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September 27, 2018

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v.
Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.
Docket Nos. R-2018-3003558 and R-2018-3003561**

Dear Secretary Chiavetta:

Enclosed for filing is the **Prehearing Conference Memorandum of Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.**, in the above-captioned proceedings.

As evidenced by the Certificate of Service, copies have been served upon Administrative Law Judge Angela T. Jones and Administrative Law Judge F. Joseph Brady, as well as all parties of record.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



Anthony C. DeCusatis

ACD/ap
Enclosures

c: Per the Certificate of Service (w/encl.)

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**AQUA PENNSYLVANIA, INC.
AND AQUA PENNSYLVANIA
WASTEWATER, INC.**

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**DOCKET NOS. R-2018-3003558
R-2018-3003561**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served copies of the **Prehearing Conference Memorandum of Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.**, on the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

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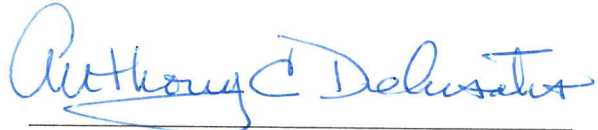
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Dated: September 27, 2018

*Counsel for Aqua Pennsylvania, Inc.
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	DOCKET NOS. R-2018-3003558
	:	R-2018-3003561
AQUA PENNSYLVANIA, INC. AND AQUA PENNSYLVANIA WASTEWATER, INC.	:	
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**PREHEARING CONFERENCE MEMORANDUM
OF
AQUA PENNSYLVANIA, INC. AND
AQUA PENNSYLVANIA WASTEWATER, INC.**

This memorandum is submitted in response to the September 21, 2018 Prehearing Conference Order issued by Administrative Law Judges Angela T. Jones and F. Joseph Brady.

I. INTRODUCTION

On August 17, 2018, Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. (“Aqua,” or the “Company”) filed with the Pennsylvania Public Utility Commission (“Commission”) Original Tariff Water – Pa. P.U.C. No. 2 (“Tariff Water No. 2) and Original Tariff Sewer – Pa. P.U.C. No. 2 (“Tariff Sewer No. 2”) to become effective on October 16, 2018.¹ The financial data submitted in support of Tariff Water No. 2 and Tariff Sewer No. 2 reflects an increase in total annual operating revenues of \$71,768,833, or approximately 16.13% over the level of revenues anticipated for the fully projected future test year ending March 31, 2020. By Order entered September 20, 2018, the Commission instituted a formal investigation at Docket Nos. R-2018-3003558 and R-2018-3003561 to determine the lawfulness, justness and

¹ By its Secretarial Letter issued July 3, 2018, the Commission granted Aqua’s request to depart from the requirements of 52 Pa. Code § 53.53(b)(2), and extend by 19 days, the 120-day interval for filing a general rate increase after the end of a historic test year.

reasonableness of the Company's existing and proposed rates, rules and regulations.

Accordingly, Tariff Water No. 2 and Tariff Sewer No. 2 were suspended by operation of law until May 16, 2019, unless permitted by Commission order to become effective at an earlier date.

Accompanying its tariff filing, Aqua submitted extensive and detailed supporting information, including the prepared written testimony and exhibits of its eight initial witnesses. During the course of this case, Aqua may submit additional testimony and exhibits in response to the presentations of, or cross-examination by, other parties and with respect to any specific issues that might be raised by such parties. In addition, certain testimony and exhibits will be updated to reflect known changes which should be considered in this proceeding.

In support of its proposed rate increase, Aqua has presented complete and separate data for the historic test year ended March 31, 2018, the future test year ending March 31, 2019, and the fully projected future test year ending March 31, 2020. Aqua intends, however, to rely primarily on the fully projected future test year data. The Company submitted separate revenue requirement studies for its water and wastewater operations (See AP Exhibits 1-A and 1-B). Aqua submits that the record at the close of this proceeding will fully demonstrate that the proposed rates are just, reasonable and lawful and should be approved in full by the Commission.

Also on August 17, 2018, Aqua and Superior Water Company, Inc. ("Superior") filed a Joint Application seeking Commission approval to fold Superior, by merger, into Aqua. The Joint Application was assigned Docket Nos. A-2018-3004108 and A-2018-3004109. As part of its base rate filing, the Company proposed to include Superior in Aqua's water tariff.

On September 7, 2018, Aqua and Superior filed a Motion to Consolidate the Joint Application proceeding, water base rate proceeding, and wastewater base rate proceeding. The Motion explained that the criteria for consolidation set forth in 52 Pa. Code § 5.81(a) are

satisfied because matters in each proceeding raise common issues of law or fact and the requested consolidation will promote administrative efficiency, reduce costs, and avoid unnecessary delay.

II. ISSUES

Generally, every rate case presents two major issues for resolution: (1) the total amount of the revenue increase to which the utility is entitled; and (2) the allocation of the increased revenues among the utility's customer classifications through a rate structure and rate design that will produce the required revenue. As discussed below, the Company's computation of its required revenue increase and its proposed allocation of the increase to each customer classification have been developed by the application of principles and procedures that the Commission has reviewed and approved in numerous prior cases.

A determination of the total revenue increase to which a utility is entitled involves a number of elements which may be grouped under three headings and characterized as the following major sub-issues herein:

A. Total Return. The total return (utility operating income) required by the utility to provide a fair rate of return on its claimed rate base. Fair rate of return involves the determination of the appropriate cost or return rate for the capital employed by the Company to furnish water and wastewater service. Such return must be sufficient to enable the Company to maintain the financial integrity of its existing capital and to attract additional capital on reasonable terms. In addition, the Company must be permitted an opportunity to earn, on the portion of its rate base financed by common equity, a return commensurate with the returns on investments in other enterprises having similar risks. The appropriate rate of return for the Company, and in particular the appropriate return rate for the Company's common equity, is an

issue which is critical to the well-being of the Company and its ability to continue to provide the service that its customers have been receiving and are entitled to receive in the future.

B. Operating Expenses. The future or ongoing level of the utility's operating expenses, including depreciation, amortizations and taxes, which must be recovered from customers through rates.

C. Revenues. The revenue normally available to the utility under present rates and that which will be produced by the proposed rate levels. By comparing the revenue produced by the utility's present rates with its total required operating income and anticipated operating expenses, depreciation, amortizations and taxes, the necessary increase in revenue and rate levels required to provide a fair rate of return is determined.

The allocation of the proposed revenue increase and the Company's proposed rate structure and rate design are explained in the Statement Of Specific Reasons For Proposed Increase In Rates submitted with the Company's initial filing and in detail in the direct testimony of Mr. Packer and Mr. Herbert. As set forth therein, the Company's proposed rate structure continues to implement, where appropriate, the Commission-approved concept of establishing a uniform set of rates to apply Company-wide. However, in certain instances where the implementation of uniform rates is not appropriate given the unique characteristics of the customers served, Aqua continues to propose "seasonal" tariff designs. In addition, the Company proposes various rate structure changes, the most notable of which include:

(1) The implementation of a Purchased Water Adjustment clause to reflect changes in the cost of purchased water;

(2) The implementation of an Energy Cost Adjustment clause to reflect changes in the cost of energy;

(3) The combining of a portion of the revenue requirement for wastewater operations with the revenue requirement for water operations pursuant to Section 1311(c) of the Public Utility Code;

(4) An increase of monthly service charges to be more in line with customer costs;

(5) Increases in public fire hydrant rates in those divisions where present charges are below 25% of the indicated cost of service; and

(6) The transfer of 30 separate wastewater areas into one of five separate wastewater rate zones.

III. WITNESSES AND EVIDENCE

Listed below are the initial witnesses for the Company, together with a brief summary of the subject matter of their testimony.

1. **William C. Packer.** Mr. Packer is employed by Aqua as Vice President – Controller. In addition, he oversees certain financial operations for the Company and Aqua New Jersey, Inc. The purpose of his testimony, which is AP Statement No. 1, is as follows: (1) to explain the Company’s need for rate relief; (2) to identify and describe the principal accounting exhibits (AP Exhibits 1-A and 1-B) submitted in support of Aqua’s proposed rate increase for water and wastewater operations, respectively; (3) to explain and support the derivation of certain Company expense and rate base claims; (4) to describe any major changes or other matters related to rate structure and rate design; (5) to describe the Company’s proposed capital structure; (6) to recommend the appropriate return on equity to be utilized in this proceeding in light of the analysis of Mr. Paul R. Moul (AP Statement No. 4); (7) to provide an overview of proposed Purchased Water and Energy Adjustment mechanisms; (8) to address return on equity

considerations; and (9) to discuss the Company's satisfaction of the commitments it made in the settlement of certain issues in its last water base rate case. In addition, he was responsible for AP Exhibit 2, which supports the Company's labor expense claims.

2. **Renee T. Marquis.** Ms. Marquis is employed by Aqua as Manager, Financial Analysis. The purpose of her testimony, which is AP Statement No. 2, is as follows: (1) to explain and support the derivation of certain adjustments of the Company's revenue, expense and rate base claims; and (2) to provide an overview of the Company's acquisitions since the end of its last water and wastewater base rate cases. In addition, Ms. Marquis was responsible for portions of AP Exhibits 1-A and 1-B, and for AP Exhibits 3-A and 3-B.

3. **Erin N. Feeney.** Ms. Feeney is employed by Aqua as a Financial Analyst II. The purpose of her testimony, which is AP Statement No. 3, is to identify and describe various expense adjustments in AP Exhibits 1-A and 1-B submitted in support of the Company's proposed rate increase for water and wastewater operations, respectively, including: (1) the general price level adjustment; (2) uncollectible accounts; (3) insurance expense; (4) purchased power expense; (5) chemical expense; (6) purchased water expense; (7) water production adjustment; (8) purchased wastewater treatment expense; (9) the elimination of the National Association of Water Companies ("NAWC") lobbying expense; and (10) the adjustments for the Commission, Office of Consumer Advocate ("OCA"), and Office of Small Business Advocate ("OSBA") General Assessments.

4. **Paul R. Moul.** Mr. Moul is a Managing Consultant at the firm P. Moul & Associates, an independent financial and regulatory consulting firm. His testimony, which is AP Statement No. 4, presents evidence, analysis and a recommendation concerning the appropriate cost of equity and overall rate of return that the Commission should recognize in the

determination of the revenues that Aqua should realize as a result of this proceeding. Mr. Moul’s analysis and recommendations are supported by the detailed financial data contained in AP Exhibit 4-A. On the basis of Mr. Moul’s study, the Company requests the opportunity to earn the following overall fair rate of return:

Type of Capital	Ratio	x	Cost Rate	=	Weighted Cost Rate
Long-Term Debt	47.15%		4.43%		2.09%
Common Equity	52.85%		10.75%		<u>5.68%</u>
Overall Rate of Return					7.77%

5. **Paul R. Herbert.** Mr. Herbert is employed by Gannett Fleming Valuation and Rate Consultants, LLC as its President. His testimony, which is AP Statement No. 5, is in support of the cost of service allocation and rate design studies conducted for both the water and wastewater utility operations of Aqua. Mr. Herbert sponsored AP Exhibit No. 5-A, Part I which presents the results of the allocation of the pro forma cost of water service as of March 31, 2020. AP Exhibit No. 5-A, Part II presents the application of rates to the water customers' consumption analysis. He also sponsored AP Exhibit No. 5-B, Part I which presents the results of the allocation of the pro forma cost of wastewater service as of March 31, 2020. AP Exhibit No. 5-B, Part II presents the application of rates to the wastewater customers’ consumption analysis.

6. **John J. Spanos.** Mr. Spanos is the Senior Vice President of Gannett Fleming Valuation and Rate Consultants, LLC. His testimony, which is AP Statement No. 6, explains depreciation studies with regards to plant in service as of March 31, 2018 and, as claimed by the Company, as of March 31, 2019 and March 31, 2020 for water assets and for wastewater assets. AP Exhibit Nos. 6-A and 6-B present the results of each depreciation study for water and wastewater assets, respectively.

7. **William J. Jerdon.** Mr. Jerdon is employed by Aqua as Vice President of Taxes. The purpose of his testimony, which is AP Statement No. 7, is three-fold. First, he addresses how the Tax Cuts and Jobs Act (“TCJA”) affects the development of the Company’s revenue requirement in this case. Second, he describes how the Company is reflecting the effects of its tax treatment of repairs pursuant to the terms of the Joint Petition for Settlement of its last base rate case, which was approved by Commission’s final Order entered June 7, 2012 at Docket No. R-2011-2267958. Third, he explains the calculation of the Company’s federal and state income tax expenses claims in this case.

8. **Mark J. Bubel.** Mr. Bubel is employed by Aqua Services, Inc., the Service Company for Aqua America, Inc., as a Project Engineer III. The purpose of his testimony, which is AP Statement No. 8, is to discuss Aqua Pennsylvania Wastewater, Inc.’s wastewater system capital investments since the last rate case and the projected investments scheduled to occur in the future test year and fully projected future test year.

IV. DISCOVERY

To date Aqua has been served with over 380 interrogatories, including numerous subparts. Aqua will work with the other parties and the Administrative Law Judges to develop a reasonable schedule for ongoing discovery. In addition, Aqua encourages informal exchanges of information and is prepared to meet with representatives of the parties to discuss issues of interest to them.

V. PROPOSED SCHEDULE

Aqua has prepared and attached as Appendix “A” to this Memorandum, a proposed schedule for the submission of testimony, the conduct of evidentiary hearing, and the filing of briefs that reflect Aqua’s agreement to voluntarily extend the suspension period from May 16,

2019 to May 23, 2019. This voluntary extension will permit the Commission to consider this case at its public meeting scheduled for May 23, 2019, rather than May 9, 2019, and, therefore, provides an additional two weeks to be used in establishing deadlines for the proposed schedule.

Aqua will work with the other parties and the Administrative Law Judges to develop a reasonable schedule for the public input hearings between November 12 and November 16, 2018.

VI. SETTLEMENT

Aqua is willing to pursue with the parties the possible stipulation of individual issues and/or more far-ranging settlement discussions that might lead to a comprehensive resolution of this matter.

VII. CONCLUSION

Aqua requests that the Administrative Law Judges grant the Motion to Consolidate and adopt the proposed schedule. Additionally, based on the evidence referenced above, Aqua submits that the rates proposed in Tariff Water No. 2 and Tariff Sewer No. 2 are just, reasonable and lawful in all respects. Accordingly, the requested rate increase should be approved by the

Administrative Law Judges and the Commission at the close of this proceeding.

Respectfully submitted,



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Dated: September 27, 2018

*Counsel for Aqua Pennsylvania, Inc. and
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APPENDIX A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
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	:	
v.	:	DOCKET NOS. R-2018-3003558
	:	R-2018-3003561
AQUA PENNSYLVANIA, INC. AND AQUA PENNSYLVANIA WASTEWATER, INC.	:	
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PROPOSED SCHEDULE

Rate Filing	August 17, 2018
Prehearing Conference	September 28, 2018
Public Input Hearings	November 12-16, 2018
Complainant/Intervenor Direct Testimony	November 20, 2018
Rebuttal Testimony	December 19, 2018
Surrebuttal Testimony	January 8, 2019
Oral Rejoinder Outline	January 11, 2019 by noon
Evidentiary Hearings	January 14-17, 2019 and January 22, 2019 (if needed)
Initial Briefs	February 7, 2019
Reply Briefs	February 15, 2019