection costs directly to the municipalities is reasonable, particularly given the phase-in of the new rate, and is also consistent with the cost recovery provisions in 66 Pa.C.S. § 1328. This statute allows a public utility to recover its full cost of service related to public fire hydrants,<sup>11</sup> requires that the rate charged to municipalities recover no more than 25% of the cost of service, and specifies that recovery of the remaining cost of service from all customers be through the utility's fixed bill or service charge. 66 Pa.C.S. § 1328(a)-(b).

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<sup>11</sup> “[A]s such cost of service is reasonably determined by the Commission.” 66 Pa.C.S. § 1328(b)(1).

Further, reallocating 12.5% and potentially 25% of the public fire protection cost of service to Public Fire meaningfully decreases the costs recovered through retail customer fixed charges, particularly for the residential and commercial classes.<sup>12</sup> OCA St. 3SR at 11 (Table 2S).

For these reasons and consistent with the parties' supporting statements, I find this settlement term to be in the public interest and recommend it should be approved.

#### I. Recommended Modifications to Compliance Filings

In Section VIII.B, above, I recommended an amendment to Settlement paragraph 19 (Reporting). I also recommend minor modifications to address the discrepancies in the tariff and proof of revenues appended to the Joint Petition to correctly reflect the terms of Settlement.

##### 1. Tariff Supplement

The Joint Petitioners request that the Commission permit the City to file the tariff supplement attached as Appendix A to the Settlement. I recommend that Lancaster make the following administrative corrections to its tariff supplement as part of its compliance filing in this docket:

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<sup>12</sup> At present rates and based on the City's CCOSS (updated in rebuttal), the OCA calculated that allocating 25% of the costs for public fire protection to Public Fire had more than a half a million dollar impact on the cost of service for the retail customer classes. OCA St. 3SR, Table 2S. For the residential class, that change reduced the cost of service increase from 33.0% to 29.2%. For the commercial class, it reduced the cost of service increase from 29.2% to 27.2%. *Id.*

Tariff Page	Change
3	Add a (C) designation beside the following pages: Title Page, Page 2, Page 3, Page 4, Page 5, Page 7, Page 7A, Page 14, Page 16, Page 18, Page 20, Page 21, Page 24, Pages 26-27, Pages 34-38, and Pages 39-41.
3	Add an (I) designation beside the following pages: Page 4, Page 5, Page 7, and Page 7A.
6	In the upper left corner, correct “City op Lancaster” to “City of Lancaster”.
7	Remove the (C) designation after <u>Application</u> paragraph.
7	Remove “(C) Indicates Change” from the bottom of the page.
7A	Remove the (C) designation from the left margin.
8	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
11	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
12	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
17	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6. Under G. 7.12, capitalize “if” at the start of the paragraph.
28	In the upper right corner, correct “No, 6” to “No. 6”.
29	In the upper right corner, correct “No, 6” to “No. 6”.
33	In the upper left corner, correct by removing the period after “Lancaster”.
34 – 41	Add the (C) designation at the top right margin of each page.
34 – 41	Add “(C) Indicates Change” at the bottom of each page.

## 2. Proof of Revenues

Appendix B to the Joint Petition contains the proof of revenues for the Settlement rates. The schedule on page 17 shows the present and Settlement rates and revenues for, *inter alia*, outside-City private fire protection service. There are errors in

the row showing the monthly Service Charge for two-inch connections. Specifically, the rates used are for three-inch private fire connections instead of two-inch connections.<sup>13</sup>

Further, the schedules on pages 8 and 14 identify that revenues under present and proposed rates were calculated based on serving one two-inch private fire service connection and no three-inch private fire connections.<sup>14</sup> (See the columns showing “Number of Units” as of March 2024 and March 2025.)

Accordingly, I recommend that the City provide an updated proof of revenues that reflects corrected present rates and revenues and Settlement rates and revenues for two-inch private fire service connections, as part of its compliance filing in this proceeding.

#### J. Conclusion

I have carefully considered the complaints, public input testimony, and the written testimony and exhibits provided by the active parties. I have also considered the City’s position on its need for sufficient revenues to enable it to provide adequate, safe and reliable water service as required by existing and emerging regulatory standards, and the countering positions on what level of rates are just and reasonable. Additionally, I have considered that it is the Commission’s policy to encourage settlements and that the Settlement was unanimous and unopposed. As discussed above, I also find it significant that many of the concerns expressed by consumers were shared by both statutory advocates and I&E in this proceeding and reflected in the terms of settlement.

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<sup>13</sup> In the Excel version of the proof of revenues, reference: Sheet “SCH 7 - Outside,” Cells G112 and M112.

<sup>14</sup> Reference: Sheet “SCH 5 – Prev res adj,” Cell AA78 and Sheet “SCH 7 - Prop res adj,” Cell Y79.

Notwithstanding their differing positions on issues including plant in service, depreciation, rate of return and capital structure, class cost of service, public fire protection rates and customer charges, the Joint Petitioners assert that, taken together, the terms of settlement produce a reasonable overall resolution, which I find is in the public interest. Specifically, the Settlement allows Lancaster to increase its rates for outside-City customers to produce an additional approximately \$4,700,000 in annual operating revenues instead of the City's filed increase request of \$7,005,217. Additionally, the Settlement provides for other enhancements to service and low-income customer education, outreach and evaluation, as discussed more fully above.

#### IX. RECOMMENDATION

Accordingly, for all the reasons discussed above, I recommend that the Commission approve the unanimous Joint Petition for Complete Settlement of Rate Investigation filed on February 26, 2026 and signed by the City, I&E, OCA and OSBA, with my modifications to Settlement paragraph 19 and the compliance filings. I find that the Settlement is supported by substantial evidence and is in the public interest.

#### X. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter of and the parties to this proceeding. 66 Pa.C.S. §§ 1301, 1308(d).
2. Under Section 1301 of the Public Utility Code, a public utility's rates must be just and reasonable. 66 Pa.C.S. § 1301.
3. In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint

involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility. 66 Pa.C.S. § 315(a).

4. In determining just and reasonable rates, the Commission has discretion to determine the proper balance between the interests of ratepayers and utilities. *Popowsky v. Pa. Pub. Util. Comm'n*, 665 A.2d 808 (Pa. 1995).

5. The term “just and reasonable” is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formula; rather, the Commission is granted the power to balance the prices charged to utility customers and returns on capital to utility investors. *Pa. Pub. Util. Comm'n v. Pa. Gas & Water Co.*, 424 A.2d 1213 (Pa. 1980).

6. Commission policy promotes settlements. Settlements lessen the time and expense the parties must spend litigating a case and at the same time conserve administrative resources. 52 Pa. Code § 5.231.

7. Settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401.

8. The Commission supports the use of “black box” settlements. *Pa. Pub. Util. Comm'n v. The York Water Co. – Water Div.*, Docket No. R-2025-3053442 (Opinion and Order entered Feb. 26, 2026); *Pa. Pub. Util. Comm'n v. Columbia Water Co.*, Docket No. R-2017-2598203 (Opinion and Order entered Mar. 1, 2018).

9. In order to approve a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water & Sewer Assoc.*, 74 Pa.P.U.C. 767 (1991).

10. The decision of the Commission must be supported by substantial evidence. 2 Pa.C.S. § 704.

11. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. *Norfolk & W. Ry. Co. v. Pa. Pub. Util. Comm’n*, 413 A.2d 1037 (Pa. 1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 166 A.2d 96 (Pa. Super. 1961); *Murphy v. Pa. Dept. of Pub. Welfare, White Haven Ctr.*, 480 A.2d 382 (Pa. Cmwlth. 1984).

12. The rates and terms of service set forth in the Joint Petition are supported by substantial evidence and are in the public interest.

## XI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That City of Lancaster – Bureau of Water shall not place into effect the rates contained in its Supplement No. 49 to Tariff Water - Pa. P.U.C. No. 6, the same having been found to be unjust, unreasonable, and unlawful.

2. That the Joint Petition for Complete Settlement of Rate Investigation entered into and filed by the City of Lancaster – Bureau of Water, the Commission’s Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate is approved, with the modifications set forth herein.

3. That paragraph 19 of the Joint Petition for Complete Settlement of Rate Investigation shall be amended as follows (amendment in bold):

19. Reporting. The City agrees that it shall provide Fully Projected Future Test Year (“FPFTY”) reporting to **the Commission at Docket No. R-2025-3057237**, I&E, OCA and OSBA updating the Original Cost of Utility Plant in Service as presented in Schedule 4 of Exhibit GRH-1 to the Direct Testimony of Gregory R. Herbert (City of Lancaster Statement No. 4) (including actual capital expenditures, plant additions, and retirements) on a monthly basis, for the fiscal year ending March 31, 2026 by July 1, 2026, and for the fiscal year ending March 31, 2027 by July 1, 2027.

4. That, within twenty (20) days of entry of the Commission’s Final Order, City of Lancaster – Bureau of Water be directed to file a tariff supplement, proof of revenues, and supporting calculations that are consistent with the Commission’s decision and demonstrate that the increase over present annual revenues for jurisdictional customers does not exceed \$4,700,000. The City of Lancaster – Bureau of Water shall simultaneously serve copies of its filing on the parties to the proceeding and provide these parties an electronic, redlined copy of its filing, including electronic working papers.

5. That City of Lancaster – Bureau of Water’s updated tariff supplement shall be permitted to become effective upon at least one day’s notice, for service rendered on and after June 29, 2026, so as to produce an annual increase in revenues consistent with the Commission’s Final Order, and shall include the following modifications:

Tariff Page	Change
3	Add a (C) designation beside the following pages: Title Page, Page 2, Page 3, Page 4, Page 5, Page 7, Page 7A, Page 14, Page 16, Page 18, Page 20, Page 21, Page 24, Pages 26-27, Pages 34-38, and Pages 39-41.
3	Add an (I) designation beside the following pages: Page 4, Page 5, Page 7, and Page 7A.
6	In the upper left corner, correct “City op Lancaster” to “City of Lancaster”.
7	Remove the (C) designation after <u>Application</u> paragraph.
7	Remove “(C) Indicates Change” from the bottom of the page.
7A	Remove the (C) designation from the left margin.
8	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
11	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
12	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6.
17	In the upper right corner, correct by adding Supplement No. 51 to Tariff Water – Pa. P.U.C. No. 6. Under G. 7.12, capitalize “if” at the start of the paragraph.
28	In the upper right corner, correct “No, 6” to “No. 6”.
29	In the upper right corner, correct “No, 6” to “No. 6”.
33	In the upper left corner, correct by removing the period after “Lancaster”.
34 – 41	Add the (C) designation at the top right margin of each page.
34 – 41	Add “(C) Indicates Change” at the bottom of each page.

6. That City of Lancaster – Bureau of Water’s proof of revenues, submitted pursuant to Ordering Paragraph 4 above, shall reflect corrected present rates and revenues and settlement rates and revenues for two-inch private fire service connections.

7. That City of Lancaster – Bureau of Water shall comply with all directives and conclusions contained in the Commission’s Final Order, including the

terms and conditions of the Joint Petition for Complete Settlement filed in this proceeding, that are not the subject of individual ordering paragraphs, as if they were the subject of an individual ordering paragraph.

8. That the Office of Consumer Advocate’s Complaint, filed at Docket No. C-2025-3057993; the Office of Small Business Advocate’s Complaint, filed at Docket No. C-2025-3057935; James M. Blevins’ Complaint, filed at Docket No. C-2025-3058103; and Nicholas Cammauf’s Complaint, filed at Docket No. C-2025-3058728, be marked closed as if each case was marked closed in its own individual ordering paragraph.

9. That a copy of the Commission’s Final Order shall be served on the Commission’s Bureau of Technical Utility Services and on all parties of record in this proceeding.

10. That upon acceptance and approval by the Commission of the tariff supplement, proof of revenues, and supporting calculations filed by City of Lancaster – Bureau of Water consistent with the Commission’s Final Order, the investigation at Docket No. R-2025-3057237 be marked closed.

Date: April 15, 2026

\_\_\_\_\_  
/s/  
Erin L. Gannon  
Administrative Law Judge

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2025-3057237
Office of Small Business Advocate	:	C-2025-3057935
Office of Consumer Advocate	:	C-2025-3057993
James M. Blevins	:	C-2025-3058103
Nicholas Cammauf	:	C-2025-3058728
	:	
v.	:	
	:	
City of Lancaster - Bureau of Water	:	

**List of Admitted Testimony and Exhibits**

Exhibit No.	Party	Exhibit Description
1.	City	City of Lancaster – Bureau of Water’s Filing for a General Rate Increase Dated September 30, 2025.
2.	City	Letter to Secretary Matthew Homsher encl. responses to the Bureau of Technical Utility Services requests for additional information dated October 27, 2025.
3.	City	City of Lancaster Statement No. 1 – Direct Testimony of Tina Campbell, including Exhibits TC-1, TC-2, and TC-3.
4.	City	City of Lancaster Statement No. 1R – Rebuttal Testimony of Tina Campbell.
5.	City	City of Lancaster Statement No. 1RJ – Rejoinder Testimony of Tina Campbell, including Exhibits TC-1RJ, TC-2RJ, and TC-3RJ.
6.	City	City of Lancaster Statement No. 2 – Direct Testimony of Stephen Campbell, including Exhibits SC-1 and SC-2.
7.	City	City of Lancaster Statement No. 2R – Rebuttal Testimony of Stephen Campbell, including Exhibits SC-1R, SC-2R, SC-3R, SC-4R, SC-5R, SC-6R, and SC-7R.
8.	City	City of Lancaster Statement No. 3 – Direct Testimony of Christine Volkay-Hilditch, including Exhibits CVH-1, CVH-2, CVH-3, CVH-4, CVH-5, CVH-6, CVH-7, CVH-8, and CHV-9.
9.	City	City of Lancaster Statement No. 3R – Rebuttal Testimony of Christine Volkay-Hilditch.
10.	City	City of Lancaster Statement No. 4 – Direct Testimony of Gregory R. Herbert, including Exhibits GRH-1, GRH-2, and GRH-3.
11.	City	City of Lancaster Statement No. 4R – Rebuttal Testimony of Gregory R. Herbert, including Exhibits GRH-1R, GRH-2R, GRH-3R, and GRH-4R.

<b>Exhibit No.</b>	<b>Party</b>	<b>Exhibit Description</b>
12.	City	City of Lancaster Statement No. 4RJ – Rejoinder Testimony of Gregory R. Herbert, including Exhibits GRH-1RJ.
13.	City	City of Lancaster Statement No. 5 – Direct Testimony of John J. Spanos, including Exhibits JJS-1, JJS-2, and JJS-3.
14.	City	City of Lancaster Statement No. 5R – Rebuttal Testimony of John J. Spanos, including Exhibits JJS-1R, JJS-2R, and JJS-3R.
15.	City	City of Lancaster Statement No. 5RJ – Rejoinder Testimony of John J. Spanos.
16.	City	City of Lancaster Statement No. 6 – Direct Testimony of Harold Walker, III, including Exhibit HW-1.
17.	City	City of Lancaster Statement No. 6R – Rebuttal Testimony of Harold Walker, III, including Exhibit HW-1R.
18.	City	City of Lancaster Statement No. 6RJ – Rejoinder Testimony of Harold Walker, III.
19.	I&E	I&E Statement No. 1 – Direct Testimony of Getachaw Bedasa, including Exhibit No. 1.
20.	I&E	I&E Statement No. 1-SR – Surrebuttal Testimony of Getachaw Bedasa.
21.	I&E	I&E Statement No. 2 – Direct Testimony of D.C. Patel, including Exhibit No. 2.
22.	I&E	I&E Statement No. 2-SR – Surrebuttal Testimony of D.C. Patel.
23.	I&E	I&E Statement No. 3 – Direct Testimony of Esyan Sakaya, including Exhibit No. 3.
24.	I&E	I&E Statement No. 3-SR – Surrebuttal Testimony of Esyan Sakaya.
25.	I&E	I&E Statement No. 4-R – Rebuttal Testimony of Christine Wilson, including Exhibit No. 4-R.
26.	OCA	OCA Statement No. 1 – Direct Testimony of Lafayette K. Morgan, including Appendix A and Exhibits LKM-1 through LKM-10.
27.	OCA	OCA Statement No. 1SR – Surrebuttal Testimony of Lafayette K. Morgan, including Exhibits LKM-1SR through LKM-10SR.
28.	OCA	OCA Statement No. 2 – Direct Testimony of David J. Garrett, including Exhibits DJG-1 through DJG-23 and Appendices A through E.
29.	OCA	OCA Statement No. 2R – Rebuttal Testimony of David J. Garrett.
30.	OCA	OCA Statement No. 2SR – Surrebuttal Testimony of David J. Garrett.
31.	OCA	OCA Statement No. 3 – Direct Testimony of Jerome D. Mierzwa, including Schedule JDM-1.
32.	OCA	OCA Statement No. 3R – Rebuttal Testimony of Jerome D. Mierzwa.

<b>Exhibit No.</b>	<b>Party</b>	<b>Exhibit Description</b>
33.	OCA	OCA Statement No. 3SR – Surrebuttal Testimony of Jerome D. Mierzwa.
34.	OCA	OCA Statement No. 4 – Direct Testimony of LeeAnn Wise, including Appendix A.
35.	OCA	OCA Statement No. 4-Supp. – Supplemental Direct Testimony of LeeAnn Wise.
36.	OCA	OCA Statement No. 4SR – Surrebuttal Testimony of LeeAnn Wise.
37.	OSBA	OSBA Statement No. 1 – Direct Testimony of Joseph Kubas, including Exhibits JK-1, JK-2, JK-3, JK-4, JK-5, and JK-6.
38.	OSBA	OSBA Statement No. 1SR – Surrebuttal Testimony of Joseph Kubas, including Exhibits JK-1, JK-2, and JK-3.

<b>Exhibit No.</b>	<b>Witness</b>	<b>Exhibit Description</b>
39.	Hershey-Kelley	Hershey-Kelley Exhibit 1 – Letter and Notice from City of Lancaster dated 01/29/2025.
40.	Hershey-Kelley	Hershey-Kelley Exhibit 2 – Notice from City of Lancaster dated 08/6/2025.
41.	Hershey-Kelley	Hershey-Kelley Exhibit 3 – “PFAS & Drinking Water” information on City of Lancaster’s website.
42.	Hershey-Kelley	Hershey-Kelley Exhibit 4 – City of Lancaster 2024 Annual Quality of Drinking Water Report.