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October 7, 2020

Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: PA Public Utility Commission et al., v. Pittsburgh Water and Sewer Authority - Water
Docket Nos. R-2020-3017951 et al.;

PA Public Utility Commission et al., v. Pittsburgh Water and Sewer Authority –
Wastewater, Docket Nos. R-2020-3017970 et al., and

Petition of Pittsburgh Water and Sewer Authority For Waiver of Provisions of Act 11 to
Increase the DSIC CAP, to Permit Levelization of DSIC Charges, and to Authorize the
Pay-As-You-Go Method of Financing – Docket No. P-2020-3019019

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Pittsburgh Water and Sewer Authority's ("PWSA")
Statement in Support of the Joint Petition for Settlement regarding the above-referenced matters.
Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Deanne M. O'Dell

DMO/lww
Enclosure

cc: Hon. Mary Long w/out enc.
Hon. Emily Devoe w/out enc.
Cert. of Service w/out enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PWSA's Statement in Support of Joint Petition for Settlement upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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Dated: October 7, 2020

A handwritten signature in black ink that reads "Deanne M. O'Dell". The signature is written in a cursive style and is positioned above a horizontal line.

Deanne M. O'Dell, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, <i>et. al.</i>	: Docket Nos.	R-2020-3017951
	:	C-2020-3019348
v.	:	C-2020-3019305
	:	C-2020-3020747
Pittsburgh Water and Sewer Authority - Water	:	C-2020-3021067
Pennsylvania Public Utility Commission, <i>et. al.</i>	: Docket Nos.	R-2020-3017970
	:	C-2020-3019348
v.	:	C-2020-3019302
	:	C-2020-3020538
Pittsburgh Water and Sewer Authority - Wastewater	:	C-2020-3021065
Petition of Pittsburgh Water and Sewer Authority For Waiver of Provisions of Act 11 to Increase The DSIC CAP, to Permit Levelization of DSIC Charges, and to Authorize the Pay-As-You-Go Method of Financing	: Docket No.	P-2020-3019019

**STATEMENT OF THE PITTSBURGH WATER AND SEWER AUTHORITY
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT**

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I. INTRODUCTION AND OVERALL REASONS IN SUPPORT OF SETTLEMENT

The Pittsburgh Water and Sewer Authority (“PWSA,” the “Authority”) submits this Statement in Support of the Joint Petition for Settlement entered into by PWSA, the Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Pittsburgh UNITED (“UNITED”) and the City of Pittsburgh (“City”) (collectively, “Joint Petitioners” or “Parties”).¹ The Settlement fully resolves all the issues involved in this rate proceeding including PWSA’s request for a multi-year rate increase and Distribution System Improvement Charge (“DSIC”), the impacts of the current COVID-19 pandemic on PWSA’s financial positions as well as its customers, financial assistance for low income customers, customer service performance metrics, and quality of service issues. Although the benefits of each provision of the Settlement will be discussed in greater detail in the following sections, all of the provisions taken together demonstrate how the Settlement – as a package – has achieved a reasonable balance of many different (and sometimes conflicting) issues.

First, regarding rates, the Settlement permits PWSA to implement a needed rate increase for 2021 to support its robust infrastructure and regulatory driven obligations while recognizing that PWSA will file a combined water/wastewater/stormwater base rate filing for implementation of new rates in 2022 (which will include a separate stormwater rate).² The Settlement also permits PWSA to implement a water DSIC and a wastewater DSIC, each capped at 5%, to

¹ The Joint Petition for Settlement (“Settlement” or “Joint Petition for Settlement”) was filed on September 30, 2020. An errata was filed on October 6, 2020 to correct page 3 of the Joint Petition and page 5 of Appendix A which mistakenly identified PWSA’s initial rate increase request as totaling \$43.4 million instead of the correct \$43.8. On October 7, 2020, another errata was filed replacing the reference to FERC on page 9 of the Settlement (Section III.E.1) with NARUC. The Settlement has been agreed to by all of the active parties in this proceeding and a copy of the Joint Petition was served to on the consumers who filed formal complaints. *See* Joint Petition for Settlement at 19, ¶ 17.

² Joint Petition at 5-7, ¶ III.A.

enable it to fund the projects in its recently approved Long-Term Infrastructure Plans (“LTIIIPs”) for water and wastewater.³ While the Settlement does significantly decrease PWSA’s initial rate proposal,⁴ the Parties were careful to ensure that the agreed-to rate increase for 2021 would maintain PWSA’s key financial metrics at reasonable levels and provide funding to address infrastructure/operational needs as well as implementation of the additional measures agreed to in the Settlement. The Parties were also careful to leave a pathway open for PWSA to seek approval for new 2022 rates.

Second, regarding COVID-19 specific issues, PWSA agreed to implement additional programs in response to the current pandemic including a waiver of reconnection fees, targeted outreach, expanded payment arrangements and waiver of the sincere payment requirement of its existing Hardship Grant Program.⁵ In recognition of the fact that expanded programs such as these will incur costs in addition to other costs PWSA is experiencing due to the COVID-19 pandemic, Parties agreed to permit PWSA to track and record all COVID-19 Pandemic Costs so that it can make a claim for them in the next rate proceeding.⁶ This result recognizes the extraordinary nature of COVID-19 expenses and supports the implementation of the agreed-to measures related to the pandemic by enabling PWSA to seek cost recovery in the next rate case.

Third, PWSA agreed to certain expansions of its existing low income customer assistance programs including: (1) additional data tracking; (2) a new Pilot Arrearage Forgiveness Program; (3) a new fundraising campaign for its Hardship Grant Program; (4) a further bill discount for

³ Joint Petition at 5-6, ¶ III.A.2. *Petition of Pittsburgh Water and Sewer Authority for Approval of its Amended Long-Term Infrastructure Plan*, Docket Nos. P-2018-3005037 (water) and P-2018-3005039 (wastewater), Opinion and Order entered August 27, 2020.

⁴ For an in-depth comparison of PWSA’s initial rate request with the agreed-to rate request of the Settlement, see Joint Petition, Appendix D: Rates and Proof of Revenue (Existing, Initial Rate Request and Proposed Settlement) and Appendix F: Comparison of Initial Rate Request v. Proposed Settlement Rates.

⁵ Joint Petition at 8-9, ¶ III.D.

⁶ Joint Petition at 9, ¶ III.E.

volumetric charges for Bill Discount Program participants at or below 50% of the Federal Poverty Level; and, (5) expanded customer outreach and conservation efforts.⁷ Each of these measures were carefully considered to assess their expected value to PWSA’s low income customers and their cost impact. On balance, the agreed-to measures will provide valuable benefits to low income customers that can be supported by the level of Settlement rate increase without risking a negative impact on PWSA’s key financial metrics or ability to continue to fund necessary infrastructure projects and operations.

Finally, PWSA agreed to a number of customer service performance issues and quality of service metrics that will further assist PWSA in its transition to Commission regulation and provide transparency about PWSA’s progress.⁸ Each of these commitments was carefully considered with respect to the current environment within which PWSA is operating as well as the anticipated value and cost of each measure.

Even before COVID-19, this proceeding was unique among traditional utility rate cases for a number of reasons. First, PWSA is a municipal authority, created pursuant Municipal Authorities Act (“MAA”)⁹ and did not come within the Commission’s jurisdiction until the Public Utility Code was amended in December 2017.¹⁰ Second, PWSA is only the second Commission regulated utility to utilize the cash flow ratemaking method. Third, the City of Pittsburgh owns the water and wastewater conveyance systems that are leased to PWSA to manage (until 2025 when PWSA will purchase the system pursuant to pre-existing lease agreements). Fourth, PWSA’s proposals in this proceeding have been impacted by separate on-

⁷ Joint Petition at 10-14, ¶ III.F.
⁸ Joint Petition at 14-16, ¶¶ III.G and III.H.
⁹ 53 Pa.C.S. § 5601, *et seq.*
¹⁰ 66 Pa. C.S. § 3201 *et. seq.* (“Chapter 32”).

going Commission proceedings involving PWSA’s Compliance Plan¹¹ and the passage of new law addressing, *inter alia*, billing issues between PWSA and the City of Pittsburgh.¹² Fifth, the Commission’s requirement for PWSA to create a separate stormwater tariff with a separate stormwater fee is new as no other Commission regulated utility has a separate stormwater tariff. Finally, prior to coming under the jurisdiction of the Commission and continuing through to the present, PWSA has had to manage other state and federal regulatory compliance obligations related to an infrastructure that has had little to no investment for about 30 years. The onset of the COVID-19 pandemic only added additional layers of complexity for this rate case to include the financial impacts to PWSA and its ratepayers as well as the challenges presented by litigating this case within the restrictions in place as a result of the pandemic.

Notwithstanding all of these challenges, the Parties worked diligently to craft a reasonable settlement that is in the public interest. Each provision was considered individually and within the context of the overall settlement package. To achieve the Settlement, Parties agreed to compromise on many issues in the interest of designing a complete Settlement that reasonably resolves all issues. Approving the Settlement, without modification, will enable PWSA to move forward with ensuring that it is meeting or exceeding all regulatory requirements while also recognizing the needs of its customers and taking all measures necessary to ensure safe, just and reasonable service. As such PWSA urges the Administrative Law Judges (“ALJs”) to recommend that the Commission approve this Settlement as submitted and without modification and, to the extent possible, recommend that the matter be considered during the Commission’s December 17, 2020 public meeting.

¹¹ See Joint Petition, Appendix A at 1-4 for a more full description of these interrelated proceedings.

¹² 71 P.S. §§ 720.211 to 720.213 (“Act 70”).

II. REASONS FOR SUPPORT OF SPECIFIC ISSUES

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

In summary, the Joint Petition for Settlement establishes the following terms regarding revenue requirement:

- Allows a base rate increase of \$9.9 million annually rather than PWSA’s proposed \$24.2 million increase in Water and Wastewater Retail User Revenues.¹³
- Permits PWSA to implement a Water and (separately) a Wastewater Distribution System Improvement Charge (“DSIC”) at 5% of distribution revenues, or \$9.1 million annually (as opposed to a 10% DSIC, which would have produced an additional \$19.6 million).
- Withdraws the second year (2022) of PWSA’s proposed multi-year increase and instead acknowledges that PWSA may file another base rate case in 2021 with rates effective in early 2022.
- Provides that the settlement rate increase may go into effect on or after January 14, 2021 once the Commission has approved the Joint Petition.¹⁴

1. Background PWSA Cash Flow Method of Ratemaking

Chapter 32 of the Public Utility Code, added in 2017, gives the Commission jurisdiction over PWSA’s provision of water, wastewater and stormwater service and the establishment of just and reasonable rates.¹⁵ The Commission has directed that PWSA’s revenue requirement will be determined using the “Cash Flow” method, the traditional method of determining just and reasonable rates for municipal utilities such as PWSA.¹⁶ This is appropriate because PWSA has

¹³ See Joint Petition, Appendix D: Rates and Proof of Revenue (Existing, Initial Rate Request and Proposed Settlement). Note, though, that PWSA did not initially include the revenue from wholesale contracts as part of its overall rate increase request. Because PWSA did agree to include revenue from wholesale contracts as part of the total amount of rate increase agreed to in the Settlement, Appendix D includes the wholesale revenue as part of the Initial Rate Request calculations.

¹⁴ Joint Petition at 5-7, ¶ III.A. For an in-depth comparison of PWSA’s initial rate request with the agreed-to rate request of the Settlement, see Joint Petition, Appendix D: Rates and Proof of Revenue (Existing, Initial Rate Request and Proposed Settlement) and Appendix F: Comparison of Initial Rate Request v. Proposed Settlement Rates.

¹⁵ 66 Pa. C.S. § 3201 et. seq.

¹⁶ *Implementation of Chapter 32 of the Public Utility Code Re Pittsburgh Water and Sewer Authority*, Docket Nos. M-2018-2640802 and M-2018-2640803, Final Implementation Order entered March 15, 2018 at 27-28 (“*Final Implementation Order*”)

no shareholders and does not pay a dividend or a rate of return to its owner. Accordingly, PWSA does not have access to shareholder equity-generated capital and all funds raised by the Authority must come directly from government loans or grants, borrowings from the municipal debt markets (the costs of which are borne by ratepayers) or from rates paid by ratepayers.¹⁷ Therefore, rather than having its revenue requirement determined on the basis of a fair rate of return on a used and useful rate base, PWSA's rates are set by determining the levels of cash necessary to fund an operating budget that enables PWSA to operate and maintain the system, pay for needed capital improvements, produce acceptable financial metrics and maintain access to the capital markets at reasonable rates. PWSA's calculation of its revenue requirement using the "Cash Flow" method is consistent with the Commission's Cash Flow Ratemaking Policy Statement, which sets forth the financial and other considerations that are reviewed in setting just and reasonable levels using the Cash Flow method.¹⁸

2. Rates

a. PWSA Initial Proposal

In its rate filing, PWSA sought an increase in total rates of its water operations and its wastewater operations that would have produced additional annual operating revenues of \$43.8 million (including a proposed 10% DSIC), or approximately 25.4%, over its annualized total-Authority test year revenues at present rates, using a Fully Projected Future Test Year ("FPFTY") of January 1, 2021 – December 31, 2021.¹⁹ PWSA also requested a second-year

¹⁷ PWSA St. No. 5 at 20.

¹⁸ 52 Pa. Code § 69.2702(b).

¹⁹ PWSA's Petition for Consolidation of Water and Wastewater Rate Proceedings and for Authorization to use Combined Water and Wastewater Revenue Requirements was granted pursuant to Prehearing Order dated May 19, 2020. Thus, as authorized by 66 Pa. C.S. § 1311(c) of the Public Utility Code, PWSA determined its revenue requirement on a combined water and wastewater basis consistent with the prior accounting and ratemaking practice of PWSA.

increase in the rates of its water operation and wastewater operation that would have produced additional annual operating revenues of \$12.6 million, or approximately 6.4%.²⁰

Rate Revenue Increases	FPFTY FY 2021 (%)	FPFTY FY 2021 (\$)	Forecast FY 2022 (%)	Forecast FY 2022 (\$)
Water	15.9%	\$17.5m	5.1%	\$6.5m
Water + DSIC	27.4%	\$30.2 m	--	--
Sewer	10.7%	\$6.7m	8.7%	\$6.1m
Sewer + DSIC	21.8%	\$13.6m	--	--
Total Base Rates	14.0%	\$24.2m	6.4%	\$12.6m
Total + DSIC	25.4%	\$43.8m	--	--

PWSA explained that increased capital spending and the maintenance of the Authority’s assets resulted in higher capital and operating budgets that needed support from increased rates. PWSA showed that its FY 2021-2023 Construction Improvement Plan (“CIP”), which included many projects that were required pursuant to consent orders with the Department of Environmental Protection (“DEP”) showed continued high and increasing levels of spending for FY 2021 (the Fully Projected Future Test Year) and subsequent years²¹:

Capital Requirements	FY 2021	FY 2022	FY 2023	Total
Water Treatment Plant	\$ 22,328,665	21,039,919	18,164,003	61,532,587
Water Pumping and Storage	50,984,086	46,815,607	94,750,016	192,549,709
Water Distribution	45,198,426	80,275,445	131,689,581	257,163,452
Wastewater System	32,864,808	26,873,779	38,191,236	97,929,823
Stormwater	32,862,981	21,851,226	14,881,563	69,595,770
Other	5,453,214	3,714,286	4,000,000	13,167,500
Total Capital Requirements	189,692,180	200,570,262	301,676,399	\$ 691,938,841

The Authority also needs additional revenues to address unavoidable increases in operating costs in several areas. PWSA projected increases in salaries and associated benefits,

²⁰ PWSA St. No. 3 at 5.

²¹ PWSA St. No. 5 at 4-6; PWSA Exh. BK-1 and BK-2.

operating contracts, non-capital facility improvements and systems upgrades, in addition to increases in debt service and debt service coverage obligations.²²

In light of these budgeted increases, PWSA determined that it needed additional revenues in order to achieve the financial metrics necessary to maintain its financial status, and either maintain or improve its current bond ratings. This, in turn would enable PWSA to avoid increased borrowing costs that customers would have to bear in the future if the rating agencies downgraded the Authority's bonds.²³

PWSA presented its financial results at present rates, assuming the Operating Budget and projected revenues established for the FPFTY. The evidence shows that, without a rate increase PWSA's key financial metrics would be inadequate in all areas.

PWSA's three key financial metrics are year-end cash and debt service coverage, on both its senior security and 'total' basis and levels of internally generated funds, or "PAYGO," for construction financing. All three are recognized in the Commission's Policy Statement for Cash Flow-regulated companies.²⁴ Year-end cash is very important because PWSA needs an accumulated balance of cash in its accounts throughout the year and at year-end to pay its obligations throughout the next year, and to handle contingencies.²⁵ In addition, like all municipal utilities, PWSA's debt service coverage levels are crucial because if the Authority falls below the minimum requirement of 1.25x for senior debt or 1.10x including subordinate debt, it will be in technical default of its bond covenants and its access to capital markets will become more difficult and expensive.²⁶ In addition, adequate debt service coverage is necessary

²² PWSA St. No. 3 at 7-8.

²³ PWSA St. No. 4 at 13-15, 20-22

²⁴ 52 Pa Code § 69.2703.

²⁵ PWSA St. No. 5 at 20-21.

²⁶ PWSA St. No. 6 at 14-15, 23-27; PWSA St. No. 5-R at 4-5, 11-12.

to provides resources to address potential economic and operational challenges without dipping into the Authority's modest reserves. Levels above the minimum are also important to cover items that are not included in PWSA's debt service coverage calculation, such as PWSA's payment to the City of Pittsburgh pursuant to the Cooperation Agreement.²⁷

Another key financial goal for the Authority is to increase the level of PAYGO financing. PAYGO financing is simply the use of internally generated funds – cash -- from rates to finance construction or the replacement of assets (rather than using bond proceeds or government grants/loans, the two other sources of financing). Increasing PAYGO financing will help with the PWSA's goal of sustaining and increasing the amount of its capital program funded with internally generated funds. Moody's Investor's Services mentions a "high leverage" system as being one of their primary credit concerns of the PWSA. This is attributable to the PWSA's historic heavy reliance on debt to fund the majority of all capital needs. Increasing the level of PAYGO funding will help to reduce the PWSA's highly leveraged system as well as sustain healthy debt service coverage ratios and liquidity balances.²⁸ In addition, PAYGO funding is also cheaper for ratepayers than debt service financing.²⁹

In the FPFTY, PWSA's end of year cash balance was projected to be a negative \$6.9 million (or a negative 21.2 days of cash of "DOC"); PWSA projected that this negative position would continue and get much worse throughout the Forecast Period (FY 2022 and FY 2023).³⁰ Similarly, without rate relief, PWSA's debt service coverage levels in the FPFTY were projected to fall below the Authority's minimum Rate Covenant requirements: 1.09 on Senior Debt, where

²⁷ PWSA St. No. 5 at 21; PWSA St. No. 6 at 9-10.

²⁸ PWSA St. No. 5 at 21-22.

²⁹ PWSA St. No. 5 at 19; PWSA Exh. EB-8.

³⁰ PWSA St. No. 5 at 21-22.

the minimum is 1.25x, and 0.87x on total debt (which includes subordinate liens), when the minimum is 1.10x. Likewise, these coverage numbers get even worse in the Forecast Period.³¹

PWSA’s proposed rate filing would have repaired these seriously deficient metrics and would have helped to maintain or improve PWSA’s bond rating. Without the rate increase PWSA was facing a technical default with attendant serious consequences.³²

The following summarizes PWSA’s pro forma results in the FPFTY:

PWSA

	FPFTY Days of Cash on Hand (Day O&M)	Senior Debt	Total Debt Service Coverage
Pro Forma, Present Rates ³³	(21.3) days	1.09x ³⁴ (minimum requirement: 1.25x)	0.87x ³⁵ (minimum requirement: 1.10)
Pro Forma Proposed Rates³⁶	113.2	1.82x	1.45x

PWSA’s financial advisor, Thomas Huestis testified that, even at proposed rates, PWSA’s metrics would still have slotted the Authority’s performance well below its peers. For example, the overall municipal water and sewer utility sector-wide debt service coverage is close to 2.3 times³⁷ and PWSA’s projected 113.2 Days of Cash, assuming the full rate increase would have been well below the median levels for its peers: 350-381 DOC.³⁸ Accordingly, PWSA’s testimony and supporting exhibits clearly justified the awarding of the requested rate relief for FY 2021.

³¹ PWSA St. No. 3 at 18.
³² PWSA St. No. 5 at 8-10.
³³ PWSA Exh. WJP-1.
³⁴ PWSA St. No. 5 at 8-10.
³⁵ PWSA St. No. 5 at 23; PWSA St. No. 6 at 14.
³⁶ PWSA Exh. WJP-1.
³⁷ PWSA St. No. 6 at 17.
³⁸ PWSA St. No. 6 at 17.

In addition, the base rate increase, together with PWSA’s proposed DSIC (which will be discussed below) would have permitted PWSA to finance 14.09% of the Authority’s projected capital spending requirements for the FPFTY (FY 2021) enabling the Authority to achieve the Financial Management Policy’s “PAYGO funding” goal.³⁹

Looking beyond 2021 and consistent with 66 Pa. C.S. § 1330, PWSA’s sought an additional rate increase for 2022.⁴⁰ Pursuant to its proposed multi-year rate plan, PWSA sought approval to implement a second-year increase of \$12.6 million or 6.4%. The increase in 2022 would have been directed solely for anticipated additional debt service and debt service coverage in 2022.⁴¹ PWSA’s proposed 2022 rate increase would have helped PWSA cover a known increase in costs and thus maintain its financial metrics in the second year following the requested rate increase.

b. Positions of Other Parties and PWSA Response

In response to PWSA’s proposals, several parties submitted testimony with alternative recommendations regarding a just and reasonable rate increase for the Authority. I&E submitted testimony claiming that PWSA’s present rates were actually too high given its view of legitimate FPFTY revenues and expenses, and that a rate decrease of \$2.7 million was justified.⁴² The OCA recommended that, because of the economic effects of the COVID-19 pandemic on PWSA’s customers and the Allegheny County economy, the Commission should refuse to

³⁹ PWSA St. No. 6 at 14

⁴⁰ PWSA St. No. 3 at 20-22.

⁴¹ PWSA St. No. 3 at 20.

⁴² I &E St. No. 1-SR at 13. The proposed decrease in water rates was \$1,758,607 and the proposed decrease in wastewater rates was \$946,943. These were amended amounts as a result of revisions that were necessary due to the passage of Act 70 of 2020, which codified the Cooperation Agreement between PWSA and the City and required that the City only be charged at the levels set forth therein. See 71 P.S. §§ 720.211 to 720.213.

increase PWSA's rates at this time.⁴³ (A similar position was submitted by OSBA and UNITED).⁴⁴ In the alternative, OCA recommended that PWSA should only be permitted to increase overall rates by \$15.9 million inclusive of any amount permitted for DSIC.⁴⁵ Both OCA and I&E claimed that, notwithstanding recommending no or substantially reduced revenue requirements, PWSA's key financial metrics nonetheless would be within the parameters expected by the rating agencies and would not result in a bond covenant default.

In response, PWSA presented the testimony of James H. Cawley to address, in part, why even during the current pandemic and specifically based on the situation of PWSA, the Commission cannot abandon its responsibility to undertake a full and fair review of PWSA's proposed rate increase and grant it to the extent it has been supported by the evidence.⁴⁶ PWSA witnesses also showed that the I&E and OCA claim that PWSA would be able to maintain its financial metrics with no rate increase or a rate reduction were predicated on the Authority drastically reducing its levels of operating expenses. In order for PWSA to avoid a default on its bond covenants it would have had to find a way to reduce its operating expenses by some \$25 - \$29 million.⁴⁷ According to PWSA, the I&E and OCA claims were based on invalid assumptions about the PWSA's likely level of expenditure in the test year and PWSA presented rebuttal testimony refuting underlying assumptions.⁴⁸ As PWSA Witness Presutti testified, PWSA fully believes that, given the full rate increase, it would have incurred the levels of expenditures set forth in its 2021 budget.⁴⁹ The reductions necessary to respond to the I&E and

⁴³ OCA St. No. 1.

⁴⁴ OSBA St. No. 1; UNITED St. No. 1 at 7-8.

⁴⁵ OCA St. No. 2 at 7-8.

⁴⁶ PWSA St. No. 10-R.

⁴⁷ PWSA St. No. 5-R at 12-13.

⁴⁸ PWSA St. No. 3-R; St. 5R.

⁴⁹ PWSA St. No. 3-R at 8-27.

OCA recommendations, therefore, would have resulted in PWSA not being able to satisfy a host of obligations and could have resulted in significant delays in completing system improvements.

c. Proposed Settlement

The Settlement proposes to permit PWSA to increase its water and wastewater rates by a total of \$19.0 million. A portion, (\$9.1 million) would be produced by the implementation of a 5% DSIC with the remaining increase coming in the form of a base rate increase.⁵⁰ As discussed further below in Section II.A.4, PWSA’s proposed 2022 rate increase has been withdrawn.

The resulting year end days of cash and debt service coverages, with comparison to PWSA’s original proposal and the position of the opposing parties, is as follows:

Proposed Settlement Rate Increase

	FPFTY Days of Cash on Hand (Day O&M)	Senior Debt	Total Debt Service Coverage
Effect of Settlement Rates	114.5 days	1.50x (minimum requirement: 1.25x)	1.20x (minimum requirement: 1.10)
I&E Recommendation⁵¹	147.9	1.50x	1.20x
OCA Recommendation⁵²	120.7	1.49x	1.19x
PWSA Original Request⁵³	113.2	1.82x	1.45x

Importantly, these calculated financial metrics result from an anticipated reduction in PWSA’s 2021 operating budget (\$6 million) and the assumption that all PAYGO will be produced from PWSA’s DSIC. Accordingly, with these modifications in spending, the resulting metrics are consistent with levels recommended by the opposing parties and are minimally

⁵⁰ See Joint Petition at Appendix D: Rates and Proof of Revenue (Existing, Initial Rate Request and Proposed Settlement).

⁵¹ I&E Exh.1-SR, Sch. 1.

⁵² OCA St. No. 3.

⁵³ PWSA Exh. WJP-1.

sufficient to maintain PWSA's key financial metrics at reasonable levels. PWSA does not expect the Settlement rate levels to negatively affect its current bond rating.

The Settlement rate increase thus represents a reasonable compromise given the unique aspects of this proceeding in addition to the extraordinary circumstances resulting from the COVID-19 pandemic. Regarding the pandemic, several parties submitted testimony discussing the hardship it has created for consumers and businesses and advocated that no additional rate increase should be permitted.⁵⁴ However, as the projected financial metrics resulting from the Settlement rates show, the agreed upon rate increase is the least that could be awarded without PWSA being put into default on its bonds or requiring the Authority to severely cut back on its operations in order to avoid such a default. Importantly, and as noted above, no rate increase or would cause PWSA to be in default of its bond covenants; to avoid a default it would have had to find a way to reduce its operating expenses by some \$25 - \$29 million.⁵⁵

PWSA also submitted extensive testimony showing that it would be neither reasonable nor legally permissible to simply reject a rate increase because of the perceived ability of some customers to bear the increase.⁵⁶ The appropriate response is to focus on targeted assistance to those most likely in need, which, as explained below, the proposed Settlement has done. As will be discussed further below in Sections II.D through II.H, the Settlement includes a number of additional COVID-19 specific measures, expansions of PWSA's low income customer service programs, customer service performance metrics and quality of service agreements that will provide benefits for customers and take into account the specific economic times that currently exist. However, these additional terms have associated costs which will need to be supported by

⁵⁴ See OCA St. No. 1 at 11-29; OSBA St. No. 1 at 4-5; UNITED St. No. 1 at 6-9, 13-14.

⁵⁵ PWSA St. No. 5-R at 12-13.

⁵⁶ See, PWSA St. No. 10-R.

the agreed-to settlement rates. Not granting a rate increase but still requiring PWSA (which operates on a cash flow basis) to undertake significant costs to address the COVID-19 pandemic is not reasonable.

For all these reasons, the compromise rate increase reflected in the Settlement and agreed to by all parties is reasonable and in the public interest.

3. Distribution System Improvement Charge

a. PWSA Initial Proposal

PWSA proposed that it be permitted to implement a DSIC for water and a DSIC for wastewater each capped at 10% of the PWSA's distribution revenues.⁵⁷ As explained in PWSA's Petition to Implement a [DSIC] and Requested Waivers Necessary To Implement a 10% Cap, to Permit Levelization of DSIC Charges and to Authorize the Pay-As-You Go Method of Financing,⁵⁸ which was subsequently consolidated with this proceeding, requested that it be permitted to:

- recover in the DSIC either the debt service and debt service coverage associated with DSIC eligible property or, the cash that the PWSA expends to finance a portion of its Construction Improvement Plan through internally generated funds, or "PAYGO," (where the PWSA expends the funds for a construction project in the year in which the construction occurs and the project goes into service); and,
- charge the DSIC at a levelized, amount each month. PWSA explained that funding the DSIC at 10% would mean that at least this portion of the financing for its CIP will be steady and certain and not subject to vagaries of base rate revenue collection.

In addition, PWSA indicated that permitting the PWSA to set the DSIC at 10% would signal the Commission's support of the PWSA's CIP. This includes funding projects with a

⁵⁷ PWSA St. No. 5 at 15-20.

⁵⁸ The DSIC Petition was docketed to P-2020-3019019 and a separate Petition filed at the same time to consolidate the DSIC Petition with this proceeding was granted in Prehearing Order dated May 19, 2020.

short useful life that are currently mandated by the Commission, such as meter replacements, while also funding core capital improvements related to water and sewer main replacements.

PWSA further demonstrated that using the DSIC to produce PAYGO funding is beneficial to the Authority and its ratepayers because

- it provides a reliable funding source to complete core capital improvements that will result in improved level of service for all ratepayers;
- will help PWSA to moderate the current and future amount of debt it needs to fund the system thus reducing its present level of leverage; and
- is a cheaper funding option compared to long-term debt.

The DSICs would be used for the projects set forth in PWSA’s Long-Term Infrastructure Improvement Plans (“LTIIPs”) which were first filed on September 28, 2018 and approved by the Commission on August 27, 2020.⁵⁹ PWSA has an enormous construction budget – some \$692 million – over the next three years.⁶⁰ And, PWSA showed that it will need to expend \$748,010,000 on water main replacements by 2026 in order to eliminate in the lead within the system.⁶¹ This is a DSIC eligible project that addresses a public health issue as well modernizing its infrastructure. This last number does not include other DSIC eligible replacements, such as meters, hydrants, and valves, which must also be replaced over that same time.

In addition, the PWSA plans to complete over \$134,368,000 in DSIC eligible sewer projects by 2023.⁶² This includes projects such as small diameter sewer rehabilitation, large diameter sewer rehabilitation, sewer reconstruction, and sewers under structures. Similar to the rest of the system, the sewers have not historically received the level of investment necessary to

⁵⁹ *Petition of Pittsburgh Water and Sewer Authority for Approval of its Amended Long-Term Infrastructure Plan* Docket Nos. P-2018-3005037 (water) and P-2018-3005039 (wastewater), Opinion and Orders entered August 27, 2020.

⁶⁰ PWSA St. No. 5 at 7.

⁶¹ PWSA St. No. 5-RJ at 8.

⁶² PWSA St. No. 5-RJ at 10.

maintain an appropriate level of service. This has resulted in the emergency replacement of sewers when they fail, which is substantially more expense compared to proactive replacements.⁶³

Therefore, the evidence was overwhelming that a water and wastewater DSIC were justified in order to assist PWSA in replacing antiquated and unsafe water and wastewater distribution infrastructure. A 10% DSIC would have represented between 13 and 17% of the PWSA's total "DSIC-Eligible" CIP in the FPFTY, including PWSA's lead service line replacement program.⁶⁴

b. Positions of Other Parties

I&E took the position that while DSIC should be permitted for PWSA, the cap should be set at 5% rather than 10%.⁶⁵ OSBA recommended that the Commission cap any approved DSIC for PWSA at 7.5%.⁶⁶ OCA opposed the use of a DSIC for PWSA, but testified that if a DSIC was to be put in place it should be capped at 5%, not 10%.⁶⁷

c. Proposed Settlement

In addition to being permitted to increase water and wastewater base rates, the Settlement permits PWSA to implement a levelized, 5% DSIC for water and for wastewater. The terms in the Settlement relating to DSIC are as follows:⁶⁸

- a. PWSA will implement a 5% DSIC (for both water and wastewater) beginning on or after January 14, 2021. Both the water and wastewater DSICs will be capped at 5%

⁶³ PWSA St. No. 5-RJ at 10-11.

⁶⁴ PWSA St. No. 5 at 18.

⁶⁵ I&E St. No. 4 at 11.

⁶⁶ OSBA St. No. 1 at 4, 52.

⁶⁷ OCA St. No. 4 at 28-29.

⁶⁸ Joint Petition at 5-6, ¶ III.A.2.

- b. PWSA will not propose any increase to the DSIC cap unless it is in conjunction with a base rate proceeding.
- c. The DSIC shall be levelized at the DSIC cap amount over 12 months
 - d. Billed revenues for the DSIC will be reconciled at end of year with actual DSIC-eligible costs as approved in PWSA's LTIPs for water and (separately) wastewater for that one-year reconciliation period; any DSIC amounts billed but not expended will be refunded to customers over a one-year period commencing on April 1 of the following year in the "e" factor.
 - e. To minimize over or under collections, PWSA will, subject to the DSIC cap, adjust the DSIC percentage by October 1 if projected total billings and expenditures for the remainder of the year indicate that a material over or under collection of plus or minus 2% is likely to occur. However, PWSA will make adjustments in earlier quarters if it is able to accurately determine that a material over or under collection is likely to result by the end of the year.
 - f. In each quarter, whether or not PWSA changes the DSIC percentage, it will file schedules supporting the DSIC rate, which include total DSIC revenue billed, total DSIC recoverable costs, over and under collections and interest, by month. The calculation of DSIC recoverable costs for the applicable period will include the plant account number, PWSA project number, description, location, type and monthly cost for the projects.
- g. DSIC projected recoverable annual costs shall be based on the sum of enumerated water and wastewater DSIC-eligible projects budgets as contained in PWSA's approved LTIPs for each calendar year.
- h. Initially, PWSA will utilize DSIC revenue only for PAYGO funding of DSIC-eligible projects. PWSA may also utilize DSIC revenue to recover amounts associated with bond funding of DSIC-eligible projects provided that, prior to using DSIC for this purposes, PWSA will meet with the parties to the Settlement to discuss the parameters and procedures and will provide notice to the Commission of its intent to use DSIC revenue to recover bond related funding. All parties reserve the right to reevaluate the use of DSIC revenue for PAYGO or bond related funding as part of a future base rate proceeding.
- i. PWSA will not apply the DSIC to amounts billed for public fire protection service.

- j. Only the statutory waivers of 66 Pa. C.S. § 1350-1360 that are required to effect these settlement provisions are approved. PWSA's other waiver requests filed at Docket No. P-2020-3019019 are withdrawn without prejudice.

Practically speaking, PWSA's DSIC mechanism will function like this:

- PWSA will calculate a Water and (separately) a Wastewater DSIC and bill customers each month at a level that will produce the revenues permitted by Commission authorized DSIC cap (i.e., 5%).
- PWSA will undertake DSIC eligible construction and pay for that construction on a "PAYGO" basis via the revenues billed by the Water and Wastewater DSICs (with the option to include debt-financed construction at some point in the future).
- Once the year is over PWSA will compare the amount billed under each DSIC separately and compare that with the amount of DSIC eligible construction (which is also consistent with PWSA's LTIP.)
- If the amount of construction actually conducted for Water and (separately) Wastewater is less than the revenues billed under the DSIC PWSA will, starting on April 1, refund those dollars to applicable customers via its DSIC "e-factor" plus interest. If actual DSIC Water project expenditures exceed billed DSIC Water (or, separately, Wastewater) revenues then the e-factor will bill Water or Wastewater customers an additional amount to recover those additional expenditures (but not so as to have the DSIC exceed 5%).⁶⁹

Thus, the Settlement permits PWSA to establish a levelized DSIC to fund water and wastewater projects with a 5% cap. While this represents only a small portion of PWSA's total DSIC eligible capital needs,⁷⁰ it is a step in the right direction. It will produce a permanent source of PAYGO funding to finance distribution water and wastewater projects which will not be contingent on base rate case determinations. Moreover, it will help to reduce PWSA's reliance on long-term debt financing thus reducing its present heavily leveraged position. Finally, it is fair to both the Authority and its ratepayers as it assures that the amount billed via the DSIC will be earmarked exclusively for eligible infrastructure projects and any dollars billed

⁶⁹ Joint Petition at 5-6, ¶ III.A.2. *See also* PWSA Tariff, page 62, Section 4(b).

⁷⁰ PWSA St. No. 5-RJ at 10-11.

but not expended will be returned to ratepayers. Thus the settlement allowance of a 5% DSIC is eminently reasonable.

4. Multi-Year Rate Plan

a. PWSA's Initial Proposal

As part of its initial filing, PWSA requested that the Commission authorize a second year (2022) increase of \$12.6 million or a 6.4% increase beyond the requested rate increase for 2021.⁷¹ The 2022 requested increase was intended to cover only the anticipated additional debt service and debt service coverage in 2022.⁷² By producing approximately \$36.1 million in year-end Cash or 111.3 DCOH, PWSA explained the requested 2020 year increase was a more efficient way to further support PWSA's financial stability and to permit PWSA to continue with its aggressive infrastructure improvement program.⁷³ As explained by PWSA Witness Huestis, approval of the multi-year rate plan would have been viewed favorably by the rating agencies because it demonstrates forward planning and contributes to stable financial performance.⁷⁴ In addition, Mr. Huestis testified that most municipal utilities do long-term planning and review and adjust their rates annually.⁷⁵ Also, given the broader experience of most larger metropolitan systems of increasing water costs and declining water usage and the fact that PWSA has financial metrics under industry medians and peer agencies, Mr. Huestis explained that approval of a multi-year rate plan in this proceeding would be viewed positively.⁷⁶ Finally, Mr. Huestis highlighted the practical financial planning realities of not permitting a multi-year rate case in

⁷¹ PWSA St. No. 3 at 20-22. See 66 Pa. C.S. § 1330(b)(1)(iv); (f) which permits and defines multi-year rate plans.

⁷² PWSA St. No. 3 at 20.

⁷³ PWSA St. No. 3 at 21.

⁷⁴ PWSA St. No. 6 at 27-30.

⁷⁵ PWSA St. No. 6 at 27-30.

⁷⁶ PWSA St. No. 6 at 27-30.

terms of the requested rate relief and the time and expense of filing and litigating a base rate proceeding.⁷⁷ Also in support of PWSA’s multi-year rate plan, PWSA Witness Quigley explained PWSA’s proposed customer notice, how customers would benefit from predictable rates for 2022, and the impact of the multi-year plan on PWSA’s customer assistance programs.⁷⁸

b. Other Parties’ Positions and PWSA Response

Several parties opposed PWSA’s proposed multi-year rate plan. I&E witness Cline testified that it is not appropriate for a “new utility” with only one completed base rate proceeding to implement a multi-year rate plan, and claimed that the economic impacts of COVID-19 create additional uncertainty regarding revenue, expenses, and future borrowing costs.⁷⁹ Similarly, OCA Witness Rubin testified the COVID-19 pandemic has created significant uncertainty, questioned the ability to reliably project expenses and revenues two years into the future, and advocated that PWSA should instead file a new rate case for all three services – water, wastewater, and stormwater – after this proceeding has concluded, with new rates taking effect in early 2022.⁸⁰ OCA Witness Pavlovic opposed PWSA’s proposed multi-year rate plan on the basis that: (1) PWSA did not consider all relevant factors set forth in the Commission’s Policy Statement at 52 Pa. Code § 69.3302; (2) a multi-year rate plan will not increase administrative efficiency or provide benefits; and, (3) PWSA did not propose any performance metrics to ensure the safety and reliability of service.⁸¹

In response, PWSA continued to support its initial multi-year rate proposal. As explained by PWSA Witness Barca, PWSA’s proposed rate increase for 2022 was carefully designed to

⁷⁷ PWSA St. No. 6 at 30-31.

⁷⁸ PWSA St. No. 8 at 35.

⁷⁹ I&E St. No. 3 at 49.

⁸⁰ OCA St. No. 1 at 34-36.

⁸¹ PWSA St. No. 4 at 4-13.

recover the anticipated additional debt giving the projections for 2022 a solid basis in the FPFTY.⁸² Mr. Barca also explained how the impacts of COVID-19 further justify implementation of the multi-year rate plan because it would bring a level of revenue certainty to PWSA.⁸³ Finally, Mr. Barca pointed out that PWSA is in the process of significant and on-going scrutiny regarding its operations as part of its transition to the jurisdiction of the Commission. To that end, PWSA reports on a monthly, quarterly, and annual cycle numerous performance metrics for the organization and is scheduled to do so through October 2025.⁸⁴ PWSA also publicly launched “Headwaters” in January 2020 to measure PWSA’s performance regarding five specific goals and to share PWSA’s progress in meeting them publicly.⁸⁵ Thus, significant transparency already exists in terms of monitoring PWSA’s operations and performance to support implementation of a multi-year rate plan.

c. Proposed Settlement

PWSA agrees to withdraw its proposed multi-year rate plan as part of the Settlement.⁸⁶ Importantly, though, the Settlement also recognizes the need for PWSA to file a subsequent and combined water, wastewater, and stormwater base rate case no earlier than February 2021 for 2022 rates.⁸⁷ While this approach does not provide PWSA with the specific level of rate increase requested for 2022, it is an important balance of current times and PWSA’s anticipated future need – particularly its stormwater plans (as discussed below in the next section). Given that PWSA is agreeing to a lesser amount of rate increase than originally proposed while also

⁸² PWSA St. No. 5-R at 16.

⁸³ PWSA St. No. 5-R at 19.

⁸⁴ PWSA St. No. 5-R at 21.

⁸⁵ PWSA St. No. 1 at 20-21.

⁸⁶ Joint Petition at 7, ¶ III.A.3.a.

⁸⁷ Joint Petition at 7, ¶ III.A.3.b and c.

agreeing to implement additional customer service issues and still evaluating the effects of the pandemic, permitting PWSA to re-evaluate its total needs for 2022 on a clean slate basis is reasonable. By that time, PWSA will have additional information about how it has managed with the rates approved in this proceeding as balanced with all of the other financial pressures it is facing to determine the best course for 2022. The understanding of the parties that PWSA will be filing a combined rate case in 2021 is a critical component of PWSA's agreement to withdraw its multi-year rate plan, to accept a significantly less than requested rate increase and to embark upon some new customer service programs. For all these reasons, PWSA submits that this Settlement term is in the public interest and should be approved.

B. Stormwater Tariff and Compliance Plan Stage 2 Proceeding

1. Stormwater Background and Commission Direction to PWSA

Stormwater is rain or snowmelt that does not infiltrate into the ground and (particularly in developed areas) can cause localized flooding and/or other water quality issues by carrying harmful pollutants.⁸⁸ Stormwater is conveyed through wastewater conveyance system which consists of: (1) a combined system; and, (2) a separated sanitary and storm sewer system.⁸⁹ When the volume of wastewater and stormwater exceed the capacity of the conveyance system, the system is designed to allow the excess to be discharged into rivers and streams and such discharges are allowed only pursuant to permits issued by the Pennsylvania Department of Environmental Protection ("PA DEP") as required by the Clean Water Act.⁹⁰ The City of Pittsburgh and other municipalities are required to comply with a 2004 Consent Order from the

⁸⁸ PWSA St. No. 9 at 3-4.
⁸⁹ PWSA St. No. 9 at 6-17.
⁹⁰ PWSA St. No. 9 at 5-6, 9.

PA DEP to reduce the volume of combined sewer overflows and basement backups.⁹¹ PWSA has been working to address the issue of stormwater and prepared a *Wet Weather Feasibility Study* in accordance with the PA DEP Consent Order.⁹²

As PWSA began the transition to Commission jurisdiction at the beginning of 2018, the Commission sought comment and provided direction about stormwater issues concluding that “it has jurisdiction over the stand-alone stormwater service provided by PWSA, and that it will require PWSA to file a stormwater tariff and a related compliance plan.”⁹³ Recognizing that PWSA was directed by Chapter 32 to file an initial base rate within 90 days of the effective date of the law (July 2018), the Commission directed that PWSA file its stormwater compliance plan and tariff no later than its next wastewater base rate filing subsequent to the initial base rate case.⁹⁴ Accordingly, PWSA does not currently have a separate stormwater tariff. Rather, PWSA’s initial Commission approved wastewater tariff effective March 1, 2019 permits PWSA to utilize the revenue generated from customer charges for wastewater conveyance to fund stormwater management.⁹⁵

During the pendency of PWSA’s initial base rate case, the Commission issued a Secretarial Letter dated November 28, 2018 directing the Bureau of Technical Utility Services (“TUS”) to conduct a stormwater tariff workshop in 2019 and develop an initial report and directed questions regarding a PWSA proposed stormwater tariff for use in Stage 2 of the

⁹¹ PWSA St. No. 9 at 12, *citing* 2004 PA DEP Consent Order and Agreement, *available at* <https://www.3riverswetweather.org/sites/default/files/Consent%20Order%20and%20Agreement%20final%202004.pdf>.

⁹² PWSA St. No. 9 at 12, *citing* *Wet Weather Feasibility Study*, *available at* <https://www.pgh2o.com/your-water/stormwater>.

⁹³ *Final Implementation Order* at 5.

⁹⁴ *Final Implementation Order* at 31.

⁹⁵ PWSA St. No. 9 at 3. PWSA Tariff Wastewater, Pa. P.U.C. No. 1, Part VI, pages 68-70 effective March 1, 2019.

Compliance Plan Proceeding.⁹⁶ The Stage 2 stormwater workshops were held and Commission Staff developed a model stormwater tariff.⁹⁷ Stage 2 of PWSA’s Compliance Plan Proceeding has not yet commenced due to the pendency of two appeals of the Commission’s Stage 1 Orders.⁹⁸

2. PWSA’s Initial Proposal

With this second base rate filing since coming under the Commission’s jurisdiction, PWSA included a *pro forma* stormwater tariff⁹⁹ to be consistent with the direction in the Commission’s FIO.¹⁰⁰ To develop the proposed *pro forma* stormwater tariff, PWSA utilized the Commission Staff’s model stormwater tariff as well as the effective tariffs/ordinances of other municipal entities while considering the challenges of creating a new stormwater tariff and introducing it to consumers.¹⁰¹ As part of its cost of service analysis, PWSA identified approximately \$21.6 million of stormwater related costs in the FPFTY and \$24.7 million in FY 2022.¹⁰² PWSA provided this cost analysis for informational purposes only and did not include a request for approval of a specific stormwater fee as part of this rate case.¹⁰³ Rather, PWSA planned to update the cost of service analysis as part of a future filing that was to include a request that the Commission approve a specific stormwater fee.¹⁰⁴ Consequently, PWSA limited its stormwater related request in this proceeding to approval of the proposed *pro forma* stormwater tariff. PWSA anticipated filing a request with the Commission to approve specific

⁹⁶ *Assignment of the Pittsburgh Water and Sewer Authority Compliance Plan to the Office of Administrative Law Judge*, Docket No. M-2018-2640802 and M-2018-2640803, Secretarial Letter (Corrected) dated November 28, 2018.

⁹⁷ PWSA St. No. 9 at 26; PWSA Exh. BD-4.

⁹⁸ Joint Petition, Appendix A at 3, ¶¶3(c)-(k).

⁹⁹ PWSA Exh. BD-3.

¹⁰⁰ *Final Implementation Order* at 31.

¹⁰¹ PWSA St. No. 9 at 26-27.

¹⁰² PWSA St. No. 7 at 13.

¹⁰³ PWSA St. No. 7 at 28; PWSA St. No. 9-SD at 1-2.

¹⁰⁴ PWSA St. No. 7 at 13.

stormwater rates later in 2020 with the new Commission approved stormwater rates to be implemented in early 2022.¹⁰⁵

3. Positions of Other Parties

OCA raised concerns about reviewing the stormwater tariff outside the context of a fully developed stormwater fee proposal.¹⁰⁶ In particular, OCA Witness Rubin argued that the stormwater tariff should not be ruled on as part of this proceeding.¹⁰⁷ While recognizing that “developing reasonable stormwater charges is a complex and time-consuming task that needs to be done carefully,” Mr. Rubin argued that “there is no benefit to establishing the terms and conditions of stormwater service without establishing the rates and charges at the same time.”¹⁰⁸ Similarly, OCA Witness Alexander identified seven specific areas of concern with PWSA’s *pro forma* stormwater tariff and argued that “there is no advantage to PWSA or its customers to approve this document that cannot be implemented at this time.”¹⁰⁹

Relatedly, though not directly opposing PWSA’s proposed *pro forma* stormwater tariff, I&E Witness Cline expressed concern about how PWSA’s proposed multi-year rate plan and forthcoming base rate case to implement a stormwater fee would lead to a necessary change in the wastewater rates as some amount would need to be reallocated from wastewater conveyance rates to the stormwater fee. According to Mr. Cline, “depending on the timing of when PWSA files the stormwater case, wastewater conveyance customers could conceivably see their rates increase at the beginning of the FPFTY, decrease during the FPFTY, then increase again as a

¹⁰⁵ PWSA St. No. 9 at 28; PWSA St. No. 9-SD at 1-2; PWSA St. No. 7 at 13.

¹⁰⁶ See OCA St. No. 1 at 52-56; OCA St. No. 7 at 22-24.

¹⁰⁷ OCA St. No. 1 at 56.

¹⁰⁸ OCA St. No. 1-SR at 15.

¹⁰⁹ OCA St. No. 7 at 23-25; OCA St. No. 7-SR at 11-12.

result of the [multi-year rate plan].”¹¹⁰ Similarly, OCA Witness Rubin argued that PWSA should instead file a new rate case for all three services – water, wastewater, and stormwater – after this proceeding has concluded, with new rates taking effect in early 2022.¹¹¹

4. Proposed Settlement

To address concerns about approving a *pro forma* stormwater tariff in advance of receiving Commission approval for specific stormwater rates, the parties agreed to defer development of the stormwater tariff to PWSA’s combined water, wastewater and stormwater rate filing to be submitted in the first quarter of 2021.¹¹² This proposal will enable PWSA to continue its focus on developing stormwater rates for the Commission’s consideration consistent with its previously established timeline and will allow for the consideration of those rates and the proposed stormwater tariff in one proceeding. In addition, by withdrawing its request for a multi-year rate plan, the next base rate proceeding can comprehensively address the impact of PWSA’s proposed stormwater fee on its wastewater conveyance rates and, to the extent applicable, its water rates.

In their consideration of this issue, the parties also recognized the Commission’s plans for Stage 2 of the Compliance Plan proceeding. As directed to do so in November 2018, Commission Staff conducted several workshops and developed a model stormwater tariff.¹¹³ PWSA utilized the staff developed model to inform its own proposals in this proceeding for a *pro forma* stormwater tariff. While the result of PWSA’s efforts are not before the Commission in this proceeding, the work has been started and shared publicly with the parties and the

¹¹⁰ I&E St. No. 3 at 52-53. As discussed above in Section II.A, the Joint Petition proposes withdrawal of PWSA’s multi-year rate plan.

¹¹¹ OCA St. No. 1 at 34-36.

¹¹² Joint Petition at 7, ¶ III.B.1.

¹¹³ PWSA Exh. BD-4.

Commission. Given that commencement of Stage 2 of the Compliance Plan proceeding is unknown at this time while PWSA is committed to filing its next base rate to include stormwater in the first quarter of 2021, the parties recommend the consolidation of the Compliance Plan Stage 2 stormwater issues with PWSA’s upcoming base rate filing.¹¹⁴ This will enable all stormwater issues – the tariff and the proposed rates – to be addressed comprehensively in a base rate proceeding that also includes PWSA’s water and wastewater rates. To the extent that Commission Staff provides directed questions related to stormwater in advance of PWSA’s rate filing, PWSA can address those questions as part of its rate filing. Consolidating the stormwater rate filing and the stormwater aspects of the Compliance Plan Stage 2 proceeding will allow all issues related to the development of a stormwater tariff to be addressed as part of a single filing. The parties believe this approach will be the most efficient way to resolve these issues and ensure that a comprehensive approach to stormwater management is developed with the input of interested stakeholders and Commission Staff. Consolidating the proceedings and working through these issues in one process will likely produce a better result that best serves the public interest.

C. Cost Allocation and Rate Design Issues

1. PWSA Initial Proposal

PWSA presented a Class Cost of Service Study (“CCOSS”),¹¹⁵ sponsored by the direct testimony of Harold J. Smith,¹¹⁶ Vice President of Raftelis Financial Consultants, Inc., a consulting firm specializing in the areas of water and wastewater finance and pricing. The

¹¹⁴ Joint Petition at 7, ¶ III.B.2.

¹¹⁵ PWSA Exhibits HJS-1 to HJS-6; HJS-1W to HJS-22W and HJS-1WW to HJS-21WW.

¹¹⁶ PWSA St. No. 7.

purpose of the CCOSS was to allocate PWSA's costs of providing service to each rate class and to develop cost based rates and charges for both water and wastewater conveyance service.¹¹⁷

Through his Direct Testimony, Mr. Smith testified that water service costs were allocated in a manner consistent with the methodology set forth in the American Water Works Association Manual M-1 "Principles of Water Rates, Fees and Charges 7th Edition."¹¹⁸ Specifically, Mr. Smith described how the CCOSS allocated PWSA's operating and maintenance costs, customer service costs, engineering and construction costs, capital costs and debt service using the Base/Extra Capacity cost allocation methodology which is a three step process that involves first assigning costs to functional categories, then assigning the costs from each functional category to Base/Extra Capacity cost categories based on system demand characteristics and then allocating the Base/Extra Capacity cost categories to customer classes based on customer class demand patterns to functional categories.¹¹⁹ First, costs were assigned to functional categories based on the way that PWSA utilizes the resources within each function to meet the demands of each customer class.¹²⁰ Next, O&M and capital costs are assigned to one or more of six Base/Extra Capacity costs categories based on how costs are incurred to meet the demands of the water system as a whole.¹²¹ Costs were next allocated to each customer class in a manner that reflects the way in which each class demands service.¹²² Notably, because wholesale rates are determined based on existing contractual relationships, costs were not allocated to wholesale

¹¹⁷ PWSA St. No. 7 at 2.

¹¹⁸ PWSA St. No. 7 at 14.

¹¹⁹ PWSA St. No. 7 at 14.

¹²⁰ PWSA St. No. 7 at 14-16.

¹²¹ PWSA St. No. 7 at 18-20.

¹²² PWSA St. No. 7 at 20-21.

customers and instead assigned in accordance with the levels set forth in their respective contracts.¹²³

Finally, adjustments to class cost of service were made based on several factors, including rate case settlement items, negotiated agreements with the City of Pittsburgh and other entities, bad debt and customer assistance program forgone revenue.¹²⁴

With respect to wastewater conveyance cost allocation, Mr. Smith's Direct Testimony noted that these costs were allocated according to standard industry practice as described in the Water Environment Federation's Manual of Practice No. 27, "Financing and Charges for Wastewater Systems." Similar to the allocation methodology used for determining PWSA's water rates, the allocation process involved three steps: 1) assigning costs to functional categories; 2) assigning the costs from each functional category to cost categories; and 3) allocating the costs from each cost category to customer classes.¹²⁵

Based on the water and wastewater CCOSS, PWSA proposed varying levels of increases by customer class¹²⁶

Subsequently, PWSA witness Smith prepared a revised CCOSS and proposed rates that addressed modifications needed in response the Commission's March 26, 2020 Order pertaining to PWSA's Compliance Plan and Long Term Infrastructure and Improvement Plan ("LTIIIP") and, to correct some errors in the CCOSS model that have come to light during the discovery

¹²³ PWSA St. No. 7 at 21.

¹²⁴ PWSA St. No. 7 at 21-23.

¹²⁵ PWSA St. No. 5 at 22-27.

¹²⁶ PWSA Exhibits HJS-11W and HJS-12W; HJS-11WW and HJS-12WW.

process.¹²⁷ Ultimately the changes to the CCOSS resulting from the March 26, 2020 Order were withdrawn as a result of the passage of Act 70.¹²⁸

2. Positions of Other Parties and PWSA Response

In their Direct Testimony, witnesses for the other parties raised various issues concerning the water and wastewater CCOSSs and suggested a number of changes to PWSA's rate structure, rate design, cost allocations and revenue allocations.¹²⁹ Through Rebuttal Testimony of Mr. Smith, PWSA addressed these issues and proposals, noting concurrence with some of the positions advanced by other parties.¹³⁰ Mr. Smith also presented the results of an updated Rebuttal CCOSS that incorporated certain reasonable modifications suggested by other parties which were accepted by PWSA and modified study results to reflect the effect of Act 70 which codified the City of Pittsburgh's cost responsibility for water and wastewater service as set forth in the Cooperation Agreement.¹³¹

In surrebuttal testimony, witnesses for both OCA and OSBA submitted responses to PWSA's revised CCOSS and proposed revised allocations of PWSA's proposed increase.¹³²

¹²⁷ PWSA St. No. 7-SD at 8.

¹²⁸ PWSA St. No. 2-R at 4.

¹²⁹ See, I&E St. No. 3; OCA St. No. 1 at 36-50; OSBA St. No. 1.

¹³⁰ PWSA St. No. 7-R at 3-15.

¹³¹ PWSA St. No. 7-R; PWSA Exhs. HJS-1-R to HJS-6-R; HJS-1W-R to HS-22W-R; HJS-1WW-R to HJS-21WW-R.

¹³² OCA St. No. 1SR; OSBA St. No. 1SR.

3. Proposed Settlement

Based upon the various parties' positions regarding allocation of the settlement rate increase and in an effort to reach a mutually acceptable compromise, the Parties agreed to allocate the increase in a manner that attempted to reflect the positions of the various parties.¹³³ A comparison of the allocation of the total revenue requirement by class presently and assuming the Settlement base rate increase for water rates is as follows:

Rate Class	Present Rates		PWSA		OCA	OSBA	Settlement
	Amt.	%	Original %	Rebuttal	%	%	%
Res.	\$44,459,448	39.4%	37.1%	39.1%	38.3%	40.4%	38.7%
Res. CAP	\$ 1,243,399	1.1%	0.9%	0.9%	0.0%	1.0%	0.9%
Com.	\$41,860,908	37.1%	40.3%	38.9%	40.0%	37.9%	37.8%
Ind.	\$ 2,165,551	1.9%	2.2%	2.1%	2.1%	2.1%	2.0%
Health & Ed	\$18,444,801	16.3%	15.0%	14.6%	15.3%	14.3%	16.1%
Muni.	\$ 1,025,432	0.9%	1.0%	1.0%	1.0%	0.9%	1.0%
Pvt. Fire	\$ 804,307	0.7%	0.7%	0.7%	0.6%	0.7%	0.7%
Public Fire		0.0	0.4%	0.4%	0.4%	0.4%	0.4%
Whls & Bulk	\$ 2,911,475	2.6%	2.3%	2.3%	2.3%	2.3%	2.4%
Total		100%	100%		100%	100%	100%

Note that these allocations include the 5% DSIC that the Settlement permits. That DSIC will not affect the relative allocations as the DSIC is applied uniformly to rate classes with the exception of Public Fire, the application to which is barred.¹³⁴

Given the differing positions of the parties regarding cost allocation, the allocation of the Settlement water rate increase is reasonably within the range of the various allocation recommendations without requiring resolution of several important cost allocation issues raised

¹³³ Joint Petition, Appendix C presents the class allocation of the full proposed settlement revenue increase for both water and wastewater.

¹³⁴ 66 Pa. C.S. § 1357(d) (1).

by several of the parties. The Settlement allocation of the base rate increase either maintains the relative allocation of revenue contribution as currently exists or, in the case of the Health and Education Class, moves their contribution down compared to present rates, which is consistent with the recommendations produced by the various CCOSS studies.

With respect to the allocation of the wastewater rate increase, the parties agreed to implement an across-the-board increases to the customer classes. This is reasonable in light of the relatively small level of increase (2.6%) and the fact that any wastewater rates determined here likely will have to be modified in order to fold in the results of determinations with respect to stormwater costs and rates that will be at issue in PWSA’s next proceeding. The water, wastewater and overall rate increases by class (including 5% DSIC) are as follows:

Rate Class	Water	WW	Total
Res.	10.7%	8%	9.7%
Res. CAP	(6.5%)	(7.0%)	(6.7%)
Com.	14.7%	7.9%	12.1%
Ind.	18.7%	8.0%	14.5%
Health & Ed	10.6%	7.9%	9.7%
Muni.	18.3%	7.9%	14.4%
Pvt. Fire	14.4%	0.0%	14.4%
Public Fire	100%	0.0%	100%
Whls & Bulk	5.8%	0.0%	5.8%
Total	12.5%	7.8%	10.8%

In addition to the agreement on allocation of the base rate increase, PWSA agreed to develop the agreed-to rates in the following manner:¹³⁵

- Current water minimum charges for all meter sizes will remain unchanged in the Tariff.¹³⁶ Class water consumption charges will be adjusted to recover the class-specific increase to the agreed upon class cost of service.
- Wastewater conveyance minimum charges and volumetric rates will be adjusted with approximately the same proportionate increase to all existing rates to recover the total agreed upon system increase.
- All parties reserve their right to address the issue of how to allocate the costs of PWSA's customer assistance programs and its lead service line replacement programs in a future post pandemic case.

The Parties also agreed that:

- PWSA will account for the costs of Infiltration and Inflow as part of its combined water, wastewater, and stormwater filing as discussed in Section A.3 above. To the extent that PWSA does not account for all Infiltration and Inflow costs as part of the combined wastewater/stormwater filing, PWSA will address the total costs for the separated system in its subsequent water/wastewater/stormwater rate proceeding.
- PWSA will provide a customer cost analysis as part of its CCOSS in its combined water, wastewater, and stormwater filing as discussed in Section III.A.3 above as part of its continued exploration of changing its rate design from a minimum charge to a customer charge.

These cost allocation and rate structure points represent reasonable compromises in light of the positions raised by the various parties, are in the public interest and should be adopted.

¹³⁵ Joint Petition at 7-8, ¶ III.C.

¹³⁶ PWSA's current rate structure for retail customers consists of a monthly Minimum Charge that varies by meter size and a Volume Charge that varies by customer class. The Minimum Charge is used to recover PWSA's customer costs as well as some of PWSA's costs associated with providing capacity to meet customer demand. Additionally, the Minimum Charge recovers the cost of a water usage allowance that also varies by meter size. The Volume Charge is designed to recover PWSA's costs that vary based on customer demand as well as the portion of PWSA's fixed costs that are not recovered through the Minimum Charge. The volumetric rate per thousand gallons (kgal) of water consumed varies by customer class based on the way in which each class demands service. See, PWSA St. No. 7 at 25.

D. Additional COVID-19 Relief Measures

1. Background

On the same day that PWSA made its base rate increase filing, the Governor of the Commonwealth of Pennsylvania, Tom Wolf, issued a Proclamation of Disaster Emergency (“Disaster Proclamation”) due to the COVID-19 pandemic.¹³⁷ A week later, on March 13, 2020, the Commission’s Chairman Gladys Brown Dutrieuille signed an Emergency Order prohibiting electric, natural gas, water, wastewater, telecommunication and steam utility terminations.¹³⁸ Under the Emergency Order, the moratorium on terminations of utility service will remain in place for as long as the Disaster Proclamation is in effect. The Commission ratified the Emergency Order at its Public Meeting on March 26, 2020. Governor Wolf extended the Disaster Proclamation by ninety days on June 3, 2020 and again on August 31, 2020. As a result, the termination moratorium will be in effect until November 30, 2020. Even if it is not extended again, PWSA will be subject to the winter termination moratorium for heat-related water service from December 1, 2020 through March 31, 2020.¹³⁹

2. PWSA’s Initial Proposal

Given the timing of PWSA’s initial filing and the onset of the pandemic, PWSA’s initial filing did not include specific measures designed to address the pandemic. However, as discussed further below in Section II.F, PWSA’s proposals did include expanded benefits intended to provide financial assistance to qualifying low-income customers. Further proposals of PWSA specifically related to COVID-19 were addressed in the Supplemental Direct Testimony of Julie Quigley.

¹³⁷ Joint Petition, Appendix A at 5, ¶6.

¹³⁸ *Public Utility Service Termination Moratorium; Proclamation of Disaster – COVID-19*, Docket No. M-2020-3019244.

¹³⁹ 52 Pa. Code § 56.100(a).

First, she explained that on March 13, 2020 (after the filing of this rate case), PWSA: (1) extended the Winter Moratorium through May 31, 2020; (2) waived the income eligibility requirements for the Winter Moratorium through May 31, 2020; and, (3) restored service at the request of any customer still residing in an affected property.¹⁴⁰ Second, she explained that PWSA ceased all terminations consistent with the Commission's termination moratorium. Finally, she explained that on April 24, 2020, PWSA: (1) further extended the Winter Moratorium and its income eligibility requirements through July 1, 2020; (2) waived the Bill Discount annual recertification requirement through December 31, 2020; and, (4) waived the Hardship Grant program sincere effort of payment requirement through December 31, 2020.¹⁴¹

In Supplemental Direct Testimony, Ms. Quigley also testified that between March 16, 2020 and the end of April 2020, PWSA experienced a 15% reduction in monthly collection of billed charges.¹⁴² Ms. Presutti noted that PWSA was experiencing revenue and cost impacts associated with the COVID-19 crisis but the full extent of these impacts were only beginning to emerge.¹⁴³

3. Positions of Other Parties and PWSA's Response

Some parties in the proceeding opposed any rate increase by PWSA due to the effects of the COVID-19 pandemic on the economy and the corresponding impacts on ratepayers and advocated that additional measures were needed to address COVID-19 issues.¹⁴⁴ Foregoing a rate increase was not feasible for PWSA given that the principal reasons for PWSA's request were to fund: (1) PWSA's Operating Budget for 2021; and (2) PWSA's CIP.¹⁴⁵ Other major cost

¹⁴⁰ PWSA St. No. 8-SD at 4-5.

¹⁴¹ PWSA St. No. 8-SD at 5.

¹⁴² PWSA St. No. 8-SD at 5.

¹⁴³ PWSA St. No. 3-SD at 2.

¹⁴⁴ OCA St. No. 1 at 11-29; OSBA St. No. 1 at 4-7; Pittsburgh UNITED St. No. 1 at 7-8.

¹⁴⁵ PWSA St. No. 5 at 3.

drivers for the FPFTY included salaries and associated benefits; debt service; operating contracts; non-capital facility improvements and systems upgrade.¹⁴⁶ Of particular concern to PWSA are its obligations to comply with two Consent Orders and Agreements (“COAs”) issued in 2017 and 2019 and one Administrative Order issued in 2017 by the Pennsylvania Department of Environmental Protection (“PA DEP”).¹⁴⁷ Failure to timely comply with the 2019 COA will result in public health issues as well as fines or other disciplinary actions. If PWSA is unable to fulfill these obligations, it will be subject to payment of monetary penalties, which would be the responsibility of its ratepayer.¹⁴⁸ The record adequately demonstrated that PWSA needed additional revenues to be able to meet these obligations. As was explained above, the Settlement rate increase will provide minimally adequate levels of funding for these and numerous other obligations.

Also of paramount concern to PWSA was the ability to implement additional measures to provide financial assistance to customers during this pandemic while considering what financial resources would be available for PWSA to recover the costs of such measures. As explained by PWSA Witness Quigley, PWSA must evaluate the impact of increased costs whether related to programming and implementation or resulting from receiving less revenue that has to be recovered from PWSA’s other ratepayers. If PWSA does not receive payment for services rendered (either from ratepayers using those services or as socialized by PWSA’s other ratepayers), then PWSA will lack the revenues needed to continue to provide adequate, efficient, safe and reasonable service.¹⁴⁹

¹⁴⁶ PWSA St. No. 3 at 7-8.

¹⁴⁷ PWSA St. No. 5 at 4-5; PWSA St. No. 4 at 8.

¹⁴⁸ PWSA St. No. 4 at 10.

¹⁴⁹ PWSA St. No. 8-R at 2.

4. Proposed Settlement

As an alternative to delaying or denying PWSA's necessary rate increase due to the COVID-19 pandemic, the parties considered measures that could be reasonably implemented to provide additional assistance to consumers during the pendency of the pandemic. Consideration of the proposals offered by the parties included a waiver of reconnection fees; waiver of good faith payment requirement for its Hardship Fund Program and other modifications of the requirements for the Hardship Fund Program to facilitate customer participation; and, development of a plan to prepare for the wave of terminations as moratoria are lifted.¹⁵⁰

Under the Settlement, PWSA agreed to additional COVID-19 relief measures, in addition to the termination moratorium and any COVID-19 related requirements imposed by the Commission.¹⁵¹ These additional measures include:

- Waiving reconnection fees through the end of the next rate case or one year from a date of a final order in this proceeding, whichever is later.
- Performing targeted outreach to customers with existing debt.
- Implementing expanded payment arrangement options for one year from the date of the final order in this case or until January 14, 2022, whichever is later.
- Continue to expand outreach efforts with community partners and through collaboration with LIAAC.
- Waive the Hardship Grant Program's sincere effort of payment requirements for one year from the date of the final order in this case, or until January 14, 2022, whichever is later.

All of these measures are designed to assist customers during the pendency of the COVID-19 pandemic. Together, they will improve the ability of customers to readily connect and maintain critical water services. Also, these initiatives will provide customers with reasonable ways to avoid terminations and, for eligible customers, to continue receiving

¹⁵⁰ Pittsburgh UNITED St. No. 1 at 42-44.

¹⁵¹ Joint Petition at 8, Section III.D.

assistance while they financially rebound from the effects of the pandemic. PWSA also carefully considered the cost impact of each of these proposals and that cost impact was directly related to the amount of overall rate increase agreed to as part of this settlement. Striking the appropriate balance regarding these two issues cannot be overstated. Additional requirements beyond what PWSA has agreed to implement here without any corresponding increase in the ability to recover additional funding (or a reduction in the amount of the overall agreed-to rate increase) could significantly derail the balance achieved by this Settlement. In PWSA's view the commitments made regarding additional COVID-10 relief measures in combination with the other agreements of this Settlement are in the public interest because they will benefit customers, customers' households and the public health of the community and should be approved.

E. COVID-19 Related Costs and Relief Funding

1. PWSA Initial Proposal

As explained above in Section II.D.1, the COVID-19 pandemic was not a factor in PWSA's initial rate filing. However, given that the Governor issued a Disaster Proclamation on the same day as PWSA's initial rate filing, questions arose during the proceeding as to the effect of the COVID-19 crisis on PWSA's revenue and costs. As part of a settlement reached with the parties resolving I&E's Expedited Motion for an Extension of Statutory Suspension Period,¹⁵² PWSA submitted Supplemental Direct Testimony to explain the then-known or projected impacts of COVID-19 pandemic. While PWSA Witness Jennifer Presutti explained that it has experienced revenue and cost impacts associated with the COVID-19 crisis, the full extent of the potential revenue and cost impacts were only beginning to emerge. Although revisions to PWSA's budgets and financial forecasts for FTY (FY 2020) projected an impact on the

¹⁵² See Joint Petition, Appendix A at 6, ¶12.

beginning cash balance for the FPFTY of approximately \$7 million, Ms. Presutti described the projections as preliminary and conservative. She also explained that it was still too soon to identify clear trends, but that PWSA would continue to track revenue trends and was not revising its proposed revenue requirements at that time.¹⁵³ Ms. Quigley also testified that between March 16, 2020 and the end of April 2020, PWSA experienced a 15% reduction in monthly collection of billed charges.¹⁵⁴

2. Other Parties Positions and PWSA Response

OCA, OSBA and UNITED generally took the view that PWSA's proposed rate increase should be denied in light of the COVID-19 pandemic. More specifically, OCA Witness Rubin testified that "this is not the time to impose higher costs on either people or businesses."¹⁵⁵ OSBA Witness Kalcic recommended that the Commission deny PWSA's request for rate relief or, alternatively, direct PWSA to submit a revised FPFTY budget that minimizes the need for any rate relief during the ongoing COVID-19 pandemic.¹⁵⁶ Finally, UNITED also recommended rejection of PWSA's requested rate relief in light of the COVID-19 pandemic.¹⁵⁷

Through Rebuttal Testimony submitted on August 18, 2020, PWSA witness Presutti provided an update, noting PWSA's efforts to reduce expenses and indicating the expectation that PWSA would end the FTY with a modest surplus as a result of reducing operating expenses to balance the reduction in revenues.¹⁵⁸ PWSA Witness Barca also provided the following information directly related to the COVID-19 pandemic:¹⁵⁹

¹⁵³ PWSA St. No. 3-SD (Revised) at 2-3.

¹⁵⁴ PWSA St. No. 8-SD at 5.

¹⁵⁵ OCA St. No. 1 at 12.

¹⁵⁶ OSBA St. No. 1 at 3.

¹⁵⁷ UNITED St. No. 1 at 7-9.

¹⁵⁸ PWSA St. No. 3-R at 3.

¹⁵⁹ PWSA St. No. 5-R at 2-3.

- As of July 31, 2020, year-to-date revenues were down \$6,359,970 or approximately 5% with the trend expected to continue through the rest of the year.
- Capital expenses were continuing to outpace the prior year's spending rate. As of July 31, 2020, the year-to-date capital expenditures increased \$3,290,821 or approximately 6.6%.
- As of July 31, 2020, PWSA incurred \$1,109,433.79 in COVID-19 related expenditures.

Mr. Barca also confirmed that PWSA had a team of dedicated individuals who track and analyze all COVID-10 relief funding opportunities.¹⁶⁰ Finally, Ms. Quigley detailed all the efforts PWSA has undertaken to address the impacts of COVID-19 on its customers including expanded financial assistance benefits, expanded distribution of information about its customer assistance programs, the use of Friendly Reminder letters and direct customer outreach to customers with unpaid charges, and expanded Customer Service staff.¹⁶¹ Ms. Quigley also provided an update regarding PWSA's collections status with a projection that its collections will be 10% down from anticipated revenues if PWSA were able to resume collections in September 2020 (which did not occur given the continuation of the Disaster of Emergency Proclamation.)

3. Proposed Settlement

The Settlement expressly recognizes the extraordinary, not reasonably foreseeable, and non-recurring circumstances posed by the COVID-19 pandemic on PWSA's operations. In review of that reality, the Settlement affords PWSA the ability to track and record as a regulatory asset all costs relating to the COVID-19 crisis. It further provides for PWSA to claim these costs for ratemaking purposes in PWSA's next general rate proceeding. The Settlement defines costs that are eligible for such treatment as reasonably and prudently incurred incremental labor-

¹⁶⁰ PWSA St. No. 5-R at 3.

¹⁶¹ PWSA St. No. 8-R at 3-6.

related costs; costs incurred to maintained employee and contractor availability; incremental health care related costs; incremental worker's compensation costs; incremental occupational safety equipment, contractor, personnel costs, and annual uncollectible accounts expense.¹⁶²

In connection with these provisions, PWSA is obligated to track any operating costs that are reduced as a result of pandemic operating limitations and use those amounts to offset areas of increased cost in the regulatory asset account. It also must maintain records, documents, and other information necessary to demonstrate that the claimed costs qualify as COVID-19 costs. All parties have the right to review the prudence and reasonableness of these costs in the next base rate proceeding, or in any other proceeding in which PWSA may attempt cost recovery.¹⁶³

The other key facet of this portion of the Settlement is that PWSA will exercise prudent efforts to maximize its utilization of and track any government benefits, whether direct grant or other, to minimize costs to be deferred. PWSA will provide a report detailing its efforts, any amounts obtained as part of these efforts and their intended use, and, if denied, the reason for such denial as part of its next base rate case.¹⁶⁴

These provisions of the Settlement establish a fair and balanced approach for protecting PWSA against incurring unexpected costs due to the COVID-19 pandemic which are not reasonably foreseeable at this time. The Settlement also ensures that consumers will only pay for the actual costs incurred by PWSA and will not be required to absorb costs that PWSA could have minimized or avoided. It does this through: (i) the requirement for PWSA to track costs that are incurred, as well as reductions in other costs; (ii) the definition of costs that will be eligible for recovery; and (iii) PWSA's obligation to maximize its use of government benefits.

¹⁶² Joint Petition at 9, ¶ III.E.1.

¹⁶³ Joint Petition at 9, ¶ III.E.2.

¹⁶⁴ Joint Petition at 9, ¶ III.E.3.

The Settlement further affords the parties to the next rate proceeding the right to advocate for the rejection of costs identified by PWSA. By enabling PWSA to have the opportunity to track and record all COVID-19 costs as a regulatory asset and seek recovery in its next general rate proceeding, while containing protections for consumers and preserving other parties rights to object, this provision of the Settlement is in the public interest and should be approved.

F. Low Income Customer Assistance Issues

1. PWSA's Initial Proposal

Through the testimony of PWSA witness Julie Quigley, PWSA provided an overview of its low income customer assistance programs. As Ms. Quigley explained, in the fall of 2017 (prior to the Commission having jurisdiction over PWSA), PWSA began to implement various low income customer assistance programs, which are still in existence today: 1) Winter Shut Off Moratorium; 2) Bill Discount Program; 3) Hardship Program; and, 4) Free Private Lead Service Line Replacement Project. PWSA continues to gain more experience with these programs through its own interactions with customers and through the feedback received from the Low Income Assistance Advisory Committee ("LIAAC"). Additionally, in this proceeding, PWSA engaged its financial consultant, Raftelis, to undertake a Household Affordability Analysis to provide PWSA with information about its service territory to gain a better understanding of the water and wastewater utility burden on households in the community.¹⁶⁵

Based on the insight PWSA received from its customers, the LIAAC, and the Household Affordability Analysis, PWSA proposed several revisions to its customer assistance programs in this proceeding. These proposals included the following:

¹⁶⁵ PWSA St. No. 8 at 15-16 and Exhibit JAQ-5.

- Include all the low income customer assistance programs under the new brand “PGH2o Cares” and ramp up efforts to increase enrollment and incentivize conservation.
- Revise the Bill Discount Program to provide a 100% discount for consumers who are at or below 150% of the federal poverty level.
- Lengthen the recertification interval of the Bill Discount Program to every two years.
- Lower the amount of the required bill payments in the three months before a customer could be considered eligible for a Hardship Cash Assistance Grant.
- Extend Winter Moratorium coverage from up to 250% of the Federal Poverty Line (“FPL”) to up to 300% of FPL, thereby making the program available to more consumers.
- Decrease the up-front payment burden to receive a Hardship Cash Assistance grant from \$150 to \$75 for those under 62 years of age and from \$75 to \$37.50 for those aged 62 years and older.¹⁶⁶

Also of note, as explained in Ms. Quigley’s testimony, is that the development of PWSA’s initial proposals regarding its low income customer assistance programs involved significant collaboration with members of LIAAC. For example, the development and final Household Affordability Analysis was discussed during three LIAAC meetings.¹⁶⁷ PWSA first presented the changes to its low income customer assistance programs it was contemplating including with this rate filing during the August 12, 2019 LIAAC meeting.¹⁶⁸ Discussion of these proposals took place during two subsequent LIAAC meetings and PWSA received written feedback from some LIAAC members that was taken into consideration prior to submitting the final proposed revisions included with this initial rate filing.¹⁶⁹ Ms. Quigley provided specific detail about the feedback that was received and PWSA’s response, to include changes that PWSA planned to make as a result of the feedback and why other proposed revisions from

¹⁶⁶ PWSA St. No. 8 at 21-25.

¹⁶⁷ PWSA St. No. 8 at 19.

¹⁶⁸ PWSA St. No. 8 at 19.

¹⁶⁹ PWSA St. No. 8 at 19-24.

LIAAC members could not be adopted at this time.¹⁷⁰ Thus, the initial proposals PWSA proposed in this proceeding were the subject of significant and careful evaluation and feedback from interested stakeholders.

2. Positions of Other Parties and PWSA Response

OCA and UNITED generally took the view that PWSA's proposed revisions to its existing customer assistance programs were insufficient. Both OCA and UNITED challenged PWSA's Household Affordability Analysis as "fundamentally flawed" and only providing "limited insight into the low income consumers in PWSA's service territory."¹⁷¹

OCA and UNITED also made numerous recommendations that they advocated PWSA implement regarding its existing low income customer assistance programs. More specifically, UNITED proposed: (1) improving data collection and reporting by developing a systematic process for managing data; (2) expansion of PWSA's Bill Discount Program to 50% of the total bill, encompassing not only the minimum charge but also the volumetric charge; (3) raise the eligibility of the Hardship Grant to 250% of Federal Poverty Level and eliminate the good faith payment requirement; and, (4) expand the Winter Moratorium to customers with incomes at or below 300% of FPL.¹⁷²

Mr. Colton, on behalf of OCA, proposed: (1) a long-term restructuring of PWSA's Bill Discount Program to a Fixed-Payment Percentage of Income Plan, or "PIPP"; (2) PWSA, in collaboration with interested stakeholders, present a plan to the Commission within 12 months implementing an Arrearage Management Program; (3) PWSA implement immediate revisions to its existing Bill Discount Program including an additional 40% off of the volumetric charge for

¹⁷⁰ PWSA St. No. 8 at 24-34.

¹⁷¹ UNITED St. No. 1 at 19-28; OCA St. No. 6 at 6.

¹⁷² UNITED St. No. 1 at 32-34, 37-54.

customers at or below 50% of FPL, 20% for customers with income greater than 50% but below 150% of FPL and that the discount provided to customers with ¾” or 1” service lines be capped; and, (4) PWSA retain an expert consultant on outreach to evaluate current outreach, design, and implement a revised, robust outreach program.¹⁷³

PWSA responded to the criticisms of the Household Affordability Analysis with the rebuttal testimony of Rocky Craley.¹⁷⁴ Further, PWSA witness Ms. Quigley testified that implementing the numerous recommendations of Mr. Colton and Ms. Wein would be very costly, would require a significant overhaul of PWSA’s existing program design, would be confusing for PWSA’s customers, and would unfairly imply that PWSA’s programs have been a failure, which is not the case.¹⁷⁵ While PWSA did not agree with all of the recommendations of the OCA and UNITED, PWSA expressed its commitment to continue working with the advocates and members of the LIAAC to continue to evolve its customer assistance programs in a manner that would best assist its customers.¹⁷⁶

3. Proposed Settlement

After careful negotiations with the parties to this proceeding, the parties agreed to a number of terms related to PWSA’s customer assistance programs. These terms relate to data tracking, the establishment of a pilot arrearage forgiveness program, modifications/commitments related to PWSA’s existing programs, and the continued evaluation of PWSA’s programs and future enhancements.¹⁷⁷ PWSA submits that these settlement terms are consistent with PWSA’s

¹⁷³ OCA St. No. 6 at 46-48, 57, 60-69, 79-80.

¹⁷⁴ PWSA St. No. 11-r.

¹⁷⁵ PWSA St. No. 8-R at 28-29.

¹⁷⁶ PWSA St. No. 8-R at 28.

¹⁷⁷ Joint Petition at 10-14, ¶¶ F.1-7.

goal to evolve these programs in a manner intended to best assist its customers and, therefore, these settlement terms should be adopted.

Specific to data tracking, PWSA commits to implementing policies and procedures so that all customers who are identified by PWSA as having income at or below 150% FPL are treated as “confirmed low income customers” and are tracked in PWSA’s Customer Information System (“CIS”) as low income using a unique characteristic or data point. PWSA also agrees to identify customers as “confirmed low income customers” in a number of enumerated circumstances, to track specific data points, and to work with Dollar Energy Fund (“DEF”) (the administrator of PWSA’s customer assistance programs) to ensure the availability of appropriate data and statistical reports related to PWSA’s low income programs.¹⁷⁸

Additionally, PWSA will institute a Pilot Arrearage Forgiveness Program which will be available to customers eligible to participate in PWSA’s Bill Discount Program. Under this program, participating customers will have their water/wastewater arrears forgiven in increments of \$15 per payment received while the customer is in an active, income-based payment plan. Pursuant to the Settlement, PWSA reserves the right to propose to alter or eliminate this program in its next base rate case. No later than January 2023, PWSA will develop and implement a plan for automating an Arrearage Forgiveness Program, and all parties reserve the right to address this issue in the next base rate case.¹⁷⁹ Again, implementing this program on a pilot basis and subject to future modification will help to ensure that the Program is effective in assisting PWSA’s low-income customers.

¹⁷⁸ Joint Petition at 10, ¶ F.1.

¹⁷⁹ Joint Petition at 11, ¶ F.2.

Under the Settlement and consistent with PWSA's proposal, PWSA will also reduce the required eligibility payments for its Hardship Grant Program from \$150 to \$75 for those under 62 years of age and from \$75 to \$37.50 for those aged 62 years and older.¹⁸⁰ The Settlement also establishes the parameters for PWSA to launch a Hardship Grant Fundraising Campaign. If PWSA secures additional, consistent future funding for the Hardship Grant program, it will evaluate whether to increase the current eligibility threshold.¹⁸¹

The Settlement also contains modifications to PWSA's Bill Discount Program, including lengthening the recertification requirement to two years, requiring PWSA to conduct a bill frequency analysis, increasing the discount of fixed base charges from 75% to 100% as proposed by PWSA, and providing a discount of 20% of the volumetric charges for recipients with income at or below 50% of FPL.¹⁸²

Pursuant to the Settlement, PWSA will also increase the income eligibility for the Winter Shut Off Moratorium from up to 250% of FPL to up to 300% of FPL, consistent with PWSA's proposal in this proceeding.¹⁸³

Finally, the Settlement includes a number of terms specifically designed to ensure the continued evaluation and, if necessary, enhancements of PWSA's low income customer assistance programs and to expand customer outreach and conservation efforts.¹⁸⁴ These provisions include a section pertaining to PWSA's Line Repair and Conservation Program, wherein PWSA has committed to continue to investigate the current barriers to working inside a customer's home and to collaborate with LIAAC in these efforts. PWSA also agrees to file a

¹⁸⁰ Joint Petition at 11, ¶ F.3.a.

¹⁸¹ Joint Petition at 11-12, ¶ F.3.b.

¹⁸² Joint Petition at 12, ¶ F.4.

¹⁸³ Joint Petition at 13, ¶ F.6.

¹⁸⁴ Joint Petition at 13, ¶¶ F.5 and 7.

Petition for a proposed line repair and conservation program within one year of the Commission's final order in this proceeding.¹⁸⁵

As discussed, these provisions are consistent with PWSA's goal of improving these programs to better assist low income customers and will help to make customers more aware of these options. Moreover, PWSA has considered the cost impact of these additional measures and submits that the Settlement proposed rate increase is a necessary component of PWSA's ability to implement these measures. As such, PWSA submits that these provisions are in the public interest and should be adopted.

G. Customer Service Issues

1. PWSA Initial Proposal

Although PWSA did not offer any specific new customer service proposals as part of its initial filing, PWSA did provide substantial detail about the effort that has been expended to bring its systems into compliance with Commission requirements and improve overall customer experience since coming under the jurisdiction of the Commission.¹⁸⁶ These efforts have included implementing better data tracking and information reporting,¹⁸⁷ undertaking a complete redesign of customer bills, revising nearly every aspect of PWSA's service termination processes and updating its customer service infrastructure including a newly redesigned website.¹⁸⁸

Former Executive Director Robert Weimar explained the dedication of PWSA's staff to timely

¹⁸⁵ Joint Petition at 14, ¶ F.7.c.

¹⁸⁶ PWSA St. No. 9 at 2.

¹⁸⁷ Mr. Weimar also provided details about how PWSA is working to achieve its goal of becoming a more professional and customer centric public utility that delivers "best in class" service and how its publicly available "Headwaters" initiative measures PWSA's performance regarding five specific goals and provides a public report on PWSA's progress. PWSA St. No. 1 at 19-20.

¹⁸⁸ PWSA St. No. 8 at 3. Mr. Weimar provided additional testimony about the goals in redesigning its website and the information that is currently available to customers as a result of the new design. PWSA St. No. 1 at 24-25.

addressing customer issues and doing so in a professional and courteous matter. PWSA uses the phrase “Getting Stuff Done” or “GSD” to sum up its goals for customer service.¹⁸⁹

2. Position of Other Parties and PWSA Response

Through the testimony of OCA witness Barbara Alexander, the OCA acknowledged that PWSA’s overall customer service performance has improved and that PWSA’s development of internal tracking and performance objectives “is to be commended.”¹⁹⁰ Nonetheless, Ms.

Alexander made a number of recommendations related to PWSA’s customer service performance. These recommendations included, among other things, that PWSA should: (1) track field appointments, including response time to leak reports; (2) develop routine customer satisfaction surveys similar to those used by electric and natural gas utilities; (3) eliminate third party transaction fees; and, (4) improve call center performance standards.¹⁹¹

In response, Ms. Quigley testified that PWSA is adopting performance standards pertaining to leak repairs and has tracked field appointments since September 2018.¹⁹² Ms. Quigley further testified that PWSA *does* measure customer satisfaction performance as part of the Customer Satisfaction Rate that is provided on a monthly basis to the PWSA Board of Directors and is included with PWSA’s Quarterly Compliance Plan Progress Report. Further, PWSA is in the process of enhancing its telephone system to include after-call customer surveys.¹⁹³ Ms. Quigley further noted that PWSA’s current practices related to third party transaction fees do not violate Pennsylvania law or the Commission’s regulations and that other

¹⁸⁹ PWSA St. No. 1 at 24-26.

¹⁹⁰ OCA St. No. 7 at 26.

¹⁹¹ OCA St. No. 7 at 7-9 and 26-28.

¹⁹² PWSA St. No. 8-R at 19-20.

¹⁹³ PWSA St. No. 8-R at 23-24.

utilities, similarly, assess third-party transaction fees.¹⁹⁴ Related to call center performance, Ms. Quigley explained that in 2020, PWSA has regularly exceeded its internal goals.¹⁹⁵

3. Proposed Settlement

In the interest of resolving the issues raised by OCA witness Ms. Alexander, PWSA has agreed to a number of terms pertaining to customer service. Specifically, the customer service settlement terms can be summarized as follows:

- PWSA will develop a program of customer service satisfaction surveys utilizing the performance standards proposed by Ms. Alexander as a guide. PWSA will implement the program within one year of the Commission's final order.
- Within 30 days of the final order, PWSA will eliminate the additional fees for residential customers to make Interactive Voice Response and on-line payments.
- PWSA will make reasonable efforts to meet or exceed its call center performance standards and to take steps to correct non-compliance where it occurs.
- PWSA will adopt a performance standard that measures PWSA's response time to leak reports within one year of the final order. Within six months of a final order, PWSA will adopt a performance standard that measures whether appointments are kept by PWSA.¹⁹⁶

Pursuant to the Settlement, PWSA will also provide specific customer service information in its Quarterly Compliance Plan Progress Reports filed at Docket No. M-2018-2640802.¹⁹⁷

While PWSA maintains that it has improved its current customer service practices since coming under the Commission's jurisdiction and that its current practices are consistent with PWSA's internal goals, these settlement terms are a reasonable compromise of the issues raised

¹⁹⁴ PWSA St. No. 8-R at 18.

¹⁹⁵ PWSA St. No. 8-R at 19.

¹⁹⁶ Joint Petition at 14-15, ¶¶ G.1-4.

¹⁹⁷ Joint Petition at 14-15, ¶¶ G.1, 3, and 4.

by Ms. Alexander. Further, these settlement terms will help PWSA in its continuing efforts to address and track customer service issues in a timely and efficient manner, ensure continued customer satisfaction, and help to improve PWSA's customer service performance. For these reasons, these settlement terms are in the public interest and should be adopted.

H. Quality of Service Issues

1. PWSA's Initial Proposal

Similar to Customer Service Issues, PWSA did not offer any specific new proposals regarding quality of service issues but did provide significant detail about significant progress regarding infrastructure projects in 2019. More specifically, in 2019, PWSA lined nearly five miles of sewer, cleaned over 1,700 storm catch basins while 800 were replaced with plans to install liners into an additional 16 miles of sewers in 2020.¹⁹⁸ Also in 2019, PWSA rehabilitated some of its larger water facilities, began the process of renovating the Microfiltration Plant in Highland Park and added ultraviolet disinfection systems pursuant to DEP orders with plans to design 15 miles of new water mains.¹⁹⁹ PWSA also provided an update regarding its Lead Service Line Replacement project in 2019.²⁰⁰ Finally, PWSA provided information about stream bank restoration projects in 2019 and its effort to design 24 stormwater related projects intended to begin in 2020.²⁰¹ Also of note regarding quality of service issues, PWSA provided an update regarding the Partial Settlement filed on September 13, 2019 in its Stage 1 Compliance Plan Proceeding.²⁰² The Partial Settlement was ultimately approved by the Commission on March 26,

¹⁹⁸ PWSA St. No. 1 at 21.

¹⁹⁹ PWSA St. No. 1 at 22.

²⁰⁰ PWSA St. No. 1 at 23.

²⁰¹ PWSA St. No. 1 at 24.

²⁰² PWSA St. No. 1 at 15. As subsequent testimony was served on behalf of PWSA, updated information regarding the status of the Compliance Plan Stage 1 proceeding was provided in PWSA's testimony. *See, e.g.*, PWSA St. No. 1-SD at 4-7; PWSA St. No. 1-R at 8-11.

2020 and addressed numerous issues related to urgent infrastructure remediation and improvement and the revenue and financing requirements of maintaining service that supports public health and safety.

2. Positions of the Other Parties

OCA witness Terry Fought raised a number of issues pertaining to PWSA’s quality of service. Mr. Fought recommended that:

- As part of its annual reports submitted to the Commission, PWSA should submit a Section 500 Form regarding Unaccounted for Water (“UFW”) using the same data submitted in the Department of Environmental Protection (“DEP”) Chapter 110 Reports, where applicable.²⁰³
- PWSA should exercise/attempt to exercise 10,000 isolation valves per year until all isolation valves have been exercised in a five year period. Thereafter, Mr. Fought recommended that PWSA should develop a reasonable schedule for exercising isolation valves. Further, PWSA should repair isolation valves that are found to be inoperable.²⁰⁴
- PWSA should flush its distribution system in coordination with exercising its isolation valves.²⁰⁵
- The Commission should require PWSA to test or replace at least 10,000 meters per year until all undocumented meters are either tested or replaced.²⁰⁶
- PWSA, and not the customers, should be responsible for owning the sewer lateral within public rights-of-way and easements and that PWSA should meet with interested parties to discuss the study PWSA is to provide related to this issue.²⁰⁷
- PWSA should coordinate with municipalities and the Pennsylvania Department of Transportation (“PennDOT”) to replace water and sewer mains prior to any repaving conducted by the City/municipality.²⁰⁸
- PWSA’s Complaint Logs should clearly identify if the complaint pertains to water, wastewater, combined sewer, or stormwater systems.²⁰⁹

²⁰³ OCA St. No. 8 at 9.

²⁰⁴ OCA St. No. 8 at 14-17.

²⁰⁵ OCA St. No. 8 at 19-20.

²⁰⁶ OCA St. No. 8 at 17-19.

²⁰⁷ OCA St. No. 8 at 22-27.

²⁰⁸ OCA St. No. 8 at 33.

²⁰⁹ PWSA St. No. 8 at 20-21.

OCA's other witnesses provided testimony regarding quality of service issues. Ms. Alexander discussed PWSA's customer complaint response and the tracking of complaints and recommended that PWSA should be required to submit a quarterly analysis of its complaint trends, identify the underlying root cause of the complaints, and document steps taken to respond to the analysis.²¹⁰ OCA witness Scott Rubin provided testimony relating to PWSA's warranty on Lead Service Line ("LSL") replacements and recommended that PWSA should be required to repair any leaks or other defects discovered in a customer-owned service line for a period of at least two years after PWSA replaces the line.²¹¹

PWSA provided testimony in response to the quality of service issues raised by Mr. Fought, Ms. Alexander, and Mr. Rubin. PWSA was largely in agreement with Mr. Fought's recommendations. In response to Mr. Fought's testimony related to the reporting of UFW, PWSA witness Mr. Barry King agreed that PWSA can start using Form 500 beginning in 2020, but explained that PWSA should not be required to revise its 2019 submission.²¹² Similarly, regarding Mr. Fought's testimony related to isolation valves, PWSA acknowledged the importance of operable valves. PWSA witness Mr. King testified that PWSA continues to pursue improvements in its isolation valve exercise program and is currently exercising approximately 5,500 valves per year.²¹³ Mr. King also explained that PWSA is working on a flushing program to flush one third of the system each year.²¹⁴ As for PWSA's meter testing/replacement practices, Mr. King explained that PWSA's current practices and goals are consistent with Mr. Fought's recommendation for PWSA to test/replace at least 10,000 meters per year (even with a

²¹⁰ OCA St. No. 7 at 10-13, 26.

²¹¹ OCA St. No. 1 at 57-59.

²¹² PWSA St. No. 4-R at 6.

²¹³ PWSA St. No. 4-R at 8.

²¹⁴ PWSA St. No. 4-R at 9.

slight set-back as a result of the COVID-19 pandemic).²¹⁵ In response to Mr. Fought's recommendation related to sewer laterals, Mr. King explained that, to comply with the Commission's Stage 1 Compliance Order, PWSA has contracted with a Consultant to study and prepare a report related to the feasibility of owning and/or maintaining wastewater laterals within public easements/rights-of-way.²¹⁶ Additionally, Mr. King agreed with Mr. Fought's recommendation for PWSA to coordinate with municipalities and PennDOT, testifying:

PWSA acknowledges the need to coordinate future planned capital and operating projects, including water, sanitary, or storm sewer infrastructure replacements and/or improvements in conjunction and coordination with the replacements and/or improvements of the other existing PWSA infrastructure within the selected right-of-way, saving on surface restoration costs as well as minimizing repeated disruptions to the community.²¹⁷

Mr. King further explained how PWSA currently engages in coordination efforts and how these considerations are a key part of PWSA's site selection process.²¹⁸

In response to the OCA's testimony related to PWSA's complaint response and tracking, PWSA witness Julie Quigley explained that PWSA is in the process of better identifying the PWSA system about which a consumer complaint relates. Ms. Quigley explained that in January 2020, PWSA implemented SpryMobile-Work Orders and Asset Management, an extension of PWSA's existing web-based application with cloud technology that allows Field Operations staff to input work orders using iPads to track corrective and preventative maintenance on water and wastewater assets. SpryMobile includes work orders with descriptions denoting water versus wastewater assets.²¹⁹ As for Ms. Alexander's recommendation, Ms. Quigley explained that

²¹⁵ PWSA St. No. 4-R at 8-9.

²¹⁶ PWSA St. No. 4-R at 10.

²¹⁷ PWSA St. No. 4-R at 13.

²¹⁸ PWSA St. No. 4-R at 13-14.

²¹⁹ PWSA St. No. 8-R at 21.

PWSA already provides very extensive data to the Commission and the parties as part of its Compliance Plan proceeding. Ms. Quigley further explained her concern that adding more reporting requirement obligations will unintentionally distract PWSA staff from focusing on their primary responsibilities of providing excellent customer service. Ms. Quigley recommended that a better approach is to give PWSA the flexibility to continue to work through these processes and then reevaluate where it stands after some time.²²⁰

Finally, in response to Mr. Rubin's recommendation related to PWSA's warranty on LSL replacements, Mr. King testified that Mr. Rubin's proposed warranty period should be rejected as the Commission is expected to set an industry-wide standard under Act 120 of 2018. As such, it would not be practical to direct PWSA to change its warranty provisions at this time.²²¹

3. Proposed Settlement

In consideration of the testimony related to these issues, the parties were able to agree to a number of settlement terms pertaining to quality of service. These settlement terms can be summarized as follows:

- PWSA will provide its UFW percentages on the Commission's Section 500 form, starting with the 2020 period. Data will be as complete as possible given that PWSA does not have flow meters on Rising Main 1, Rising Main 2, and the Hydraulic Control Structure.
- PWSA will exercise approximately 5,000 isolation valves per year and will repair the inoperable isolation valves. PWSA will strive to exercise more isolation valves if resources are available.
- When concerns about distancing associated with the current pandemic subside, PWSA will test/replace at least 10,000 meters per year until all of the undocumented meters are either tested or replaced.
- Within 90 days after the Commission's final order, PWSA will implement a program to flush one-third of the distribution system each year.

²²⁰ PWSA St. No. 8-R at 23.

²²¹ PWSA St. No. 4-R at 15.

- PWSA will meet with interested parties to discuss the report addressing the feasibility of owning and/or maintaining wastewater laterals within public easements/rights-of-ways.
- PWSA will continue its efforts to coordinate with neighboring utilities, municipalities and the Pennsylvania Department of Transportation on future planned capital and operating projects.
- PWSA will revise its minimum warranty on workmanship and material on lead service line replacements to comply with the industry-wide standard that the Commission is expected to establish pursuant to Act 120 of 2018.
- PWSA will provide a key as part of its discovery response in future rate cases that will identify water, sanitary sewer, and stormwater when its field operations staff uses the SpryMobile Work orders and Asset Management system.
- PWSA will maintain data in a format that can be sorted by date, address, character of the complaint, a designation of the PWSA system to which the complaint relates, and the final disposition of the complaint.²²²

As noted, there was much agreement between the parties related to many of these important quality of service issues. The terms memorialize a number of the recommendations made by the OCA's witnesses in a manner that takes into consideration PWSA's current practices/goals and concerns. For these reasons, PWSA submits that these settlement terms are in the interest of the public and should be adopted.

I. Additional Terms and Conditions

1. Waiver of Exceptions if Settlement Approved Without Modification

The Settlement provides that if the ALJs, in their Recommended Decision, recommend that the Commission adopt the Settlement without modification, the Joint Petitioners will waive the filing of Exceptions.²²³ The waiving of exceptions if the Settlement is approved without modification is an extremely important component of the Settlement because it should permit the Settlement to be considered by the Commission on a faster track. PWSA initially proposed that

²²² Joint Petition at 15-16, ¶¶ H.1-9.

²²³ Joint Petition at 17, ¶ 13.

its requested rate increase be effective January 1, 2021. However, PWSA did ultimately agree to voluntarily suspend that date to January 14, 2021 to address concerns raised by the parties due to the onset of the COVID-19 pandemic and in light of the fact that there is no Commission public meeting scheduled beyond December 17, 2020.²²⁴ While PWSA is committing not to place the Commission approved rates established by this proceeding in effect until January 14, 2021, receiving a Commission decision at the December 17, 2020 public meeting would be incredibly beneficial for a number of reasons.

First, the month window of time between approval and rate effective date would provide PWSA with the opportunity to notify its customers of the specific rate increase that will be implemented. With a month lag time, PWSA could include such notice as a bill insert. Second, the window of time would give PWSA an opportunity to finalize the compliance requirements following the final order (submit its compliance tariffs) as well as to ensure that its billing systems and operations are in place to effectuate the rates on January 14, 2021. Finally, while the Commission voted on PWSA's initial rate case at its February 7, 2019 public meeting, the Opinion and Order was not entered for 20 days until February 27, 2019. Due to the lag time between the vote and the order, PWSA could not submit its tariffs until February 28, 2019 and its rates became effective on March 1, 2019 (denying PWSA almost a month of additional revenue).

In this proceeding, given the significant decrease in the amount of the rate increase as agreed-to through this Settlement and the period of time that PWSA has already agreed to forgo implementing the rates due to the current pandemic, PWSA submits that any actions that can be taken (such as the waiver of exceptions if appropriate) to position this case to be adjudicated at

²²⁴ Joint Petition, Appendix A at 7, ¶¶16, 18, 19.

the December 17, 2020 public meeting would be in the best interest of the public and PWSA's ratepayers by making available the fullest value of the approved rates.

2. Consumer Complaints and Public Input Testimony

Three individual consumers filed formal complaints against the proposed rate increase – Ranjan R. Chaudhuri, Catherine Brosky, and Donald Kuhn. Each of these complainants was served with a copy of the Settlement and has the opportunity to file objections or comments to the settlement by October 13, 2020.²²⁵ PWSA submits that the Settlement addresses many of the concerns raised by the formal complainants.

The primary concern raised by all three complainants was the size of the proposed rate increase. As discussed above, the Settlement provides for a base rate increase that is significantly lower than requested (\$9.9 million annually as opposed to the originally proposed \$24.2 million annually) and removes the proposed second year of rate increases.²²⁶ Mr. Kuhn also stated that he opposed PWSA's rate increase without associated improvements in quality of service, and that the increase would be unfair to senior citizens and those on fixed incomes. The Settlement addresses these concerns by including additional standards and requirements to improve customer service²²⁷ and address certain quality of service issues,²²⁸ and also includes detailed terms that significantly expand the benefits that PWSA offers to assist qualifying low-income customers.²²⁹ Additionally, Ms. Brosky stated that PWSA should increase transparency and have greater reporting requirements. The settlement adds a number of reporting

²²⁵ Joint Petition at ¶ 17.

²²⁶ Joint Petition, Appendix E presents a comparison of PWSA's existing rates and the proposed settlement rates on typical bills. Appendix F compares PWSA's initial rate request with the proposed settlement rates to present the typical bill impacts.

²²⁷ Joint Petition at 14-15, ¶ III.G

²²⁸ Joint Petition at 15-16, ¶ III.H

²²⁹ Joint Petition at 10-14, ¶ III.F.

requirements, both in PWSA's current Quarterly Compliance Plan Progress Reports (which are already quite detailed) and in future base rate proceedings.

Similarly, the Settlement addresses many of the issues raised at the six (6) Public Input Hearings which were held on July 7-9, 2020. The primary concerns raised at the public input hearings included: the size of the proposed rate increase; the impact of the COVID-19 pandemic on ratepayers; the impact of the proposed rate increase on low-income customers; and addressing stormwater issues. As discussed herein, the Settlement addresses each of these issues. The Settlement provides for rates that are well under half of the amount originally requested, and includes detailed terms for enhanced assistance to qualifying low-income customers. Although PWSA has not proposed to implement a stormwater fee as part of this proceeding, the Settlement provides that consideration of the stormwater tariff and fee proposal will be addressed as part of PWSA's next combined water, wastewater and stormwater base rate proceeding and will be combined with the Compliance Plan Stage 2 investigation of stormwater issues.²³⁰ Additionally, PWSA addressed customer service issues raised at the Public Input Hearings by contacting the individual customers after the hearings in order to resolve their specific concerns.²³¹

For all these reasons, the proposed Settlement reasonably addresses the concerns expressed by customers whether through formal complaints or during testimony offered at the public input hearings and should be adopted.


²³⁰ Joint Petition at 7, ¶ III.B.

²³¹ PWSA St. No. 8-R at 25-26.

III. CONCLUSION

For all the reasons set forth herein and the Joint Petition for Settlement, PWSA respectfully requests that the ALJs recommend that the Commission adopt the Settlement as proposed without modification.

Respectfully submitted,



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