The York Water Company

Comments to Tentative Supplemental Implementation Order

Docket M-2012-2293611

A. Uniform Financial Earnings Reports Requirement

Commission proposes that all jurisdictional utilities that have implemented a DSIC mechanism, including those that are currently exempted because their annual revenues do not exceed $1 million.

Comment

York Water agrees that all utilities, no matter their size should file quarterly financial earnings reports if they have implemented a DSIC mechanism, so that all utilities are on the same footing. No utility would be able to earn more than they are entitled to for more than a quarter.

The Commission also seeks comment on whether or not the quarterly financial earnings report exemption under 71.4(c) during the pendency of a base rate case for companies with a positive DSIC charge should be eliminated.

Comment

York Water believes that the quarterly financial earnings report should continue to be an exception during the pendency of a base rate case. At the point of filing a rate case, the Company has already determined that it needs a rate increase, and has already put countless hours of work into the process and the numbers calculated. If additional filings to the PUC were necessary during the rate case period, the Company would no doubt be spending an extraordinary amount of time reconciling the new figures with the rate case on an ongoing basis until the case was settled or litigated. This would take away from the time and effort required during the rate filing, and add confusion and additional problems and time to the whole process. The DSIC reconciliation (1307e) and audit process should be enough to ensure that the Company is not overcollecting from customers during the pendency period of a base rate case.

B. Customer Protections – DSIC Rate Reset to Zero

1. Proposed Tariff Supplement to reset DSIC Rate To Zero – The Commission proposes that a utility should be required to file a tariff supplement pursuant to Section 1308(a) of the Code resetting its DSIC rate to zero if the following occur: (1) upon the effective date of the new base rates and (2) if an overearning is indicated in the utility's most recent quarterly financial earnings report.

The Commission proposes that the utility should incorporate a reference to resetting its DSIC rate to zero within the tariff supplement requesting a general rate increase.

Comment

York Water currently files a tariff supplement when new base rates become effective. This tariff supplement not only shows the new rates to be charged, but it also shows the DSIC and STAS rates, if applicable, being reset to zero. So, York Water already complies and is in agreement with the Commission's proposal.

The Commission proposes that utilities should file their tariff supplement reflecting a zero DSIC rate simultaneously with the filing of their next quarterly DSIC update, effective upon ten-day's notice.

Comment

Overearning, according to the PUC water utility barometer, for York Water, has historically occurred right after new rates have been implemented. When that is the case, York Water would not file a tariff supplement because the DSIC rate would have already been set to zero with the rate case tariff. If overearning, according to the PUC water utility barometer, were to occur when York Water has a DSIC rate, we would in fact file a tariff supplement to reset the rate to zero. Since the tariff is the means of communicating rate changes to customers, and DSIC is part of rates, it seems right that a tariff supplement would be filed when overearning, according to the PUC water utility barometer, requires the DSIC to be reset to zero. York Water concurs with the Commission that the tariff supplement should be filed when the next quarterly DSIC update is due.

2. DSIC Rate Reset To Zero Upon Effective Date of New Base Rates

The Commission proposes that if a utility has surpassed the prospective recovery amount associated with the eligible plant placed in service and which was previously reflected in the utility's base rates as a result of using a future test year or FPFTY, it is then eligible to begin to recover again the fixed costs associated with any new repair, replacement or improvement of eligible property reflected in a quarterly DSIC update.

Comment

York Water is in agreement that companies should not be eligible for DSIC until the amounts associated with eligible plant which were previously reflected in base rates have been surpassed.

The Commission proposes that the criterion should be based upon the total aggregate dollar amount associated with the prospective eligible property placed in service as determined and set forth in the final order establishing the new base rates. The utility should specify the total aggregate amount that is associated with the prospective nature of the eligible property that is to be placed in service, as this is a portion of the baseline for setting the new base rates.

Comment

York Water believes that the amounts identified in rates should be the total amounts projected to be spent in DSIC-eligible accounts, rather than specifically identifying replacement versus new infrastructure in those accounts. This will allow the utility some flexibility in where it places its dollars. The flexibility is needed for those replacement projects that are coordinated with other utilities, emergencies or opportunities that come up after the rate filing, etc. The bottom line will still be that the utility is earning on the dollars that were requested in the rate filing rather than each specific project.

The Commission proposes that utilities should continue to file quarterly DSIC updates reflecting the eligible property placed into service that was associated with a repair, replacement or improvement during the stay-out period even though they are unable to recover such costs.

Comment

York Water respectfully disagrees with the Commission's proposal. As stated in the tentative order, "The primary purpose of a DSIC update is to reflect the additional eligible property that has been placed in service during the prior quarter and for which the utility is seeking cost recovery for under its DSIC mechanism." Since the utility is not eligible to collect DSIC during the stay-out period, and doesn't intend to seek cost recovery under DSIC, this does not seem to be the right mechanism to monitor spending. In addition, since this property would not be eligible for DSIC, the utility would end up throwing away all of this work when the threshold is surpassed and restarting the report with DSIC-eligible projects after the stay-out period. It also seems that providing detail of each project would be too much detail and would require too much time from both the utility and the Commission staff.

York Water believes there are better options the Commission could explore to accomplish the same goal. The quarterly financial earnings report could be modified to split utility plant in service into plant that was in place prior to the last rate filing, and plant placed in service after the last rate filing. The DSIC-eligible accounts within utility plant could be broken out separately from the rest of utility plant. Another option, also using the quarterly financial report, is to just add a schedule to the report which compares the dollars contained in the rate case for each DSIC-eligible account to the amount included in utility plant for these same accounts since the last rate filing. Detailed projects would not be listed, but rather the total amounts spent in DSIC-eligible accounts would be tracked. Detailed projects could be reviewed when the DSIC is audited by the Commission.

Another option would be to include an additional schedule in the Commission's Annual Report which would provide the same tracking as previously recommended in the quarterly reports.

Either of these options would provide the Commission with a mechanism to track the utility's progress, while at the same time not require additional detailed reports to be filed by the utility or voluminous detailed listings to be reviewed by Commission staff.

3. Resetting DSIC Rate to Zero Due To Overearnings

The Commission proposes that during the successive overearnings period, a utility with a DSIC mechanism is prohibited from recovering the current fixed costs of the eligible property that it

had placed into service prior to the time that the successive overearnings period began to occur.

Comment

York Water disagrees with this proposal that a utility should not be able to recover the current fixed costs of the eligible property that it placed in service prior to the time that the successive overearnings (according to the PUC water utility barometer) period began to occur. This would be contrary to the law which allows for recovery on DSIC-eligible property that has not already been included in rates to customers. The Company would already be giving up DSIC during the overearning (according to the PUC water utility barometer) period, whatever the length. The Company would be forced to start over in accumulating eligible property, thus creating the very regulatory lag that the DSIC was designed to alleviate in the first place.

The Commission proposes that the utility should be permitted to recover the current fixed costs of all eligible property after a successive overearnings period ceases. DSIC recovery for quarters subsequent to the period of overearnings may include the cumulative cost impact of DSIC eligible costs since the last rate case, but there would be no recovery through the 1307(e) reconciliation process of the otherwise DSIC eligible costs that were incurred during the period the utility experienced overearnings.

Comment

York Water agrees with the Commission.

The Commission seeks comment on whether it should require the utility to file a tariff supplement under Section 1308 of the Code to address its overearnings so that the utility can continue to use its DSIC to recover the fixed costs of eligible property it has placed in service.

Comment

The York Water Company respectfully disagrees with the Commission. If the utility is overearning, according to the PUC water utility barometer, it is not currently collecting a DSIC, and it is not able to collect a DSIC until it is no longer overearning. Often times, the reason for overearning (according to the PUC water utility barometer) is temporary, and to require the filing of a rate case and all the time and money involved with it before a DSIC can be reinstated, would be overkill. If the reason for overearning (according to the PUC water utility barometer) is a long-term condition, then in York Water's view, any overearnings keeping utilities from collecting the DSIC, are also prolonging when the next rate case will be filed, and in that way would be benefiting customers.

4. Residual E-Factor Portion of the DSIC Rate Upon a Reset of the DSIC Rate

The Commission proposes that utilities with ongoing DSIC mechanisms should file a tariff supplement that revises their DSIC tariffs so that language is incorporated therein that allows the utility to file interim revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate is reset to zero. If the utility seeks to recover or refund in a single quarter, this option should be delineated in its tariff.

Comment

York Water agrees with the Commission that utilities should be able to continue to collect or refund the residual over/under collection or E-factor amount, and would be willing to file a tariff indicating such.

C. Computation of the DSIC Rate Cap

The Commission seeks comment on whether it is feasible and in the public interest to allow the E-factor to be excluded from the 5% rate cap and whether the Commission has the statutory authority to do such.

Comment

York Water believes that the E-factor should be excluded from the calculation of the rate cap because it applies to previous periods and not to the current period's charges. This works both ways (positive and negative E-factors), so we believe it is in the public interest. We also believe it is in the Commission's statutory authority since the actual DSIC recovery mechanism does not really include the E-factor. For all intents and purposes, the E-factor is a separate mechanism reconciled separately showing results of previous DSIC periods.

D. Water Utility Long-Term Infrastructure Plans

The Commission proposes that now is the time for water utilities to file LTIIPs with the Commission in order to ensure that all utilities that are eligible to implement a DSIC are following uniform rules and procedures regarding Commission-approved DSIC mechanisms. The Commission tentatively proposes that all jurisdictional water utilities be required to file Act 11 LTIIPs by no later than September 30, 2016.

Comment

York Water respectfully disagrees with the Commission's proposal for two reasons. First, the purpose of the LTIIP is to show the Commission that the utility has an outline or plan to actually do qualified repairs, replacements and improvements before the Commission allows the utility to have the DSIC mechanism. Those water utilities that already have the DSIC mechanism in place, have already filed the actual qualified projects as they have been undertaken and are already collecting the DSIC, making the LTIIP an after-the-fact meaningless exercise.

Secondly, as mentioned in the tentative order, "substantial progress made in the water industry over the past 15 years in accelerating the rate of main replacements and other infrastructure improvements" would seem to indicate that the DSIC mechanism is already working. To go back to the beginning and require an LTIIP after the mechanism is in place, would serve no purpose. The DSIC mechanisms already in place at various water utilities have already been audited and approved numerous times.

The Commission should consider requiring only those water utilities that do not currently have a DSIC mechanism in their tariff to file a LTIIP. If the Commission determines that water utilities do need to file an LTIIP, we respectfully request that the requirement to file by no later than September 30, 2016 be changed until the Company's next base rate filing. This would not disrupt the Company's current DSIC cycle, and would provide the staggered schedule that the Commission is looking to achieve.