

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560

FAX (717) 783-7152  
consumer@paoca.org

July 23, 2014

Honorable Angela T. Jones  
Office of Administrative Law Judge  
PA Public Utility Commission  
801 Market Street  
Suite 4063  
Philadelphia, PA 19107

Re: Pa. Public Utility Commission  
v.  
City of Lancaster - Water  
Docket No. R-2014-2418872

Dear Judge Jones:

Enclosed please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

The original has been electronically filed with the Secretary's Office and copies have been served upon the parties as evidenced by the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Christine M. Hoover".

Christine Maloni Hoover  
Senior Assistant Consumer Advocate  
PA Attorney I.D. #50026

Lauren M. Burge  
Assistant Consumer Advocate  
PA Attorney I.D. #311570

Enclosures

cc: Secretary Rosemary Chiavetta  
Certificate of Service

187123.doc



customer using 13,000 gallons per quarter would increase from \$58.94 to \$83.76, or by \$24.82 or 42.1%.

Lancaster serves 29,305 outside-city water customers, of which 27,411 are residential, in Lancaster Township, Manheim Township, Millersville Borough, West Lampeter Township, Pequea, and portions of Manor, West Hempfield, and East Hempfield Townships and East Lampeter in Lancaster County, Pennsylvania.

On June 11, 2014, the OCA filed a Formal Complaint (Docket No. C-2014-2326000) and Notice of Appearance in this matter. The Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance on June 26, 2014. The Office of Small Business Advocate filed a Complaint, Verification, and Public Statement and a Notice of Appearance on June 27, 2014. On July 9, 2014, the Commission issued an Order initiating an investigation into the lawfulness, justness and reasonableness of the proposed rate increases in this tariff filing, and suspended the effective date of Tariff Water – Pa. P.U.C. No. 6 until March 5, 2015, by operation of law. The Commission assigned the case to Administrative Law Judge Angela T. Jones and notified the parties. A Prehearing Conference is scheduled for July 24, 2014.

The OCA filed a Formal Complaint in this matter to protect the interests of Lancaster's outside-city customers, and seeks to ensure that Lancaster is permitted to implement only those rates that are fully justified and in accordance with sound ratemaking principles. The OCA will strive to prevent Lancaster from collecting all alleged costs that cannot be justified, or are unreasonable or unduly discriminatory, or otherwise violative of the Public Utility Code. The OCA submits that Lancaster's current rates and the rates sought by the City may be unjustifiable and unlawful based upon information filed by the City in support of its claim.

## II. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of Lancaster's filing, the OCA has compiled a list of issues that it anticipates will be included in its investigation of the rate increase request. It is anticipated that other issues will arise and may be pursued as discovery proceeds.

The OCA has identified several issues that may require further review as follows:

### A. Rate of Return

1. Capital Structure: The OCA will examine whether the capital structure claimed by the City is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes.

2. Embedded Cost of Debt: The OCA will examine the embedded cost of debt claimed by the City.

3. Cost of Common Equity: The OCA will perform a detailed analysis of the cost of common equity claimed by the City. Also, the OCA will carefully examine the City's methodologies and supporting data used to develop its final cost of common equity claim.

4. Utility Specific Adjustments: The OCA will examine whether any adjustments proposed by the City are justified.

### B. Rate Design/Cost of Service

1. The OCA will examine the Company's cost of service study and proposed rate design and recommend adjustments as necessary to comply with sound ratemaking principles in consideration of an appropriate level of revenue requirement.

### C. Accounting and Policy

1. The OCA will examine the reasonableness and accuracy of the projections of Lancaster pertaining to the water utility plant in service at the time relevant to this proceeding

including, but not limited to, whether the projected rate year plant will be completed as claimed and whether retirements are accurately reflected. This will include the Company's use of a fully forecasted test year.

2. The OCA will review the Company's claims for plant additions during the projected rate year to determine if the Company has demonstrated that all such costs are prudently incurred and whether the claimed plant is a proper reflection of that which will be in service during the rate year.

3. The OCA will investigate whether the Company's claimed depreciation reserve reduction of rate base is appropriate.

4. The OCA will examine the Company's claims for cash working capital, deferred income taxes, customer deposits, and customer advances for construction to determine whether they are at levels appropriate for use in setting base rates for Lancaster.

5. The OCA will review the reasonableness and accuracy of the Company's revenue projections and supporting water consumption assumptions.

6. The OCA will examine the appropriateness, reasonableness, and accuracy of the Company's claims for wages and benefits, chemicals expense, taxes other than income, uncollectible accounts, pensions and OPEBs, as well as other categories of expenses.

7. The OCA will also review the claimed allowance for depreciation to ensure that it properly reflects plant that will be in service during the rate year and that the underlying service lives the proposed accrual rates are reasonable.

D. Quality of Service

1. The OCA will examine the quality of service provided by the City to assure that Lancaster's outside-city customers receive water which is suitable for household

purposes, is continuously available and otherwise conforms with applicable standards for safe and adequate water utility service.

2. The OCA will investigate the safety and effectiveness of the City's physical plant.

### III. WITNESSES

The OCA intends to present the direct, rebuttal and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. The witnesses will present testimony in written form and will also attach various exhibits, documents and explanatory information that will assist in the presentation of the OCA's case. The OCA reserves the right to call additional witnesses and will inform the ALJ and the parties if it determines that an additional witness(es) will be necessary. The OCA's witnesses are:

Accounting and Policy:

Thomas S. Catlin  
Jerome D. Mierzwa  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD 21044  
E-mail: [topcat@exeterassociates.com](mailto:topcat@exeterassociates.com)  
[jmierzwa@exeterassociates.com](mailto:jmierzwa@exeterassociates.com)

Rate of Return:

Glenn Watkins  
Technical Associates, Inc.  
9030 Stony Point Parkway  
Suite 580  
Richmond, VA 23235  
E-mail: [watkinsg@tai-econ.com](mailto:watkinsg@tai-econ.com)

Rate Design/Cost of Service:

Scott J. Rubin  
333 Oak Lane  
Bloomsburg, PA 17815  
E-mail: [scott.j.rubin@gmail.com](mailto:scott.j.rubin@gmail.com)

#### **IV. EVIDENCE**

The OCA will rely on the direct, rebuttal and surrebuttal testimony of its expert witnesses as well as the testimony of the other parties to the proceeding. The OCA will present relevant exhibits to support its own testimony, including but not limited to, materials obtained from the City through discovery and cross-examination. As described above, the OCA's witnesses will present testimony in the following areas: rate design, cost of service, rate of return, accounting, regulatory policy, and quality of service.

#### **V. PROPOSED SCHEDULE**

The OCA will work with the parties to develop a litigation schedule that is acceptable to the Presiding Officer and the parties. The OCA's proposed litigation schedule is attached hereto as Appendix A.

#### **VI. SERVICE ON THE OCA**

The OCA will be represented in this case by Christine Maloni Hoover and Lauren M. Burge. Two copies of all documents should be served on the OCA as follows:

Christine Maloni Hoover  
Senior Assistant Consumer Advocate  
Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor, Forum Place  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048  
Fax: (717) 783-7152  
E-mail: [OCAService-LancasterWater2014@paoca.org](mailto:OCAService-LancasterWater2014@paoca.org)

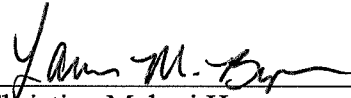
#### **VII. SETTLEMENT**

The OCA is willing to participate in settlement discussions.

## VIII. PUBLIC INPUT HEARINGS

The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. However, if the OCA becomes aware of substantial consumer interest, the OCA will promptly notify the Administrative Law Judge and parties to request a public input hearing.

Respectfully Submitted,



---

Christine Maloni Hoover  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 50026  
E-mail: [CHoover@paoca.org](mailto:CHoover@paoca.org)

Lauren M. Burge  
Assistant Consumer Advocate  
PA Attorney I.D. # 311570  
E-mail: [LBurge@paoca.org](mailto:LBurge@paoca.org)

Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate  
Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152

Dated: July 23, 2014

187063



BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	
	:	
v.	:	Docket No. R-2014-2418872
	:	
	:	
CITY OF LANCASTER – BUREAU	:	
OF WATER	:	

---

OFFICE OF CONSUMER ADVOCATE’S  
PROPOSED LITIGATION SCHEDULE

---

Prehearing Conference	July 24, 2014
Other Parties’ Direct Testimony Due	August 28, 2014
Rebuttal Testimony Due	September 19, 2014
Surrebuttal Testimony Due	October 3, 2014
Rejoinder Outline Due	October 6, 2014
Evidentiary Hearings	October 8-10, 2014
Close of Record	October 10, 2014
Main Briefs Due	November 4, 2014
Reply Briefs Due	November 18, 2014

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :  
v. : Docket No. R-2014-2418872  
City of Lancaster – Water :

I hereby certify that I have this day served a true copy of the foregoing document, Prehearing Memorandum of the Office of Consumer Advocate, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 23<sup>rd</sup> day of July, 2014.

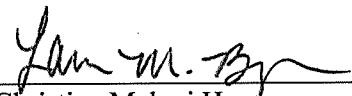
SERVICE BY E-MAIL AND INTER-OFFICE MAIL

Richard A. Kanaskie, Esq.  
PA PUC BIE Legal Technical  
400 North Street, 2<sup>nd</sup> Floor West  
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Steven C. Gray  
Assistant Small Business Advocate  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 N. Second Street  
Harrisburg, PA 17101

John J. Gallagher, Esq.  
711 Forrest Road  
Harrisburg, PA 17112  
*Counsel for City of Lancaster*

  
Christine Maloni Hoover  
Senior Assistant Consumer Advocate  
PA Attorney I.D. #50026  
Email: [CHoover@paoca.org](mailto:CHoover@paoca.org)

Lauren M. Burge  
Assistant Consumer Advocate  
PA Attorney I.D. #311570  
Email: [LBurge@paoca.org](mailto:LBurge@paoca.org)

Counsel for Office of Consumer Advocate  
555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
\*187122