



COMMONWEALTH OF PENNSYLVANIA

October 7, 2020

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Pittsburgh Water and Sewer Authority /
Docket No. R-2020-3017951, R-2020-3017970**

Dear Secretary Chiavetta:

Enclosed please find the Statement in Support of the Joint Petition for Settlement, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

Copies will be served on all known parties in these proceedings, as indicated on the attached Certificate of Service.

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

Sincerely,

/s/ Sharon E. Webb

Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

Enclosures

cc: Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, et. al.	:	
	:	
v.	:	R-2020-3017951 et al.
	:	
Pittsburgh Water & Sewer Authority – Water	:	
	:	
	:	
Pennsylvania Public Utility Commission, et. al.	:	
	:	
v.	:	R-2020-3017970 et al.
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	:	
Pittsburgh Water & Sewer Authority – Wastewater	:	

**OFFICE OF SMALL BUSINESS ADVOCATE
STATEMENT IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT**

I. Introduction & Filing Background

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

On March 6, 2020, Pittsburgh Water and Sewer Authority (“PWSA” or the “Authority”) filed proposed Supplement No. 1 to Tariff Water Pa. P.U.C. No. 1 (“Supplement No. 1W”) and proposed Supplement No. 1 to Tariff Wastewater PA P.U.C. No. 1 (“Supplement No. 1 WW”) (“collectively Tariffs”) to become effective May 5, 2020. The proposed Tariffs sought approval of a multi-year rate plan which, if approved

by the Commission, would have increased the Authority's water and wastewater rates by approximately \$43.4 million per year in 2021, and an additional \$12.6 million in 2022.

The Office of Small Business Advocate ("OSBA") filed a Complaint on March 19, 2020.

On March 31, the Commission's Bureau of Investigation and Enforcement ("I&E") filed an Expedited Motion for an Extension of the Statutory Suspension Period by a period of time commensurate with the closure of the Public Utility Commission's offices during the pandemic.

On April 16, 2020, the Commission suspended both Tariff Supplements No. 1 for water and wastewater until December 5, 2020, in order to conduct an investigation into the lawfulness, justness and reasonableness of PWSA's proposed rate increase. The matter was assigned to Administrative Law Judges Mary Long and Administrative Law Judge Emily Devoe (collectively "ALJs").¹

On April 22, 2020, a prehearing conference was held before the ALJs.

A further prehearing conference was held on May 1, 2020.

The following parties are the known active parties involved with PWSA's base rate filing: the OSBA; the Office of Consumer Advocate ("OCA"); the Bureau of Investigation and Enforcement ("I&E"); Pittsburgh UNITED ("UNITED"); the City of Pittsburgh; the Natural Resources Defense Council ("NRDC"); and the Pennsylvania Utility Law Project ("PULP").

¹ Following the resolution of the I&E's Motion to Extend, PWSA filed Tariff Supplement No. 4 to Tariff Water – Pa. PUC No. 1, and Supplement No. 4 to Tariff Wastewater- Pa. PUC No. 1 to voluntarily extend the suspension periods until January 24, 2021. *See also* Attachment A to the Joint Petition for Settlement for a fully detailed procedural history.

Due to the pandemic public input hearings were held virtually for customers within the Authority's service territory on July 7th, 8th and 9th of 2020.

On July 21, 2020, the OSBA submitted the direct testimony of Brian Kalcic.

On August 18, 2020 the OSBA submitted the rebuttal testimony of Mr. Kalcic.

On September 4, 2020, the OSBA submitted the surrebuttal testimony of Mr. Kalcic.

Evidentiary hearings were held before the ALJs on September 21, 2020.

Prior to the evidentiary hearings, the parties notified the ALJs that they had reached a full settlement and that all parties waived cross-examination on all issues.

The testimony of OSBA Witness Kalcic was submitted into the record at the evidentiary hearing.

II. Summary of the OSBA's Principal Concerns and Overall Reasons for Supporting the Settlement

In its Complaint, Prehearing Memorandum, and testimony, the OSBA identified several issues of concern, including the following:

1. Whether PWSA's proposed allocation of its total claimed revenue requirement between water and wastewater service is appropriate;
2. Whether the methodology employed in PWSA's class cost-of-service study for water service (WCOSS) is appropriate;
3. Whether the customer class demand factors used in PWSA's WCOSS are reasonable;
4. Whether PWSA's proposed class revenue allocation for water service customers is cost based;
5. Whether the methodology used in PWSA's wastewater cost-of-service study is appropriate;

6. Whether PWSA's proposed class revenue allocation for wastewater service customers is cost based;
7. Whether PWSA's proposed water service rate design is reasonable and appropriate; and
8. Whether PWSA's proposed wastewater service rate design is reasonable and appropriate.
9. Whether PWSA's proposal to increase the DSIC CAP is necessary, reasonable and appropriate; and
10. Whether PWSA's proposal to implement a DSIC at the same time the Authority implements a base rate increase is permissible under the Public Utility Code.

The OSBA has actively participated in the negotiations which led to the filing of the Joint Petition for Settlement ("*Settlement*"). The *Settlement* is a compromise that does not meet all of the OSBA's objectives in this case. However, the OSBA is satisfied that the *Settlement* is a reasonable resolution of the foregoing concerns and produces an overall outcome that is in the public interest of the Authority's small business customers. Therefore, the OSBA is a signatory to the *Settlement* and respectfully requests that the Commission approve the *Settlement* without modification.

III. Reasons for Support of Specific Issues in the Settlement

The *Settlement* sets forth a comprehensive list of issues which were resolved through the negotiation process. This statement outlines the OSBA's specific reasons for joining the *Settlement*. The following provisions were of particular significance to the OSBA in concluding that the *Settlement* is in the best interests of PWSA's small business customers.

A. Revenue Requirement (Rates, DSIC, Multi-Year Rate Plan)

In the Authority's original filing, PWSA sought an increase in retail tariff rate revenue of \$43.4 million per year in 2021, and an additional \$12.6 million in 2022.² In contrast, the *Settlement* provides PWSA with an increase in 2021 retail tariff rate revenue of \$14.15 million for water (inclusive of DSIC) and \$4.85 million for wastewater (inclusive of DSIC), for service rendered on or after January 14, 2021.³

At a time when all types of utility service are becoming more expensive, the \$24.4 million reduction in the overall 2021 revenue increase provided by the *Settlement* will benefit all of PWSA's consumers, including the Authority's small business customers.

B. Stormwater Tariff and Compliance Plan Stage 2 Proceeding

In its filing, PWSA identified \$21.6 million of stormwater-related costs on its system that must be recovered in wastewater rates until such time as the Commission approves a separate stormwater fee. PWSA indicated its intention to file a petition to establish a separate stormwater fee later this year, in which the Authority would propose to recover stormwater costs based on the amount of impervious area on customer premises.

² PWSA Statement of Reasons at 1.

³ *Settlement* at 5, para. A.1, (a) and (b).

However, until a separate stormwater fee was established, PWSA proposed to allocate stormwater costs to wastewater customers based on billing volumes.⁴

However, the OSBA objected to PWSA's method of allocating stormwater costs base on billing volumes. As Mr. Kalcic testified, stormwater is an inflow to PWSA's wastewater system. Until such time as PWSA establishes a separate stormwater fee, stormwater-related costs should be classified as I&I costs and allocated to classes on the basis of the number of connections and billing volumes, with a weighting of two-thirds and one-third, respectively.⁵

The *Settlement* defers the development of PWSA's Stormwater Tariff to a future combined water, wastewater, and stormwater filing. In addition, the Settlement provides for an across-the-board increase to PWSA's existing wastewater rates, which alleviates the OSBA's concerns regarding PWSA's proposal to allocate stormwater costs to wastewater customers based on billing volumes in this proceeding.⁶

C. Cost Allocation and Rate Design Issues

The Authority's proposed revenue increase on rebuttal for Commercial water service customers for year 1 was 21.2%.⁷ The OSBA recommended modifications to the Authority's proposed revenue allocation for water service customers due to a number of deficiencies in its filed water cost-of-service study, including the study's failure to properly allocate all the BDP-CAP and lead service line ("LSL") Program costs to the residential class. The Authority's proposed increase on rebuttal for Commercial

⁴ OSBA Statement No. 1, p. 42.

⁵ OSBA Statement No. 1, p. 43.

⁶ *Settlement* at 7, para. C.2 (b).

⁷ OSBA Statement No. 1-S, Schedule BK-3W-S.

wastewater service customers was 15.1%.⁸ The OSBA also recommended modifications to the Authority's proposed revenue allocation for wastewater customers due to a number of deficiencies in its filed wastewater cost-of-service study, including the study's failure to classify stormwater-related costs as I&I costs.⁹

The *Settlement* results in an increase of 14.7% in water rates for commercial customers and an approximate across-the-board increase of 7.8% in wastewater rates.¹⁰ As noted above, the across-the-board wastewater increase provided by the *Settlement* resolves the OSBA's concerns regarding the allocation and recovery of stormwater-related costs from customer classes in this proceeding.

With regard to revenue allocation for water service, Table 1 below compares the parties' proposed water increases for the Commercial class, adjusted for the overall level of the *Settlement* increase, to the Commercial increase provided by the *Settlement*.

Table 1
Comparison of Parties' Proposed Commercial Water Increases at
Settlement Revenue Level to Settlement Increases 1/
(\$000)

<i>Class</i>	<i>Per</i>				
	<i>Settlement</i>	<i>PWSA</i>	<i>OSBA</i>	<i>OCA</i>	<i>I&E</i>
Com.	\$6,138	\$6,326	\$5,713	\$7,001	\$6,238

Source: Settlement Appendix C, HJS-14W-R, Sch. BK-5W-S, Sch. SJR-12S and I&E Exh. No. 3-SR, Sch. 1.

1/ Parties' positions scaled to reflect the overall settlement water increase of \$14.2 m.

⁸ OSBA Statement No. 1-S, Schedule BK-3WW-S.

⁹ OSBA Statement No. 1 at 43.

¹⁰ *Settlement* at Appendix C.

As shown in Table 1, the *Settlement* increase to the Commercial class reflects a compromise among the parties, particularly with respect to the litigation positions of the OSBA and OCA. Had the Commission given equal weight to those two positions, the overall increase to the Commercial class (assuming an overall water increase of \$14.2 million) would have been (the sum of \$5.713 million plus \$7.001 million, divided by 2 or) \$6.357 million, which is \$0.219 million or 3.6% greater than the water increase provided by the *Settlement*. As a result, the OSBA concludes that the *Settlement* water revenue allocation provides a meaningful benefit to small business customers.

Additionally, the parties agree that no precedent has been established in the case regarding the allocation and recovery of low-income assistance program costs and LSL replacement costs. As part of the *Settlement*, parties have deferred the right to make proposals regarding the cost allocation for low income and lead service line replacements in the Authority's next base rates case.¹¹

Finally, the OSBA identified a number of additional deficiencies in the Authority's wastewater cost-of-service methodology, including failure to appropriately allocate infiltration costs to customer classes in PWSA's wastewater cost-of-service study.¹² With regard to the allocation of infiltration costs to customer classes, the *Settlement* at C.4 provides that PWSA will account for the costs of Infiltration and Inflow ("I&I") in its next combined water, wastewater and stormwater filing, and to the extent that the Authority does not account for all such costs in that filing, PWSA will address the total costs of I&I on its separated system in a subsequent combined proceeding.

¹¹ *Settlement* at 7, para. C.3.

¹² OSBA Statement No. 1 at 38-40, and 43.

D. Additional COVID-19 Relief Measures

The OSBA took no position.

E. COVID-19 Related Costs and Relief Funding

The OSBA took no position.

F. Low Income Customer Assistance Issues

The OSBA took no position on the specific low-income programs except for the potential cost recovery of low-income residential costs from commercial customers. The OSBA's issue has been reserved for litigation.¹³

G. Customer Service Issues

The OSBA took no position.

H. Quality of Service Issues

The OSBA took no position.

I. Additional Terms and Conditions

The OSBA took no position.

¹³ *Settlement* at 7, para. C.3.

IV. Conclusion

For the reasons set forth in the *Settlement*, as well as the additional factors enumerated in this statement, the OSBA supports the proposed *Settlement* and respectfully requests that the ALJs and the Commission approve the *Settlement* in its entirety.

Respectfully submitted,

/s/ Sharon E. Webb

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Dated: October 7, 2020

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	:	R-2020-3017970
	:	
v.	:	
	:	
Pittsburgh Water & Sewer Authority –	:	
Wastewater	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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