

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



**REPORT ON
PITTSBURGH WATER**

**STATEMENTS OF WASTEWATER
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE
FOR THE 12-MONTH PERIODS ENDED
DECEMBER 31, 2024 AND DECEMBER 31, 2023**

**MAY 4, 2026
DOCKET NO. D-2025-3056045**

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DOCKET NO. D-2025-3056045**

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Background

Pittsburgh Water (formerly known as Pittsburgh Water and Sewer Authority or PWSA) is a municipal authority headquartered in Pittsburgh, Pennsylvania. Pittsburgh Water manages and operates the distribution of drinking water, the conveyance of wastewater, and the management of stormwater systems. It serves more than 465,000 people throughout Allegheny County. Organized by the City of Pittsburgh on February 16, 1984, Pittsburgh Water was a non-regulated entity operating under Pennsylvania's Municipal Authorities Act of 1945 until Governor Wolf signed Act 65 of 2017. Act 65 amended the Public Utility Code and gave the Pennsylvania Public Utility Commission (PUC or Commission) regulatory jurisdiction over Pittsburgh Water effective April 1, 2018.

By Order entered December 3, 2020, at Docket No. R-2020-3017951, the PUC approved Pittsburgh Water's Joint Petition for Settlement of new rates to become effective for service rendered on and after January 14, 2021. This Settlement also authorized Pittsburgh Water to establish and implement a Distribution System Improvement Charge (DSIC).

According to Pittsburgh Water's annual reports filed with the Commission for the years 2024 and 2023, total operating revenues from wastewater customers were \$60,298,899 and \$53,177,101; respectively.



Independent Auditor's Report to the Pennsylvania Public Utility Commission

Opinion

We have audited Pittsburgh Water's Statements of Wastewater Distribution System Improvement Charge Over/Under Collections for the 12-month periods ended December 31, 2024 and December 31, 2023.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pittsburgh Water's Statements of Wastewater Distribution System Improvement Charge Over/Under Collections for the 12-month periods ended December 31, 2024 and December 31, 2023 and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America and the requirements of the Pennsylvania Public Utility Commission.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the **Auditor's Responsibilities for the Audit of the Financial Statements** section of our report. We are required to be independent of Pittsburgh Water and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

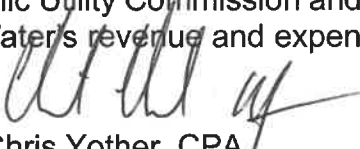
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pittsburgh Water's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pittsburgh Water's ability to continue as a going concern for a reasonable period of time.

The auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that the auditor identified during the audit.

Report on Other Legal and Regulatory Requirements

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of Pittsburgh Water's revenue and expenses.



Chris Yother, CPA
Director
Bureau of Audits
Harrisburg, PA
May 4, 2026

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**Pittsburgh Water - Wastewater
Distribution System Improvement Charge¹(DSIC)
Over/(Under) Collections (Section 1307(e))
for the 12 months ended December 31, 2024²**

<u>Month</u>	<u>DSIC Revenue</u> (1)	<u>DSIC Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) – (2)
January 2024	\$ 195,118	\$ 552,918	\$ (357,800)
February	210,995	315,600	(104,604)
March	206,385	45,701	160,684
April	207,944	455,291	(247,347)
May	218,154	59,447	158,707
June	241,323	611,853	(370,530)
July	263,928	136,721	127,207
August	269,258	217,001	52,257
September	265,091	218,442	46,650
October	244,935	0	244,935
November	222,346	0	222,346
December 2024	<u>205,349</u>	<u>0</u>	<u>205,349</u>
Total	<u>\$ 2,750,827</u>	<u>\$ 2,612,973</u>	<u>\$ 137,854</u>

¹ As reported to the Commission at Docket No. M-2025-3053108. Arithmetic differences are due to rounding.

² Notes to the Financial Statements are an integral part of this report.

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**Pittsburgh Water - Wastewater
Distribution System Improvement Charge³(DSIC)
Over/(Under) Collections (Section 1307(e))
for the 12 months ended December 31, 2023⁴**

<u>Month</u>	<u>DSIC Revenue</u> (1)	<u>DSIC Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
January 2023	\$ 229,566	\$ 385,994	\$ (156,428)
February	185,053	59,423	125,630
March	185,490	174,344	11,146
April	188,669	202,880	(14,211)
May	202,957	314,622	(111,666)
June	206,622	409,373	(202,751)
July	237,304	347,561	(110,257)
August	219,135	473,893	(254,759)
September	236,635	188,067	48,567
October	225,095	0	225,095
November	208,707	0	208,707
December 2023	198,458	0	198,458
Total	\$ 2,523,690	\$ 2,556,158	\$ (32,468)

³ As reported to the Commission at Docket No. M-2024-3045576. Arithmetic differences are due to rounding.

⁴ Notes to the Financial Statements are an integral part of this report.

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Notes to the Financial Statements

1 – Statements

The Wastewater Distribution System Improvement Charge (DSIC) Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on Pittsburgh Water's officially filed 1307(e) statements submitted to the PUC in accordance with Section 1307(e)(1) of the Public Utility Code on January 28, 2025 and March 28, 2024. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2025-3053108 and M-2024-3045576.

2 – DSIC Revenue

DSIC Revenue is derived by multiplying the applicable DSIC rate, excluding the E-Factor, by the total amount billed to each customer for distribution services.

3 – DSIC Costs

DSIC Costs are amounts incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs. Reported costs are capped at 5% of total projected quarterly revenues at the end of the calendar year. For months where \$0 was reported in costs, Pittsburgh Water had expended the 5% cap and therefore no further costs were eligible for recovery.

4 – Over/(Under) Collections

The Over/(Under) Collection is the difference between the DSIC Revenue and the DSIC Costs. The resulting amount represents the portion of DSIC Revenue refundable to or DSIC Costs recoverable from customers through subsequent DSIC rates. Differences arise for two primary reasons:

- Variations between the actual revenue billed to customers and the projected revenue used to determine the DSIC; and,
- Variations between the actual recoverable costs and projected recoverable costs used to determine the DSIC.

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Disposition of Prior Audit Findings

The previous audit of Pittsburgh Water's Statements of Wastewater Distribution System Improvement Charge Over/Under Collections for the 12-month periods ended December 31, 2022 and December 31, 2021 at Docket No. D-2023-3039501 disclosed the following findings:

Finding No. 1 – PWSA improperly reported DSIC-eligible expenses in 2021.

Recommendation:

We recommended that PWSA develop procedures and internal controls for ensuring proper and accurate tracking and reporting of DSIC-eligible expenses.

Disposition:

Pittsburgh Water states their Capital Improvement Planning Team currently has procedures and tracking in place to avoid invoice duplication and to record eligible expenditures in the appropriate months along with documentation to support those calculations. While Pittsburgh Water improved expenditure reporting in the current audit period, there were some examples of improperly reported expenditures found. Please see Current Audit Findings.

Finding No. 2 – PWSA overstated DSIC revenue in December 2021.

Recommendations:

We recommended that PWSA make an adjustment to recoup \$26,371 through the E-Factor in its next DSIC rate filing. We further recommended that PWSA institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors in the DSIC filings.

Disposition:

Pittsburgh Water recouped \$26,371 from its customers over two quarters through the DSIC rates that became effective October 1, 2024 at Docket Number M-2024-3051205 and January 1, 2025 at Docket Number M-2024-3052607. In addition, Pittsburgh Water now reports the actual revenue instead of estimated revenue to avoid this type of error in the future.

Finding No. 3 – PWSA does not maintain a regulatory asset account.

Recommendations:

We recommended that PWSA use a regulatory asset account to record DSIC deferrals. We further recommended that PWSA institute appropriately designed and

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Disposition of Prior Audit Findings (continued)

effectively functioning controls to ensure proper regulatory accounting principles are used in recording transactions and reporting to regulators.

Disposition:

We continue to recommend that Pittsburgh Water use a regulatory asset account to record DSIC deferrals. We continue to recommend that Pittsburgh Water institute appropriately designed and effectively functioning controls to ensure proper regulatory accounting principles are used in recording transactions and reporting to regulators. Please see Current Audit Finding.

Finding No. 4 – PWSA did not bill certain fees in accordance with effective tariffs.

Recommendations:

We recommended that PWSA refund \$126,083 through bill credits to the affected customers. We further recommend that PWSA develop procedures and implement controls for ensuring rates in the billing system reflect the effective tariff.

Disposition:

Pittsburgh Water refunded \$126,083 through bill credits to the affected and eligible customers. In addition, Pittsburgh Water's Customer Service Department established Standard Operating Procedures for modifying rates in the Customer Information System.

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Current Audit Findings

Finding No. 1 - Pittsburgh Water improperly reported DSIC-eligible expenses.

The audit staff discovered invoices during the audit period that were either misreported (due to mistakes or typos) or double-counted by Pittsburgh Water. The reported DSIC-eligible expenses were overstated by \$27,533.66.

Because Pittsburgh Water's actual DSIC-eligible costs exceeded the cap on DSIC costs recoverable through the rate mechanism, there was a surplus of unreported DSIC-eligible costs at the end of both years. Pittsburgh Water presented other invoices not previously included for recovery through the DSIC which offset the ineligible costs totaling \$27,533.66; as such, these errors did not have a financial impact. However, it indicates a weakness in properly reviewing and reporting DSIC-eligible expenses.

Recommendation:

We recommend that Pittsburgh Water improve procedures and internal controls to enhance proper and accurate review and reporting of DSIC-eligible expenses.

Finding No. 2 – Pittsburgh Water does not maintain a regulatory asset account.

The DSIC is a regulatory approved recovery mechanism and, as such, permits a utility to use a regulatory asset account to record deferrals. Pittsburgh Water does not use a regulatory asset account to track its DSIC E-Factor, which is the mechanism used to refund overcollections (revenue in excess of expenses) to ratepayers or recover undercollections (expenses in excess of revenue) from ratepayers.

According to Pittsburgh Water's accounting department, the DSIC revenue and expenditure accounts for the year are closed to a retainer account (Retained Earnings) rather than a regulatory asset and/or regulatory liability account. Because the difference between surcharge revenue and expenditure is either refunded to or recovered from ratepayers, it does not belong in a Pittsburgh Water equity account. This is improper regulatory accounting, and it can result in misstated retained earnings. Moreover, improper accounting can complicate the proper and accurate calculation of the quarterly DSIC rate adjustment and annual roll-in of the E-Factor component leading to further misstatements and/or improper collections.

Recommendations:

We recommend that Pittsburgh Water use a regulatory asset account to record DSIC deferrals. We further recommend that Pittsburgh Water institute appropriately designed and effectively functioning controls to ensure proper regulatory accounting principles are used in recording transactions and reporting to regulators.