PENNSYLVANIA
AMERICAN WATER

800 West Hersheypark Drive
Hershey, PA 17033
P 717-531-3208
F 717-531-3399
susan.marsh@amwater.com

Susan Simms Marsh
Deputy General Counsel

December 21, 2015

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P.O. Box 3265
Harrisburg, Pennsylvania 17105-3265

Re: Implementation of Act 11 of 2012
M-2012-2293611

Dear Secretary Chiavetta:

Pursuant to the Pennsylvania Public Utility Commission Supplemental Tentative Implementation Order entered November 5, 2015, Pennsylvania-American Water Company submits the comments.

As provided for in the Tentative Supplemental Order, we are sending electronic (MS Word format) and hard copies of the enclosed Comments to the Commission's Act 11 Resource Account at ra-Act11@pa.gov and provided electronically in Word-compatible format to David Screven, dscreven@pa.gov, in the Commission's Law Bureau, to Erin Laudenslager, elaudensla@pa.gov, in the Commission's Bureau of Technical Services and Lori Burger, lburger@pa.gov in the Commission's Bureau of Audits.

Respectfully,

Susan Simms Marsh

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Enclosure

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IMPLEMENATION OF ACT 11 OF 2012

DOCKET NO: M-2012-2293611

COMMENTS OF PENNSYLVANIA-AMERICAN WATER COMPANY TO THE COMMISSION'S NOVEMBER 5, 2015 TENTATIVE SUPPLEMENTAL IMPLEMENTATION ORDER

Pennsylvania-American Water Company ("PAWC" or the "Company") hereby responds to the Pennsylvania Public Utility Commission's ("PUC's" or the "Commission's") November 5, 2015 Tentative Supplemental Implementation Order at Docket No. M-2012-2293611 ("Tentative Supplemental Order"), which solicited comments from interested parties on additional proposed procedures and guidelines for the implementation of Act 11.

Act 11 of 2012, signed into law on February 14, 2012, amended Chapters 3 and 13 of the Public Utility Code (66 Pa.C.S. §§ 101 *et seq.)* by: (l) authorizing utility companies to use a "fully projected future test year" to determine their revenue requirement for ratemaking purposes (66 Pa.C.S. § 315(e)) and made a concomitant revision to Section 1315 of the Public Utility Code (66 Pa.C.S. § 1315); (2) authorizing public utility companies that provide water and wastewater service "to combine water and wastewater revenue requirements" and authorized the Commission to "allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest" (66 Pa.C.S. §§ 1311(c) and (e)); and (3) authorizing wastewater utility companies, electric distribution companies and natural gas distribution companies to implement a distribution system improvement charge ("DSIC") (66 Pa.C.S. §§ 1350-1360).

The Tentative Supplemental Order seeks comments on the following areas:

- requiring quarterly financial reports for all utilities that use the DSIC mechanism;
- filing and computation issues for when the DSIC is reset to zero;
- treatment of over/under collections, or E-factor, after the DSIC is reset to zero;
- computation issues for determining the DSIC rate cap; and
- requirement to file Long Term Infrastructure Improvement Plan ("LTIIP") by water utilities that use the DSIC.

COMMENTS

PAWC offers the following comments for Commission's consideration.

A. Uniform Financial Earnings Reports Requirement

The Commission in its Tentative Supplemental Order proposes all jurisdictional utilities having implemented a DSIC mechanism, including those utilities that are not required to file earnings reports pursuant to the PUC regulations, should be required to file quarterly earnings reports with the Commission.

PAWC agrees with this proposal. All utilities regardless of size should be required to file quarterly earnings reports. This provides uniformity and equity in the approach for all utilities having implemented a DSIC.

At page seven (7) of the Tentative Supplemental Order, the Commission is interested in comments on whether it should eliminate the quarterly earnings report exemption under 52 Pa. Code § 71.4(c) during the pendency of a base rate case for companies with a positive DSIC charge.

The Commission should refrain from eliminating the exemption under 52 Pa. Code § 71.4(c) during the pendency of a base rate case. Utilities provide detailed information on future earnings in their respective base rate case filing. Requiring the utility to file separately on its earnings during the pendency of its rate case will provide redundant information, cause potential confusion to the administrative process and impose additional burdens to all parties involved in the case.

B. Customer Protections — DSIC Rate Reset To Zero

1. Proposed Tariff Supplement To Reset DSIC Rate To Zero

In its Tentative Supplemental Order, the Commission proposes a utility, pursuant to 66 Pa. C.S. § 1308(a), file a tariff supplement resetting the 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 the utility incorporate a reference to resetting its DSIC rate to zero within the tariff supplement requesting a general rate increase under Section 1308(d) of the Code, 66 Pa. C.S. § 1308(d).

PAWC agrees with this proposal as the reset process is streamlined and efficient. The Company currently follows this practice and files a tariff supplement at the time PAWC's new base rates are effective. The tariff supplement reflects PAWC's new rates and the DSIC rate is reset to zero.

If data in the utility's most recent quarterly financial earnings report indicates that the utility is earning above the Commission's established return on equity for DSIC purposes, the Commission also proposes the utility file the tariff supplement reflecting a zero DSIC rate simultaneously with the filing of their next quarterly DSIC update, effective upon ten-days' notice.

The Company agrees with this proposal.

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

The Commission, at page 11 of its Tentative Supplemental Order, 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."

The Commission's proposal is reasonable as a utility's eligibility for DSIC would commence when the eligible property does in fact surpass the amount in the utility's base rate case. PAWC agrees with the proposal.

In its Tentative Supplemental Order, the Commission seeks comments on the criteria it should use in determining whether the prospective recovery amount has been surpassed. The Commission proposes the criteria 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. Additionally, the Commission proposes that the utility 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.

PAWC generally agrees; however, the criteria should be based upon the total amount projected to be spent in DSIC-eligible accounts for repair, replacements and improvements, factoring in customer advances in construction ("CAC") and contributions in aid of construction ("CIAC")..

The Commission seeks comments on its proposal requiring utilities to continue filing quarterly DSIC updates reflecting eligible property placed in service associated with repair, replacement or improvement during the stay-out period even though they are unable to recover such costs.

A utility is not permitted to utilize the DSIC mechanism during the stay out period, and is therefore prohibited from seeking cost recovery. PAWC agrees with the Commission's need to verify that the investment threshold has been met, but believes that the Commission's proposed monitoring method is not necessary. PAWC believes the filing should take place with the utility's next effective DSIC to show that the company has invested in plant placed in service above what was previously reflected in the utility's base rate case. This method of verifying a utility's investment will ensure that the information that the Commission appropriately seeks is met while also reducing the interim administrative burden placed on the preparers and reviewers of such information, including interested parties and the Commission. Moreover, the consumer safeguards built into Act 11, namely the reconciliation process and the Commission's audit process under Section 1358(d) and (e) of the Code, will protect consumers from the utility being able to recover on plant previously reflected in the utility's base rate case.

3. Resetting DSIC Rate To Zero Due To Overearnings

The Commission, at page 13 of the Tentative Supplement Order, 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 bcgan to occur."

The Commission's proposal is reasonable and the Company agrees with the proposal.

The Commission proposes to allow the utility to recover the current fixed costs of all eligible property after a successive overearnings period ceases.

PAWC agrees with the proposal.

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 the eligible property it has placed in service.

A utility should not be required to file a tariff under Section 1308 of the Code to address its earnings in the case where a utility's earnings exceed the Commission's-established return on equity for DSIC purposes for the applicable utility barometer group. Section 1308 of the Code provides the process and procedures in the event the utility files for a voluntary change in its base rates. Section 1358 of the Code provides a list of consumer protections governing a utility's ability to recover under the DSIC. Specifically, Section 1358(b) requires the utility to change the DSIC rate, by resetting it to zero, in the event the utility's earnings exceed the Commission-established return to calculate a utility's fixed costs under the DSIC. Effectively, Section 1358(b) prohibits a utility's recovery under the DSIC in this event and requires the utility to reset the rate to zero; it is not a voluntary change in rates by the utility. Moreover, nothing in the consumer protections listed in Section 1358 of the Code limits the Commission's authority under Section 1309 of the Code to investigate a utility's rates upon its own motion to the extent it deems necessary. Therefore, the Company does not support the Commission's proposal.

4. Residual E-Factor Portion Of The DSIC Rate Upon A Reset Of The DSIC Rate

The Commission in its Tentative Supplemental Order seeks comments on its proposal to require utilities with ongoing DSIC mechanisms to file a tariff supplement revising the DSIC tariffs so that language is incorporated permitting the utility to file interim revisions to resolve residual over/under collection or E-factor amount after the DSIC rate is reset to zero. In addition, if a utility seeks to recover an undercollection from customers or refund an overcollection amount to customers in a single quarter for the quarterly period commencing April 1st, this option should be clearly delineated in its tariff.

PAWC agrees with the proposal.

C. Computation Of The DSIC Rate Cap

The Commission in its Tentative Supplemental Order acknowledges its statutory authority to increase the DSIC cap above 5% upon petition. However, the Commission suggests it is unclear whether it has the authority to exclude the E-factor component from the DSIC rate cap. Accordingly, the Commission is seeking comment on whether exclusion of the E-factor is feasible and public interest as well as whether the Commission has the statutory authority to exclude the E-factor.

PAWC contends the Commission possesses the necessary statutory authority to exclude the E-factor. Moreover, the Company believes the E-factor should in fact be excluded from the calculation of the DSIC rate cap. The E-factor is not actually included in the DSIC mechanism. Moreover, the public interest will be served with this approach as there is a positive and negative E-factor.

D. Water Utility Long-Term Infrastructure Improvement Plans

The Commission seeks comment on its proposal to require all jurisdictional water utilities to file LTIIPs no later than September 30, 2016 and on a staggered schedule established by the Commission.

LTIIP is provided in order for the utility to recover cost under DSIC. The LTIIP purpose is to provide the Commission the utility's blueprint of DSIC-eligible property and the associated accelerated schedule for the repairs, replacements and improvements.

The water DSIC was established more than 18 years ago. It was previously approved by the Commission and codified into law by the General Assembly as Act 156 of 1996 for use by Pennsylvania's water utilities. Since that time, PAWC and other water utilities have implemented a DSIC thereby accelerating much needed infrastructure replacement and adhered to the Commission processes and procedures. The Company has in fact demonstrated the purpose of the LTIIP. As such, to now require PAWC and other water utilities who previously implemented the water DSIC to file an LTIIP is counterintuitive. Accordingly, PAWC recommends the Commission only require the water utilities seeking approval to implement a DSIC to file the LTIIP.

PAWC thanks the Commission for affording it the opportunity to comment on matters it is considering in the Tentative Supplemental Order. PAWC looks forward to continuing the collaboration on the process, procedures and guidelines for implementing Act 11.

Respectfully submitted,

Susan Simms Marsh
Attorney I.D. 44689
Melanie J. El Atieh
Attorney I.D. 209323
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, Pa 17033

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