

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

JENNIFER PRESUTTI

ON BEHALF OF
THE PITTSBURGH WATER
AND SEWER AUTHORITY

Docket Nos.

R-2020-3017951 (Water)

R-2020-3017970 (Wastewater)

P-2020-3019019 (DSIC)

TOPICS:

COVID-19 Impacts on the FPPTY

Updated FPPTY

Revenue & Expense Adjustments

August 18, 2020

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TABLE OF EXHIBITS

JP-6	PWSA Categorization of OCA Proposed Adjustments
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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND POSITION FOR THE RECORD.**

3 A. My name is Jennifer Presutti and I am the Deputy Executive Director for The Pittsburgh
4 Water and Sewer Authority (“PWSA” or “Authority”).

5 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I submitted Direct Testimony (PWSA St. 3) on March 6, 2020 and Supplemental
7 Direct Testimony (PWSA St. 3-SD) on May 15, 2020.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. My rebuttal testimony responds to certain portions of the direct testimony submitted by
10 the Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate
11 (“OCA”), and the Office of Small Business Advocate (“OSBA”).

12 The primary purpose of my rebuttal testimony is to: (1) reply to the various
13 revenue requirement recommendations; (2) address the financial metrics
14 recommendations of various parties; and, (3) respond to arguments regarding PWSA’s
15 claims for certain revenues and expenses.

16 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

17 A. In my testimony, I respond and comment on the overall rate increase recommendations of
18 Mr. Spadaccio and Mr. Patel, the witnesses for I&E, Mr. Rubin and Mr. Mugrace for
19 OCA, and Mr. Kalcic for OSBA, and the financial standards that are recommended to
20 judge the reasonableness of PWSA’s rate request. I provide further responses to the
21 revenue and expense adjustments proposed by I&E witness Spadaccio, OCA witnesses
22 Mugrace, Habr and Colton, and OSBA witness Kalcic.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

2 A. Yes, I am sponsoring PWSA Exh. JP-6: PWSA Categorization of OCA Proposed
 3 Adjustments. This exhibit organizes the various line items of adjustments proposed by
 4 OCA into specific categories that I will discuss further in this testimony. PWSA Exh. JP-
 5 6 displays all of OCA’s recommended individual line adjustments, the amounts, location
 6 in PWSA’s Class Cost of Service Study and reference to OCA testimony explaining the
 7 proposed adjustment.

8 **II. COVID-19 IMPACTS ON THE FPFTY**

9 **Q. DO ANY PARTIES PROPOSE ADJUSTMENTS TO THE TRADITIONAL**
 10 **RATEMAKING ANALYSIS?**

11 A. Yes. Several witnesses, primarily from OCA, and principally witness Scott Rubin, claim
 12 that the PUC should reject PWSA’s proposed rate increase in light of the Covid-19
 13 pandemic. Mr. Rubin asserts that “this is not the time to impose higher costs on either
 14 people or businesses.” (OCA St. 1 at 12, line 10-11). Accordingly, Mr. Rubin asserts, the
 15 Commission should not grant any rate increase unless the Commission finds that an
 16 increase is required for PWSA to meet its debt service coverage requirements. (OCA St.
 17 1 at 5, 26-59). In addition to Mr. Rubin, witnesses for other parties have similarly
 18 expressed a willingness to depart from traditional ratemaking analyses in light of Covid-
 19 19.¹

¹ Mr. Kalcic, on behalf of the OSBA, recommends that the Commission “deny PWSA’s ill-timed request for rate relief or, alternatively, direct PWSA’s to submit a revised FPFTY budget that minimizes the need for any rate relief during the ongoing COVID-19 pandemic.” (OSBA St. 1 at 3, 4-7). UNITED also takes the view that PWSA’s request for a rate increase should not be approved at this time. (UNITED St. No. 1 at 7-9).

1 **Q. WHAT IS PWSA’S RESPONSE TO THE PROPOSAL TO REJECT**
2 **TRADITIONAL RATEMAKING IN LIGHT OF COVID-19?**

3 A. The Commission should reject the proposals of Mr. Rubin and other witnesses to ignore
4 traditional ratemaking, because these proposals are not appropriate, prudent, or lawful.
5 PWSA witness James Cawley addresses in his Rebuttal Testimony why Mr. Rubin’s
6 contentions are unreasonable and unsupportable. (PWSA St. No. 10-R). In her Rebuttal
7 Testimony, Ms. Quigley addresses the actions PWSA has taken to address the effects of
8 the pandemic on our customers as well as the various financial assistance programs
9 available for eligible low-income customers. (PWSA St. No. 8-R). Finally, Mr. Barca’s
10 Rebuttal Testimony addresses the financial impact to date on PWSA in light of the
11 pandemic as well as our current projections. (PWSA St. No. 5-R).

12 **Q. HAS PWSA CONDUCTED AN EVALUATION OF THE FPFTY PROJECTIONS**
13 **IN LIGHT OF WHAT IS NOW KNOWN ABOUT THE EFFECTS ON THE**
14 **PANDEMIC ON ITS OPERATIONS AND FINANCES?**

15 A. Yes. PWSA has closely monitored the revenue, revenue requirements, and consumption
16 for the FTY. PWSA has revised budgets to identify potential expense reduction, has
17 implemented a temporary hiring freeze, and revised the cash flow analysis.

18 **Q. PLEASE EXPLAIN PWSA’S ANALYSIS OF THE EFFECTS OF THE**
19 **PANDEMIC ON ITS FPFTY (FY 2021) PROJECTIONS.**

20 A. Through PWSA’s analysis and revised projections, it is anticipated that PWSA will end
21 the FTY with a modest surplus. This is a result of reducing operating expenses to balance
22 the reduction in revenues. However, due to the restriction on spending, the PWSA will
23 need to make up for those planned projects and expenses that were paused during the
24 FTY. The FPFTY will require additional funds to address these deferrals. Therefore,
25 PWSA’s projected FPFTY budget remains a reasonable projection of its revenues and
26 expenses in FY 2021.

1 **III. REVENUE REQUIREMENT CALCULATION**

2 **Q. HAVE YOU EXAMINED THE DIRECT TESTIMONY FILED BY I&E WITNESS**
 3 **ANTHONY SPADACCIO, OCA WITNESS MUGRACE, AND OSBA WITNESS**
 4 **BRIAN KALCIC IN THIS CASE? (I&E ST. NO. 1; OCA ST. NO. 2; AND, OSBA**
 5 **ST. NO. 1)**

6 A. Yes, I have.

7 **Q. PLEASE SUMMARIZE THEIR OVERALL RECOMMENDATION**
 8 **REGARDING REVENUE REQUIREMENT.**

9 A. My understanding is that I&E’s total recommended revenue requirement for PWSA is
 10 \$177,004,273². (I&E St. 1 at 6; I&E Exhibit No. 1, Schedule 1.) This recommended
 11 revenue requirement represents a **decrease** of \$4.6 million to PWSA’s revenue
 12 requirement at present rates (of \$181,646,427, as shown on JP-1). That equates to a \$48.8
 13 million **decrease** from PWSA’s requested revenue requirement for the FPFTY (of
 14 \$225,819,903, as shown on JP-2). This recommendation actually corresponds to a
 15 decrease of \$3,017,400 to water operations (\$4,642,154 x 65%) and a decrease of
 16 \$1,624,754 to wastewater operations (\$4,642,154 x 35%). (I&E St. 1 at 7).

17 The OCA’s primary recommendation regarding the additional revenue
 18 requirement is zero (no rate increase), due to the pandemic. However, if there is an
 19 increase, OCA’s total recommended revenue requirement for PWSA is \$197,863,000.
 20 OCA St. 2 at 7, 11-12. This recommended revenue requirement represents an **increase** of
 21 \$16.2 million to present rates. That equates to a \$27.956 million **decrease** from PWSA’s
 22 requested revenue requirement for the FPFTY. (OCA St. 2 at 7).

² This number represents the I&E’s adjusted total revenue requirement of \$175,324,506 *plus* I&E’s calculated uncollectible revenues of \$1,679,767. See I&E Exhibit No. 1, Schedule 1, Column I “Total Revenues” and “Less: Uncollectible Revenues.” Adding the Uncollectible Revenues is necessary reflect the full amount that base rates plus other revenue sources are designed to recover.

1 UNITED's and OSBA's recommendations regarding the additional revenue
 2 requirement is zero (no rate increase), due to the pandemic. In doing so, the OSBA
 3 expressly calls for PWSA to arbitrarily decrease construction expenses proportionally to
 4 any proposed revenue reduction so that PWSA will have more cash available in order to
 5 sustain (allegedly) sufficient financial metrics in the FPPTY. Such a result would place
 6 PWSA in a nearly impossible situation of attempting to determine which of its most
 7 critical infrastructure projects to readjust leaving PWSA at risk for future findings of
 8 violating regulatory mandates and/or exposing its customers to unnecessary risk due to a
 9 failure to upgrade the aging infrastructure which nobody can deny needs to be addressed
 10 after years of neglect.

11 **Q. DO YOU HAVE AN OVERALL RESPONSE TO THESE**
 12 **RECOMMENDATIONS?**

13 A. Yes, I recognize the good faith effort the witnesses have used to determine a reasonable
 14 revenue requirement for PWSA using the Cash Flow Method of ratemaking. I also take
 15 into account that the witnesses recognize the need for PWSA to maintain financial health
 16 in order to continue its efforts to modernize its system and improve safety, reliability and
 17 customer service. I nonetheless believe that if the witnesses' recommendations are
 18 adopted by the Commission, they would seriously threaten PWSA's ability to maintain
 19 financial health and its efforts to modernize its system and improve safety, reliability and
 20 customer service, the very essence of what their recommendations purport to achieve.

21 **Q. BASED UPON YOUR ANALYSIS, WILL THE REJECTION OF THE**
 22 **REQUESTED RATES (I.E., A ZERO INCREASE) PERMIT PWSA TO MEET**
 23 **MINIMUM STANDARDS OF FINANCIAL ADEQUACY?**

24 A. No. My analysis (as supported by the Rebuttal Testimony of Mr. Barca and Mr. Huestis)
 25 shows that a zero increase in existing rates will not provide adequate levels of cash, debt

1 service coverage and other financial metrics necessary to enable PWSA to pay its bills
2 and maintain efficient access to the capital markets at reasonable rates.

3 At current rates, the projected deficit for PWSA in the FPFTY would exceed \$40
4 million. (See PWSA Exh. JP-1). PWSA would not be able to continue the momentum in
5 the capital program, particularly with those projects that are mandated and have strict
6 timelines. PWSA would again be in the position of deferring operating maintenance and
7 repairs on its aged system.

8 **Q. BASED UPON YOUR ANALYSIS, WILL I&E'S RECOMMENDED REVENUE**
9 **REQUIREMENT PERMIT PWSA TO MEET MINIMUM STANDARDS OF**
10 **FINANCIAL ADEQUACY?**

11 A. The increase of \$44 million to present rates requested by PWSA for 2021 would help
12 PWSA maintain financial health. That being said, at the revenue requirement
13 recommended by I&E, PWSA would have difficulty in keeping its financial health above
14 the minimum standards,³ particularly if there are unanticipated challenges in the FPFTY.
15 Therefore, I continue to believe that PWSA's requested rate increases are necessary and
16 reasonable, and would help PWSA to avoid significant deterioration in PWSA's ongoing
17 path to financial stability.

18 **Q. ARE YOU AWARE OF ANY LEGISLATION THAT MAY IMPACT THE**
19 **RECOMMENDATIONS MADE BY THE OTHER PARTIES?**

20 A. Yes. Each of I&E witnesses (Mr. Spadaccio, Mr. Patel, Mr. Cline and Mr. Kubas)
21 reserved the right to revisit their recommendations if House Bill 2455 was enacted. (I&E
22 St. 1 at 26; I&E St. 2 at 55; I&E St 3 at 60; I&E St. 4 at 23.) As explained further in the
23 Rebuttal Testimony of Ms. Lestitian, House Bill 2455 was passed by the Pennsylvania

³ Mr. Barca's Rebuttal Testimony provides additional information regarding this point. (PWSA St. No. 5-R).

1 legislature and was approved by Governor Wolf, as Act No. 70 of 2020. (PWSA St. No.
2 2-R). I am advised by counsel that Act 70 of 2020 makes the cooperation agreement
3 between the City of Pittsburgh and the PWSA in full effect – and gives it the effect of a
4 law – until 2025.

5 **Q. DO YOU VIEW ACT 70 AS IMPACTING ANY OF THE PARTIES' POSITIONS**
6 **AS IT RELATES TO REVENUES, REVENUE REQUIREMENTS OR THE**
7 **REVENUE INCREASE?**

8 A. Yes. I&E witness, Mr. Cline, adjusts revenue at present rates higher by a collective
9 \$8,844,034 for water and wastewater conveyance based on the premise that PWSA
10 should bill metered City of Pittsburgh properties at 100% of the rates and charges and
11 that flat rates for unmetered City properties should be established on significantly higher
12 usage per account assumptions (I&E St. 3 at 37-42). Imputing this revenue to PWSA, as
13 Mr. Cline recommends, at present rates directly impacts the PWSA's projections by
14 decreasing the overall requested revenue increase by shifting the baseline revenue at
15 present rates projection. However, with the passage of Act 70, I am advised by counsel
16 that PWSA is prohibited by law from billing metered City properties at 100% of rates and
17 charges and PWSA is prohibiting from billing any unmetered City properties for any type
18 of flat rates until 2024. Therefore, recommendations based on PWSA billing charges at
19 these levels – in direct violation of the law (as I understand from counsel) – and
20 anticipating that PWSA will receive these revenues as billed are not legally supportable.
21 Given that the underlying foundations for I&E's recommendations have been directly
22 impacted by the passage of new law, PWSA awaits further information from I&E
23 revising their initial recommendations.

1 **IV. EXPENSES IN THE FPFTY**

2 **Q. DO PARTIES CHALLENGE THE RELIABILITY OF PWSA’S DIRECT**
 3 **OPERATIONS AND MAINTENANCE (O&M) EXPENSE CLAIM AMOUNTS?**

4 Yes. Mr. Patel, on behalf of I&E, is looking backwards to challenge projections about
 5 the future. He observes that PWSA incurred far less direct O&M expenses than budgeted
 6 in the 2018 base rate filing and generated a revenue surplus of \$21M. (I&E St. 2 at 4-5.)
 7 Based on that observation, he asserts that there should be adjustments to PWSA’s O&M
 8 expense claim amounts for the FPFTY. (I&E St. 2 at 5-6.). Similarly, Mr. Rubin, on
 9 behalf of the OCA, concludes that the Commission cannot have any confidence in the
 10 projections made by PWSA for the FPFTY, since these are not “normal conditions”.
 11 (OCA St. 1 at 27-29).

12 **Q. DO YOU AGREE WITH THESE CRITICISMS?**

13 A. No. It is important to keep in mind that the nature of fully projected future test years is
 14 that they are based *entirely* on projections. As such there is always a level of uncertainty
 15 in projections. However, uncertainty related to budgetary estimates does not render a
 16 projection unreliable. With the use of a FPFTY, there will always be the potential of
 17 revisions of projections as events develop and trends change. However, if the FPFTY
 18 budgeting process is rigorous and well established, that FPFTY projection will be a
 19 reasonable reflection of what the utility may experience during the period studied. I
 20 firmly believe that PWSA’s budgeting process is rigorous and well documented and
 21 produces reliable results.

22 **Q. MR. PATEL IN PARTICULAR APPEARS TO BE TROUBLED BY PWSA’S**
 23 **UNDERRUNNING OF ITS BUDGET IN 2019, COMPARED TO THE FPFTY ON**

1 **WHICH ITS LAST RATE CASE WAS DETERMINED. (I&E ST. NO. 2 AT 4).**
 2 **CAN YOU COMMENT ON THIS?**

3 A. Yes. While there was an underrun, it is important to recall that 100% of that underrun
 4 was used to benefit PWSA ratepayers by reducing costs that otherwise would have
 5 contributed to a greater rate increase request in this proceeding. Specifically, PWSA was
 6 able to fund additional capital projects through its PAYGO program, establish a Rate
 7 Stabilization Fund, and pay down additional debt. PWSA will continue to apply any
 8 underrun in budgeted expenditures in 2021 to expenditures or other obligations in future
 9 years. Unlike an investor owned utility, such underruns should not be of concern to the
 10 PUC since the money is used to benefit ratepayers.

11 **Q. HAVE THE PARTIES ALSO RAISED QUESTIONS ABOUT THE**
 12 **RELIABILITY OF PWSA’S FULLY PROJECTED FUTURE TEST YEAR**
 13 **(“FPFTY”) DATA IN LIGHT OF THE COVID-19 PANDEMIC?**

14 A. Yes. On behalf of the OCA, Mr. Rubin states that the Commission cannot “rely on many
 15 of the assumptions made in PWSA’s filing.” (OCA St. 1 at 5, lines 6-8.) Mr. Mugrace,
 16 again a witness for OCA, claims that PWSA’s FPFTY data is unreliable and cannot be
 17 used to establish rates in this proceeding. (OCA St. No. 2 at 6-7).

18 **Q. DO YOU BELIEVE THAT THE CONTINUING NATURE OF THE COVID-19**
 19 **PANDEMIC RENDERS PWSA’S FPFTY FATALLY UNRELIABLE?**

20 A. No. As I explained in my supplemental direct testimony, PWSA is being proactive and
 21 conservative in addressing the potential impacts from the pandemic. (PWSA St. 3-SD at
 22 2-3.) Other than the lower beginning cash balance for the FPFTY, PWSA has not revised
 23 its FPFTY projections. It does not follow, however, as Mr. Rubin and Mr. Mugrace
 24 intimate, that PWSA has not been carefully monitoring the effects of the pandemic on its
 25 operations and its finances. It should be noted that PWSA has been carefully tracking the

1 direct increased expenses realized due to COVID-19, lower collections, and also project
 2 an increase in future contracts due to COVID-19.

3 **Q. HAVE THE PARTIES RAISED QUESTIONS ABOUT THE RELIABILITY OF**
 4 **PROJECTIONS FOR FISCAL YEAR 2022?**

5 A. Yes. Mr. Cline questions PWSA’s ability to accurately project revenues and expenses a
 6 year beyond the FPPTY. (I&E St. 3 at 49.) He also claims that his concerns are
 7 heightened by the pandemic. (I&E St. 3 at 49-50.) However, PWSA operating expenses
 8 are largely known and anticipated and can be projected using a basic escalator as is
 9 appropriate in the budgeting and forecasting process.

10 **Q. DO YOU HAVE ANY OBSERVATIONS ABOUT THE PARTIES’ VARIOUS**
 11 **ADJUSTMENTS TO PWSA’S EXPENSES?**

12 A. Yes. I note that the parties frequently recommend rejecting any increases in expenses
 13 and I want to emphasize that any increase, in and of itself, does not provide a basis for
 14 rejection. To the contrary, PWSA has confidence in the expense items that it included as
 15 part of this rate filing because of the meticulous budget process that the Authority
 16 follows. All PWSA departments submit to the Finance Departments their needs for the
 17 next two years. The Finance Department meets multiple times with departments to
 18 understand their needs for the next two years. During this process, line items are adjusted
 19 and honed based on historical actuals and projected increases, as well as available funds.
 20 Next, the Finance Department meets with the Executive Office to review all departmental
 21 budgets for further adjustments. For further perspective, through this rigorous process,
 22 approximately \$20M was cut from the proposed FTY budget. Then, the Finance
 23 Department holds a Board education session with all PWSA Board members to explain
 24 expenses and answer questions. Finally, the PWSA holds a final vote on the proposed
 25 budget before the end of the fiscal year.

1 **V. RATE CASE EXPENSE**

2 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A 50%**
 3 **REDUCTION IN RATE CASE EXPENSE (FROM \$642,000 IN THE FPFTY TO**
 4 **\$321,000). (I&E ST. 2 AT 5, 7-12.)**

5 A. Mr. Patel disagrees with PWSA’s full expense claim of \$642,000 in the FPFTY. He
 6 states that his claim is not supported by the Company’s historic filing frequency. (I&E St.
 7 2 at 9-12.) He recommends a 24 month normalization period. As a cash based utility,
 8 PWSA pays for all expenses incurred within the year that they are incurred. From an
 9 accounting and budgeting perspective, normalization is not feasible for PWSA.

10 **VI. PAYROLL EXPENSE**

11 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$6,232,128**
 12 **(\$29,667,643 - \$23,435,515) REDUCTION TO PWSA’S PAYROLL EXPENSE**
 13 **CLAIM. (I&E ST. 2 AT 5, 12-16.)**

14 A. This recommendation adjusts the payroll expense in the FPFTY based on unfilled
 15 (vacant) positions. (I&E St. 2 at 13.) PWSA has identified needed positions to support the
 16 daily operations and the increase in capital project workload. PWSA has taken an
 17 incremental approach to budgeting these positions to allow for a graduated increase to a
 18 full workforce over the next three years. Increased recruiting efforts and the waiver or
 19 elimination of the residency requirement for key positions will assist PWSA with
 20 reaching its staffing needs. In the FTY, the PWSA has maintained staffing levels and
 21 have slightly increased its workforce. The PWSA has had internal discussions regarding
 22 lifting the temporary hiring freeze to access the pool of newly unemployed individuals in
 23 the City of Pittsburgh region. Mr. Patel has presented absolutely no facts that would
 24 indicate that PWSA will not proceed with these hirings, other than pointing out that the
 25 total for the FPFTY is higher than historic averages. This approach, which he uses
 26 throughout his testimony is unreasonable and fails to acknowledge that PWSA is in the

1 midst of rehabilitating and expanding its operations and infrastructure as well as coming
 2 into compliance with numerous PUC mandates and requirements affirmed in the PUC
 3 Compliance Plan Order. Adopting Mr. Patel’s recommendations would force PWSA to
 4 come to a full stop with these efforts, precisely when the PUC has affirmed that we
 5 should be moving full speed towards full compliance. Moving towards full compliance
 6 will require more employees, not less, and the FPPTY reflects this reality.

7 **VII. EMPLOYEE BENEFITS EXPENSE**

8 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$1,657,536**
 9 **REDUCTION TO PWSA’S EMPLOYEE BENEFITS EXPENSE CLAIM. (I&E**
 10 **ST. 2 AT 5, 16-18.)**

11 A. I understand that I&E’s proposed reduction of employee benefits is in direct relation to
 12 their proposed reduction of payroll expense. PWSA fully intends to maintain its course
 13 in the hiring of additional needed employees. An update regarding PWSA’s current
 14 staffing and recruitment efforts is addressed more fully in the Rebuttal Testimony of Ms.
 15 Lestitian. (PWSA St. NO. 2-R)

16 **VIII. CHEMICALS**

17 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$1,200,703**
 18 **(7,644,818 – \$6,444,115) REDUCTION TO PWSA’S CHEMICAL EXPENSES.**
 19 **(I&E ST. 2 AT 5, 19-21.)**

20 A. Mr. Patel asserts that PWSA’s projection of future chemical expenses is too high when
 21 compared to his projection of future chemical costs. Mr. Patel’s projection is based on
 22 2019 actual chemical expenses as adjusted by him for increased use of certain chemicals,
 23 and by an average of consumer price index (CPI) inflation factors for 2020. (I&E St. 2 at
 24 20.) However, the PWSA must maintain adequate budget totals for chemicals to prepare
 25 for unknown conditions in the source water, distribution system, or regulatory changes.

1 In addition, the PWSA has initiated the start of the Microfiltration Plant at full
 2 operational capacity, increasing chemical usage not previously experienced by PWSA.

3 Adjusting prior actual expenses by the CPI is not a reasonable projection of
 4 expenses of PWSA’s chemical and material expenses for the FPFTY. This inflation rate
 5 adjustment is not being presented in a real uniform or standardized approach. It is being
 6 selectively applied by Mr. Patel to a limited range of costs/expenses. Mr. Patel does not,
 7 however, do anything to show that changes in costs for these important expenses have
 8 been steady or that they have actually been at or below the general rate of the CPI. I
 9 understand that COVID-19 pandemic has impacted data collection by the U.S. Bureau of
 10 Labor Statistics for the CPI.⁴ This makes me concerned that using the CPI, which is a
 11 measure of the average change over time, does not reflect current or future market
 12 conditions for chemicals and materials used by water and wastewater utilities. I believe
 13 that the 5% adjustment applied by PWSA is reasonable and reflects conditions that will
 14 be experienced in the FPFTY. I do not believe that the CPI should be selectively used to
 15 projections for the FPFTY regarding critical elements for operations, such as chemicals
 16 for water treatment and materials.

17 **Q. PLEASE RESPOND TO THE OCA’S RECOMMEDATION FOR A \$831,080**
 18 **REDUCTION TO PWSA’S CHEMICAL EXPENSES. (OCA ST. 2 AT 30-37; OCA**
 19 **SCHEDULE DM-6.)**

20 A. As stated previously, the PWSA must maintain adequate budget totals for chemicals to
 21 prepare for unknown conditions in the source water, distribution system, or regulatory
 22 changes. In addition, the PWSA has initiated the start of the Microfiltration Plant at full
 23 operational capacity, increasing chemical usage not previously experienced by PWSA.

⁴ <https://www.bls.gov/cpi/notices/2020/covid-19-faq.htm>.

1 I would note that OCA witness Mugrace, contrary to approach by Mr. Patel,
2 would not allow any escalation from historic costs for chemicals and other expenses.
3 (OCA St. 2 at 31). He recommends removing all of the projected increases in cost from
4 rates. In doing so, he seems to be ignoring not only inflation but also market conditions.
5 He is further ignoring that the Legislature expressly indicated that the FPFTY may
6 include projections of costs and expenses. I disagree with such recommendations by Mr.
7 Mugrace, since his recommendations place extensive reliance on past results without any
8 consideration of future needs.

9 I would also note that OCA witness Mugrace used a “mix and match” approach to
10 making recommendations. He is sometimes using a 3-year average, sometimes using a 2-
11 year average, sometimes slashing projected expenses by half, and sometimes using only
12 specific year, such as the FTY. (See OCA Schedules DM-3 to DM-13.) Other times he
13 opines that certain amounts should be excluded, either in whole or in part, because there
14 is a lack (or absence) of prior years’ costs. This highlights that the OCA is “looking
15 backwards” to set future rates. Setting future rates requires looking at the anticipated
16 actions and expenses in the future year. Here, Mr. Mugrace generally shows that future
17 expenses are projected to be higher than past expenses. He then recommends that future
18 expenses be reduced to past spending levels. But, in doing that, he does nothing to show
19 that it is reasonable or appropriate to use past spending levels for the FPFTY. I believe
20 that this approach disregards extensive evidence presented by PWSA regarding the
21 reasonable and appropriate expenses that should be used in setting forward-looking rates.

1 **IX. MATERIALS EXPENSE**

2 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$302,313**
 3 **REDUCTION TO PWSA’S MATERIAL EXPENSE CLAIM. (I&E ST. 2 AT 5, 21-**
 4 **24.)**

5 A. Mr. Patel asserts that PWSA’s projection of future material expenses is too high when
 6 compared to his projection of future material expenses. His recommendation uses the
 7 same analysis he used for his projection of material expenses. However, material
 8 expenses are expected to increase as PWSA increases the repairs and maintenance of its
 9 aging system in the next three years, and addresses unexpected emergencies. Plus, as I
 10 explained, I disagree with using the CPI to adjust historic expenses regarding critical
 11 elements for operations, such as chemicals for water treatment and materials.

12 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 13 **REDUCTIONS IN LINE ITEMS RELATED TO MATERIALS, SUCH AS**
 14 **ASPHALT, BRICK, CEMENT, CONCRETE, FUEL, LUMBER, SAND AND**
 15 **TOP SOIL, FOR WATER QUALITY (TAB 321, COSS), PLANT OPERATIONS**
 16 **(TAB 322, COSS), WATER DISTRIBUTION (TAB 325, COSS), SEWER**
 17 **OPERATIONS (TAB 424, COSS), FINANCE (TAB 913, COSS), PUBLIC**
 18 **AFFAIRS (TAB 921, COSS) ENGINEERING & CONSTRUCTION (TAB 930,**
 19 **COSS), ENVIRONMENTAL COMPLIANCE (TAB 931, COSS). PLEASE**
 20 **RESPOND.**

21 A. Mr. Mugrace seeks a total reduction of \$244,333 for these expenses. (See PWSA JP-6,
 22 “Materials”). However, he does not take into account the planned and emergency repairs
 23 and maintenance that PWSA’s aging system requires. The PWSA has increased its efforts
 24 to understand where leaks are occurring and will only continue to increase that work in
 25 the coming years. These material types are necessary for the increased daily operations of
 26 the PWSA. As I explained, I further disagree with Mr. Mugrace’s approach. His
 27 approach to these recommendations is inconsistent with the idea of a fully projected
 28 future test year. In my opinion, his approach “locks in” the past and will create

1 unsustainably low spending levels that will impair PWSA’s ability to provide safe and
 2 reliable service to customers.

3 **X. EQUIPMENT**

4 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$1,344,550**
 5 **REDUCTION FROM (\$1,565,927 TO \$221,377) TO PWSA’S EQUIPMENT**
 6 **EXPENSE CLAIM. (I&E ST. 2 AT 5, 24-27.)**

7 A. Mr. Patel’s recommends normalization of each type of equipment cost over the useful
 8 service life of the respective equipment. (I&E St. 2 at 25-26.) However, as a cash based
 9 utility, PWSA fully pays for all expenses incurred within the year that they are incurred,
 10 and must have the cash available to do so. From an accounting and budgeting
 11 perspective, normalization is not feasible for PWSA. If these expenses were subject to
 12 capitalization then they could be financed via long term debt thereby extending the period
 13 of recovery in rates to the life of the bond – but they are not. Moreover, while these items
 14 of equipment have useful lives that are longer than one year, PWSA expects to
 15 experience the same level of equipment expenditures in each subsequent year.

16 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 17 **REDUCTIONS IN LINE ITEMS RELATED TO EQUIPMENT FOR WATER**
 18 **QUALITY (TAB 321, COSS), PLANT OPERATIONS (TAB 322, COSS), HUMAN**
 19 **RESOURCES (TAB 915, COSS), WATER DISTRIBUTION (TAB 325, COSS),**
 20 **SEWER OPERATIONS (TAB 424, COSS.) PLEASE RESPOND.**

21 A. Mr. Mugrace seeks a total reduction of \$89,698 for these expenses. (See PWSA Exh. JP-
 22 6, “Equipment”). However, these expenses are not extraordinary and are necessary for
 23 daily operations. For example, the machinery costs in Human Resources are for
 24 timekeeping equipment that increased under PWSA’s new HR and timekeeping contract.
 25 As I explained, I further disagree with Mr. Mugrace’s approach that will “lock in” the
 26 past and will create unsustainably low spending levels that will impair PWSA’s ability to
 27 provide safe and reliable service to customers.

1 **XI. OPERATING CONTRACTS**

2 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$12,237,296**
 3 **REDUCTION FROM (\$23,775,668 TO \$11,538,372) TO PWSA’S OPERATING**
 4 **CONTRACT EXPENSES. (I&E ST. 2 AT 5, 27-34.)**

5 A. As with I&E’s recommendation regarding chemicals, I&E recommends averaging the
 6 last three years’ actual total contract costs for eight sub-categories of contracts and
 7 adjusting the total for inflation based on CPI factors. (I&E St. 2 at 33.) However,
 8 historical actuals do not account for the increased work and contract costs facing PWSA
 9 for operational contracts. The contracts for PWSA’s urgent sewer and urgent water
 10 contracts have increased significantly to address emergencies in PWSA’s aging system,
 11 as well as the associated inspection cost. Another example is PWSA’s landscaping costs
 12 that were, admittedly, historically low due to poor vendor performance. PWSA seeks to
 13 correct this by hiring a more responsive firm.

14 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 15 **REDUCTIONS IN LINE ITEMS RELATED TO OPERATING CONTRACTS**
 16 **FOR WATER QUALITY (TAB 321, COSS), WATER DISTRIBUTION (TAB 325,**
 17 **COSS), PLANT OPERATIONS (TAB 322, COSS), SEWER OPERATIONS (TAB**
 18 **424, COSS), CUSTOMER SERVICE (TAB 911, COSS); MANAGEMENT**
 19 **INFORMATION SYSTEMS (TAB 912, COSS) ENVIRONMENTAL**
 20 **COMPLIANCE (TAB 931, COSS). PLEASE RESPOND.**

21 A. Mr. Mugrace seeks a total reduction of \$576,819 for these expenses. (See PWSA Exh.
 22 JP-6 “Operating Contracts”). As I just discussed, operating contracts have been steadily
 23 increasing for the PWSA. As of July 31, 2020, the PWSA has increased spending in
 24 operating contracts three times as much compared to the same time last year. In addition,
 25 PWSA understands from some vendors that costs will increase in the coming years to
 26 make up for losses due to COVID-19 and additional contract costs like hazard pay. As I
 27 explained, I further disagree with Mr. Mugrace’s approach that will “lock in” the past and

1 will create unsustainably low spending levels that will impair PWSA’s ability to provide
 2 safe and reliable service to customers.

3 **XII. REPAIRS AND MAINTENANCE**

4 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$1,989,000**
 5 **REDUCTION FROM (\$15,019,391 TO \$13,030,391) TO PWSA’S REPAIRS AND**
 6 **MAINTENANCE EXPENSE CLAIM. (I&E ST. 2 AT 5, 34-38.)**

7 A. Mr. Patel states that the FPPTY claim amounts for concrete repairs, plant repairs, and
 8 vehicle repairs are not supported and should be reduced. Concrete repairs are increasing
 9 significantly year over year as this line item is for all restoration costs associated with
 10 lead line replacements, emergency work, sinkholes, and planned repairs. Currently, the
 11 PWSA has over 2,500 sites to be restored by the end of the year. This does not include
 12 new sites to be added and does not include sites associated with capital projects. The City
 13 of Pittsburgh is also updating their right-of-way manual to include increased paving and
 14 restoration criteria that will add significant cost to PWSA restoration sites.

15 Plant repairs have been planned and are necessary to improve safety, ventilation,
 16 and aging infrastructure at the PWSA Water Treatment Plant. Deferring this work will
 17 only exacerbate and continue these conditions.

18 Vehicle repairs are contractual and non-contractual, and are accounted for in the
 19 same line item. PWSA utilizes the City of Pittsburgh vehicle repair contract to address
 20 routine and non-routine maintenance and repairs. In addition to this contract, the PWSA
 21 utilizes additional vendors to maintain and repair its specialized fleet.

22 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 23 **REDUCTIONS IN LINE ITEMS RELATED TO REPAIRS AND MAINTENANCE**
 24 **FOR WATER QUALITY (TAB 321, COSS), WATER DISTRIBUTION (TAB 325,**

1 **COSS), PLANT OPERATIONS (TAB 322, COSS), SEWER OPERATIONS (TAB**
 2 **424, COSS), FINANCE (TAB 913, COSS). PLEASE RESPOND.**

3 A. Mr. Mugrace seeks a total reduction of \$1,067,135 for these expenses. (See PWSA Exh.
 4 JP-6 “Repairs and Maintenance”). These expenses represent planned expenses to repair
 5 and maintain the water treatment plant and to address the backlog of projects needed to
 6 update the facility. Deferring these structural repairs and other needed upgrades will only
 7 exacerbate and continue these conditions. As I explained, I further disagree with Mr.
 8 Mugrace’s approach that will “lock in” the past and will create unsustainably low
 9 spending levels that will impair PWSA’s ability to provide safe and reliable service to
 10 customers.

11 **XIII. LEASE AND RENT**

12 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$553,496**
 13 **REDUCTION FROM (\$1,674,553 TO \$1,121,057) TO PWSA’S LEASE AND RENT**
 14 **EXPENSE CLAIM. (I&E ST. 2 AT 5, 38-40.)**

15 A. Mr. Patel states that PWSA did not provide calculations and documentation to support the
 16 anticipated increase in annual rent and the proposed new space to be rented for the
 17 operations and warehouse consolidation. The leased office at 1200 Penn increases
 18 annually and does not terminate until 2028. The PWSA nearly doubled its office space in
 19 2019.

20 Funding is also allocated in the FPFTY to allow for consolidation of our current
 21 field staff and central warehouse. This will allow PWSA to gain efficiencies in
 22 operations, increase safety, and address the PWSA’s need for equipment storage. The
 23 ability to find this type of large space in the City of Pittsburgh is very limited and PWSA
 24 must have the funds available to act quickly should PWSA find a suitable location.

1 **XIV. TRAVEL AND ENTERTAINMENT**

2 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$187,149**
 3 **REDUCTION FROM (\$383,746 TO \$196,597) TO PWSA’S TRAVEL AND**
 4 **ENTERTAINMENT EXPENSE CLAIM. I&E ST. 2 AT 5, 41-42.**

5 A. Mr. Patel states that pandemic-related travel restrictions will limit these expenses in the
 6 FTY and FPFTY. He then, arbitrarily, recommends a \$187,149 reduction. Training is
 7 extremely important to PWSA as we bring on new staff members and train our existing
 8 staff members on best practices and industry standards. The future of travel is uncertain
 9 at this point in time, but PWSA assumes that the ability to travel will resume in 2021 and
 10 funds should be available to staff if the travel environment changes in the next year.

11 **XV. UTILITIES FOR PLANT OPERATIONS**

12 **Q. OCA WITNESS MUGRACE MAKES RECOMMENDATIONS FOR**
 13 **REDUCTIONS IN LINE ITEMS RELATED TO UTILITIES FOR PLANT**
 14 **OPERATIONS (TAB 322, COSS) AND MANAGEMENT INFORMATION**
 15 **SYSTEMS (TAB 912, COSS.) PLEASE RESPOND.**

16 A. Mr. Mugrace seeks a total reduction of \$348,390 for these expenses. (See PWSA Exh.
 17 JP-6 “Utilities”) The largest of these proposed reductions relates to electricity
 18 (\$342,000). Two of these proposed reductions relate to telephone usage, both local
 19 (\$4,822) and long distance (\$30). His last recommendation in this topic proposes a
 20 reduction of \$1,538 for internet expenses. The PWSA has negotiated a new energy
 21 contract, however, the PWSA has not operated the Microfiltration Plant at full capacity
 22 and will need additional funds to pay those additional energy costs. Mr. Mugrace must
 23 take these additional energy demands into account even at the current negotiated rates. In
 24 addition, should PWSA be successful in finding a consolidated location for operations,
 25 additional funds will be necessary for these new utilities.

1 Telephone usage and internet expenses are reasonably incurred expenses for any
2 business and PWSA anticipates that these expenses will increase year over year,
3 especially as staff are added.

4 In addition, as I explained, I further disagree with Mr. Mugrace’s approach that
5 will “lock in” the past and will create unsustainably low spending levels that will impair
6 PWSA’s ability to provide safe and reliable service to customers.

7 **XVI. UTILITIES**

8 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$718,792**
9 **REDUCTION FROM (\$6,285,816 TO \$5,567,024) TO PWSA’S UTILITIES**
10 **EXPENSE CLAIM. (I&E ST. 2 AT 5, 42-45.)**

11 A. This recommendation addresses three components of PWSA’s utilities expense claim.
12 First, as to natural gas expense, Mr. Patel recommends a reduction of \$1,000. I&E St. 2 at
13 45. He disagrees with PWSA’s projection that include increase in gas cost and usage.
14 Second, as to electricity, Mr. Patel recommends a reduction of \$684,000. (I&E St. 2 at
15 45.) He disagrees with PWSA’s projection that include increase in electric cost and
16 usage. Third, as to cell phones, Mr. Patel recommends a reduction of \$33,792. He
17 disagrees with staffing levels, and seeks a decrease for less than the budgeted level of
18 staff. (I&E St. 2 at 45.) The PWSA has increased electricity costs due to the new
19 negotiated contract, as well as operating the Microfiltration Plant at full capacity as I
20 discussed previously regarding the proposed adjustment to Chemicals.

21 I discussed PWSA’s budgeted staffing levels in responding to proposed
22 adjustments regarding Payroll Expense and Employee Benefits Expense, notably that
23 PWSA has maintained and slightly increased staffing levels in the FTY. Costs for daily
24 operational needs like phone usage will continue to increase.

1 **XVII. CLAIMS DEDUCTIBLES AND MISCELLANEOUS ADMINISTRATIVE**
 2 **EXPENSE**

3 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR AN ALLOWANCE**
 4 **OF \$900,000 OR A REDUCTION OF \$300,000 (\$1,200,000 -\$900,000) TO PWSA’S**
 5 **CLAIM FOR CLAIMS DEDUCTIBLES. (I&E ST. 2 AT 5, 46-48.)**

6 A. With regard to miscellaneous administrative expenses, Mr. Patel is only addressing the
 7 claims deductibles expense. He asserts that PWSA’s projection of future claims
 8 deductible expenses is too high when compared to PWSA’s past expenses. However, Mr.
 9 Patel does not take into account that this line item of the PWSA budget is volatile and
 10 unpredictable. For example, the PWSA most recently settled an unexpected action by the
 11 PA Attorney General for \$500,000. The settled amount was much less than the \$1.5M
 12 fines facing the PWSA.

13 **Q. PLEASE RESPOND TO OCA RECOMMENDATION FOR AN ALLOWANCE**
 14 **OF \$389,975 TO PWSA’S CLAIM FOR DEDUCTIBLES. (OCA ST. 2 AT 22-23.)**

15 A. OCA witness Mugrace proposes to reduce PWSA’s claim for deductibles by \$810,025
 16 and averages three years of claims deductible expenses (2017-2019) to arrive at his
 17 recommendation of \$389,975. (OCA St. 2 at 22-23; PWSA Exh. JP-6 “Claims
 18 Deductibles”). As I will discuss regarding the proposed revisions regarding professional
 19 services, this line item is extremely volatile and relying on historical averages is not
 20 appropriate.

21 Moreover, as I explained, I further disagree with Mr. Mugrace’s approach that
 22 will “lock in” the past and will create unsustainably low spending levels that will impair
 23 PWSA’s ability to provide safe and reliable service to customers.

24 **Q. BEYOND THE CLAIM FOR DEDUCTIBLES EXPENSE, OCA WITNESS**
 25 **MUGRACE MAKES NUMEROUS OTHER RECOMMENDATIONS FOR**

1 **REDUCTIONS IN LINE ITEMS RELATED TO ADMINISTRATIVE EXPENSES.**
 2 **PLEASE RESPOND.**

3 A. Mr. Mugrace seeks a total reduction of \$201,674 for these expenses. (PWSA Exh. JP-6
 4 “MISC Administration”). Mr. Mugrace’s recommendation rests entirely upon the
 5 assumption that the spending at the historic or average level is sufficient for the future.
 6 Nothing indicates that this assumption always holds true. Contrary to that assumption,
 7 these expenses are usual and necessary for the PWSA. As of July 31, 2020, the PWSA
 8 has doubled the spending in this category as compared to the same time last year and Mr.
 9 Mugrace has raised no basis for suggesting that these are not reasonable projections for
 10 2021.

11 **XVIII. PROFESSIONAL SERVICES**

12 **Q. PLEASE RESPOND TO I&E’S RECOMMENDATION FOR A \$2,557,811**
 13 **REDUCTION FROM (\$20,138,131 TO \$17,580,320) TO PWSA’S**
 14 **PROFESSIONAL SERVICES EXPENSE CLAIM. (I&E ST. 2 AT 5, 48-54.)**

15 A. Mr. Patel states that the FPPTY claim amounts for advertising, billing contract, payroll
 16 services and other professional services are supported and should be reduced. (I&E St. 2
 17 at 50-51, 52-53.) Professional Services are an ever-increasing expense category for the
 18 PWSA. For example, line items like advertising have increased due to increased
 19 recruitment efforts and solicitations.

20 **Q. PLEASE RESPOND TO MR. PATEL’S RECOMMENDATION TO EXCLUDE**
 21 **PWSA’S LOBBYING EXPENSE IN ITS ENTIRETY. (I&E ST. 2 AT 51, 54.)**

22 A. Mr. Patel recommends excluding PWSA’s lobbying expense of \$82,500 for ratemaking
 23 purposes. I&E St. 2 at 51, 54. While I understand and acknowledge the Commission’s
 24 general rule with respect to lobbying expense,⁵ I respectfully submit that these amounts

⁵ 66 Pa. C.S. § 1316.

1 are reasonable for PWSA. PWSA is a municipal authority and has an obligation to
 2 maintain lines of communication with other parts of government. Moreover, I understand
 3 that PWSA’s government relations professionals assist in obtaining information and
 4 appropriate funding from PENNVEST.. Accordingly, these expenditures are not so much
 5 “lobbying” but government relations expense. These efforts directly benefit customers. In
 6 fact, since PWSA has no shareholders, all of PWSA’s lobbying efforts accrue to the
 7 benefit of customers. Under these circumstances, I believe that lobbying expense should
 8 be deemed a reasonable pro forma expense for PWSA. It would, therefore, be
 9 inappropriate to exclude PWSA’s claim for lobbying expense in its entirety and I&E’s
 10 proposed adjustment should be rejected.

11 **Q. SHOULD THE COMMISSION DEPART FROM THE COMMISSION’S**
 12 **GENERAL RULE FOR LOBBYING EXPENSES?**

13 A. Yes. Normal regulatory treatment of lobbying expenses is not appropriate for PWSA.
 14 Unlike an investor-owned utility, every dollar of increased surplus accrues to the benefit
 15 of customers since it obviates the need for additional rate increases. Accordingly, PWSA
 16 continues to respectfully request that its lobbying expenses also be included in pro forma
 17 expenses. In addition, I am informed by counsel that the PUC can waive provisions of the
 18 Public Utility Code if such a waiver would be reasonable considering PWSA’s special
 19 circumstances.

20 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 21 **REDUCTIONS IN LINE ITEMS RELATED TO PROFESSIONAL SERVICES**
 22 **FOR WATER QUALITY (TAB 321, COSS), PLANT OPERATIONS (TAB 322,**
 23 **COSS), FINANCE (TAB 913, COSS), HUMAN RESOURCES (TAB 915, COSS),**
 24 **LEGAL (TAB 916, COSS), PUBLIC AFFAIRS (TAB 921, COSS), AND**
 25 **ENVIRONMENTAL COMPLIANCE (TAB 931, COSS). PLEASE RESPOND.**

26 A. Mr. Mugrace seeks a total reduction of \$4,061,463 for these expenses. (PWSA Exh. JP-6
 27 “Professional Services”). The proposed reductions related to advertising total \$10,500.

1 The proposed reductions related to consultants total \$85,500. The proposed reduction for
 2 legal is \$1,230,000. The proposed reduction for payroll service is \$15,463. The proposed
 3 reductions for other professional services total \$2,720,000. As discussed previously, the
 4 increase in Professional Services is warranted. Legal expenses have increased due to
 5 anticipated tariff filings, the potential for a forthcoming EPA Consent Decree, and other
 6 legal challenges brought to the PWSA. The increase in payroll services is directly related
 7 to the new contract to address payroll and timekeeping services.

8 **XIX. RATE STABILIZATION FUND**

9 **Q. I&E WITNESS SPADACCIO RECOMMENDS THAT THE NEED FOR THE**
 10 **RATE STABLIZATION FUND BE REEVALUATED IN FUTURE RATE CASES.**
 11 **(I&E ST. 1 AT 19). CAN YOU COMMENT ON THIS RECOMMENDATION?**

12 A. Mr. Spadaccio did not make any changes to PWSA’s proposal. (I&E St. 1 at 19). That
 13 being said, PWSA understands that, in future rate cases, the Commission can evaluate
 14 proposed expenses, such as the RSF, to determine if they are prudent and reasonable.
 15 However, the PUC did approve the creation of the Rate Stabilization Fund as a condition
 16 of the Initial Rate Case Settlement and this fund has served a valuable purpose for PWSA
 17 and its ratepayers.

18 **XX. EXECUTIVE DIRECTOR**

19 **Q. OCA WITNESS MUGRACE MAKES TWO RECOMMENDATIONS TOTALING**
 20 **\$2,985 RELATED TO THE EXPENSE CLAIM LABELED “BONUS” FOR THE**
 21 **EXECUTIVE DIRECTOR. (OCA ST. NO. 2 AT 14-15)(SEE ALSO PWSA EXH.**
 22 **JP-6 “EXECUTIVE DIRECTOR”). PLEASE RESPOND.**

23 A. Due to the recent change in leadership at the PWSA, there is no need for a bonus
 24 structure within the Executive Director’s budget. Mr. Pickering explains more fully the
 25 recent staffing changes at the executive level. (PWSA St. No. 1-R).

1 **XXI. COMPLIANCE**

2 **Q. OCA WITNESS MUGRACE MAKES NUMEROUS RECOMMENDATIONS FOR**
 3 **REDUCTIONS IN LINE ITEMS RELATED TO PWSA’S COMPLIANCE WITH**
 4 **LEGAL OR REGULATORY STANDARDS. PLEASE RESPOND.**

5 A. Mr. Mugrace seeks a total reduction of \$46,170 for these expenses. (PWSA Exh. JP-6
 6 “Compliance”). The PWSA has budgeted appropriately for the expense of regulatory
 7 compliance by the PUC. Plus, as I explained, I further disagree with Mr. Mugrace’s
 8 approach that will “lock in” the past and will create unsustainably low spending levels
 9 that will impair PWSA’s ability to provide safe and reliable service to customers.

10 **XXII. ENHANCED BILL DISCOUNT PROGRAM COSTS**

11 **Q. PLEASE RESPOND TO OCA’S RECOMMENDATION TO INCLUDE \$314,120**
 12 **OF ADDITIONAL COSTS RELATED TO CHANGES PROPOSED BY OCA**
 13 **WITNESS COLTON TO ENHANCE THE BILL DISCOUNT PROGRAM. OCA**
 14 **ST. 2 AT 53.**

15 A. PWSA appreciates Mr. Colton’s recommendations to enhance the Bill Discount Program
 16 and are discussing ways to increase financial assistance for PWSA’s low income
 17 customers. As explained more fully in the Rebuttal Testimony of Ms. Quigley, many of
 18 Mr. Colton’s recommendations are as yet undeveloped and, therefore, the costs to
 19 implement as well as the costs that will need to be recovered from PWSA’s other
 20 ratepayers are not now known. Without further clarity about the specific programs and/or
 21 changes to existing offerings that PWSA is required to make, PWSA is unable at this
 22 time to estimate the actual costs of such recommendations. However, our initial review
 23 of the recommendations leads us to conclude that the enhancements to the Bill Discount
 24 Program would exceed Mr. Colton’s estimate of costs to be factored into our overall
 25 revenue requirements. PWSA has not performed a special study or analysis of the full
 26 costs to implement this recommendation.

1 **XXIII. OTHER OPERATING EXPENSES**

2 **Q. PLEASE RESPOND TO OCA’S RECOMMENDED REDUCTION OF \$93,000**
3 **(FROM \$5,538,472 TO \$5,445,472) OF OTHER OPERATING EXPENSES. OCA**
4 **ST. 2 AT 53-54; OCA SCHEDULE DM-10.**

5 A. Mr. Mugrace proposes a reduction of \$93,000 to PWSA’s expense claim for “City
6 Payments.” However, Mr. Mugrace reduces this line item based on a reduction in vehicle
7 repairs and permits. Historically, permitting cost have not been allocated due to the
8 conditions of the previous cooperation agreement between the PWSA and the City of
9 Pittsburgh. As of the passage of Act 70 of 2020, PWSA is now required to pay for the
10 cost of permitting. This is an expense that PWSA has not previously incurred and has
11 increased significantly due to the amount of work that PWSA does in the City of
12 Pittsburgh’s right-of-way.

13 **XXIV. CONCLUSION**

14 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

15 A. Yes; however, I do reserve the right to supplement this testimony as may be appropriate.

PWSA Exh. JP-6

Total of OCA Proposed Ajustment	Category of Adjusments	Dollar Amount	OCA Individual Line Adjustments	Location in COSS
\$831,080	Chemicals	\$831,080	CHEMICALS - LINES 51 TO 67;	PLANT OPERATIONS (TAB 322, COSS)
\$244,333	Materials	\$514	APHALT COLD PATCH - LINE 76;	PLANT OPERATIONS (TAB 322, COSS)
		\$2,993	ASPHALT COLD PATCH - LINE 76 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$24,377	ASPHALT COLD PATCH - LINE 76;	WATER DISTRIBUTION (TAB 325, COSS)
		\$7,700	ASPHALT HOT MIX - LINE 79 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$1,600	BATTERIES - LINE 169;	WATER DISTRIBUTION (TAB 325, COSS)
		\$150	BRICK - LINE 81 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$650	BRICK - LINE 81 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$250	CEMENT BAGGED - LINE 82 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$525	CEMENT BAGGED - LINE 82;	WATER DISTRIBUTION (TAB 325, COSS)
		\$1,162	CEMENT, GRAVEL, IRON STEEL BRASS - LINES 82- 84;	PLANT OPERATIONS (TAB 322, COSS)
		\$500	CONCRETE ACCESSORIES - LINE 171;	SEWER OPERATIONS (TAB 424, COSS)
		\$2,400	CONCRETE ACCESSORIES - LINE 171;	WATER DISTRIBUTION (TAB 325, COSS)
		\$3,000	COPIER PAPER - LINE 172;	WATER DISTRIBUTION (TAB 325, COSS)
		\$36,000	FITTINGS - LINE 156	WATER DISTRIBUTION (TAB 325, COSS)
		\$24,000	FUEL - GASSES LINE 237;	PLANT OPERATIONS (TAB 322, COSS)
		\$6,000	FUEL GASSES - LINE 237;	FINANCE (TAB 913, COSS)
		\$1,200	FUEL GASSES - LINE 237;	WATER QUALITY (TAB 321, COSS)
		\$400	FUEL PROPANE - LINE 239;	SEWER OPERATIONS (TAB 424, COSS)
		\$600	GRAVEL - LINE 83 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$11,500	GRAVEL - LINE 83 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$6,000	HOSE FITTING - LINE 158 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$1,200	INVENTORY HARDWARE - LINE 155;	WATER DISTRIBUTION (TAB 325, COSS)
		\$600	LUBRICATING OIL - LINE 177;	PLANT OPERATIONS (TAB 322, COSS)
		\$400	LUMBER - LINE 85 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$2,000	LUMBER - LINE 85;	WATER DISTRIBUTION (TAB 325, COSS)
		\$400	MATERIALS HANDLING - LINE 152;	WATER DISTRIBUTION (TAB 325, COSS)
		\$180	OFFICE SUPPLIES - LINE 245 (3 YEAR AVERAGE).	ENGINEERING & CONSTRUCTION (TAB 930, COSS)
		\$150	OFFICE SUPPLIES - LINE 245;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$1,200	OFFICE SUPPLIES - LINE 245;	WATER QUALITY (TAB 321, COSS)
		\$300	OFFICE SUPPLIES - LINE 245;	PLANT OPERATIONS (TAB 322, COSS)
		\$600	OFFICE SUPPLIES - LINE 245;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$600	OFFICE SUPPLIES - LINE 245;	WATER DISTRIBUTION (TAB 325, COSS)
		\$6,000	OFFICES SUPPLIES - LINE 245;	FINANCE (TAB 913, COSS)
		\$300	PAINT OILS PUTTY GLASS - LINE 178;	PLANT OPERATIONS (TAB 322, COSS)
		\$1,400	PAINT OILS PUTTY GLASS - LINE 178;	WATER DISTRIBUTION (TAB 325, COSS)
		\$600	PAPER PRODUCTS - LINE 179;	WATER DISTRIBUTION (TAB 325, COSS)
		\$12,000	PLUMBING INV EXP - LINE 163	WATER DISTRIBUTION (TAB 325, COSS)
		\$3,500	SAND - LINE 86 (50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$32,700	SLAG - LINE 87 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$40,500	SLAG - LINE 87(50%);	SEWER OPERATIONS (TAB 424, COSS)
		\$560	TOP SOIL - LINE 89 (50%)	SEWER OPERATIONS (TAB 424, COSS)
		\$1,005	TOP SOIL - LINE 89 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$567	TOP SOIL - LINE 89;	PLANT OPERATIONS (TAB 322, COSS)
		\$6,000	VALVES MISC. LINE - 194;	SEWER OPERATIONS (TAB 424, COSS)

Total of OCA Proposed Ajustment	Category of Adjusments	Dollar Amount	OCA Individual Line Adjustments	Location in COSS
		\$50	WELDING SUPPLIES - LINE 246;	WATER DISTRIBUTION (TAB 325, COSS)
\$89,698	Equipment	\$500	BACKHOE - LINE 167;	WATER DISTRIBUTION (TAB 325, COSS)
		\$1,000	COMPUTER NETWORKING - LINE 69;	HUMAN RESOURCES (TAB 915, COSS)
		\$1,198	EQUIPMENT RENTAL - LINE 206.	HUMAN RESOURCES (TAB 915, COSS)
		\$12,000	EQUIPMENT RENTAL - LINE 206;	PLANT OPERATIONS (TAB 322, COSS)
		\$6,000	EQUIPMENT RENTAL - LINE 206;	SEWER OPERATIONS (TAB 424, COSS)
		\$3,000	GROUNDS & MAINT SUPP. LINE - LINE 241;	SEWER OPERATIONS (TAB 424, COSS)
		\$24,000	GROUNDS & MAINT SUPP. LINE 241;	PLANT OPERATIONS (TAB 322, COSS)
		\$24,000	GROUNDS & MAINTENANCE - LINE 241;	WATER DISTRIBUTION (TAB 325, COSS)
		\$17,000	OFFICE EQUIPMENT - LINE 74;	WATER QUALITY (TAB 321, COSS)
		\$1,000	OFFICE EQUIPMENT REPAIRS - LINE 130;	SEWER OPERATIONS (TAB 424, COSS)
\$576,819	Operating Contracts	\$18,000	BILLING CONTRACT - LINE 214;	CUSTOMER SERVICE (TAB 911, COSS)
		\$3,619	DEBRIS REMOVAL - LINE 95 (3 YEAR AVERAGE);	SEWER OPERATIONS (TAB 424, COSS)
		\$4,600	DUMP VACTOR DEBR REMOVE CONT. - LINES 97, 98;	PLANT OPERATIONS (TAB 322, COSS)
		\$6,493	DUMPSTER - LINE 97 (3 YEAR AVERAGE);	SEWER OPERATIONS (TAB 424, COSS)
		\$900	FREIGHT SHIPPING - LINE 203;	PLANT OPERATIONS (TAB 322, COSS)
		\$90	FREIGHT SHIPPING - LINE 203;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$54,000	LANDSCAPE - GROUNDS - LINE 103;	WATER DISTRIBUTION (TAB 325, COSS)
		\$48,697	LANDSCAPE GROUNDS - LINE 103 (3 YEAR AVERAGE);	PLANT OPERATIONS (TAB 322, COSS)
		\$6,000	LANDSCAPING GROUNDS - LINE 103;	SEWER OPERATIONS (TAB 424, COSS)
		\$24,000	METER SERVICE - LINE 231,	CUSTOMER SERVICE (TAB 911, COSS)
		\$2,720	COPIER FAX MACHINE - LINE 205;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$20,100	OPERATING CONTRACT - LINE 105;	WATER QUALITY (TAB 321, COSS)
		\$332,700	OPERATING CONTRACT OTHER - LINE 105 (2 YEAR AVER	PLANT OPERATIONS (TAB 322, COSS)
		\$900	ONE CALL - LINE 277.	CUSTOMER SERVICE (TAB 911, COSS)
		\$54,000	VACTOR DEBRIS REMOVE CONT. - LINE 98;	SEWER OPERATIONS (TAB 424, COSS)
\$1,067,135	Repairs and Maintenance	\$794,332	BLDG. PROPERTY REPAIRS - LINE 114;	PLANT OPERATIONS (TAB 322, COSS)
		\$1,000	HAND TOOL REPAIR - LINE 136;	WATER DISTRIBUTION (TAB 325, COSS)
		\$1,200	HAND TOOL REPAIRS - LINE 136;	PLANT OPERATIONS (TAB 322, COSS)
		\$1,500	HAND TOOL REPAIRS - LINE 136;	SEWER OPERATIONS (TAB 424, COSS)
		\$6,000	HAND TOOLS INV. EXP. - LINE 166;	WATER DISTRIBUTION (TAB 325, COSS)
		\$31,000	HEAVY EQUIPMENT REPAIR - LINE 124 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$300	MISC. SERV. NON CAPITAL - LINE 220;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$1,000	MISC. TOOL REPAIR - LINE 137;	SEWER OPERATIONS (TAB 424, COSS)
		\$300	PARTS OTHER - LINE 185;	PLANT OPERATIONS (TAB 322, COSS)
		\$2,400	PARTS OTHER - LINE 185;	WATER DISTRIBUTION (TAB 325, COSS)
		\$18,589	MACHINERY - LINE 73 (3 YEAR AVERAGE);	PLANT OPERATIONS (TAB 322, COSS)
		\$35,000	MACHINERY - LINE 73;	WATER QUALITY (TAB 321, COSS)
		\$1,875	MACHINERY REPAIR - LINE 129 (50%);	WATER DISTRIBUTION (TAB 325, COSS)
		\$2,400	MACHINERY REPAIRS - LINE 129;	PLANT OPERATIONS (TAB 322, COSS)
		\$1,000	MACHINERY REPAIRS - LINE 129;	SEWER OPERATIONS (TAB 424, COSS)
		\$74,000	PLANT REPAIRS - LINE 131;	PLANT OPERATIONS (TAB 322, COSS)
		\$200	POWER TOOL REPAIR - LINE 132;	WATER DISTRIBUTION (TAB 325, COSS)
		\$3,000	POWER TOOL REPAIRS - LINE 132;	SEWER OPERATIONS (TAB 424, COSS)
		\$18,239	REPAIRS MAINTENANCE OTHER - LINE 141;	WATER QUALITY (TAB 321, COSS)

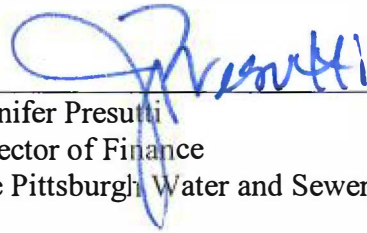
Total of OCA Proposed Ajustment	Category of Adjusments	Dollar Amount	OCA Individual Line Adjustments	Location in COSS
		\$1,500	TOOL REPAIRS - LINE 135;	SEWER OPERATIONS (TAB 424, COSS)
		\$12,000	TOOLS INV. EXP. - LINE 165;	WATER DISTRIBUTION (TAB 325, COSS)
		\$300	TOOLS INVENTORY - LINE 165;	PLANT OPERATIONS (TAB 322, COSS)
		\$60,000	VEHICLE REPAIRS - LINE 140;	FINANCE (TAB 913, COSS)
\$118,502	Travel and Entertainment	\$1,600	LODGING - LINE 250;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$1,500	TRAVEL - LINES 247, 248, 250.	SEWER OPERATIONS (TAB 424, COSS)
		\$150	TRAVEL - SEMINARS CONFERENCES - LINE 253.	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$350	TRAVEL MEALS - LINE 251;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$4,842	TRAVEL MISC. - LINE 255;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$41,275	TRAVEL MISC. - LINE 255;	HUMAN RESOURCES (TAB 915, COSS)
		\$5,000	TRAVEL RELATED EXPENSES - LINES 250, 253 AND 255.	EXECUTIVE DIRECTOR (TAB 910, COSS)
		\$6,700	TE - COSTS - LINES 247, 250, 251, 253 AND 255);	PUBLIC AFFAIRS (TAB 921, COSS)
		\$25,000	TE - EXPENSES - LINES 247-253.	WATER DISTRIBUTION (TAB 325, COSS)
		\$2,000	TE AUTO RENTAL - LINE 248;	FINANCE (TAB 913, COSS)
		\$4,000	TE- COSTS - LINES 247, 250, 253	CUSTOMER SERVICE (TAB 911, COSS)
		\$800	TE LODGING - LINE 250;	WATER QUALITY (TAB 321, COSS)
		\$550	TE MEALS - LINE 251;	FINANCE (TAB 913, COSS)
		\$175	TE MEALS - LINE 251;	WATER QUALITY (TAB 321, COSS)
		\$360	TE MILEAGE - LINE 252;	WATER QUALITY (TAB 321, COSS)
		\$1,280	TE SEMINARS CONFERENCES - LINE 253.	WATER QUALITY (TAB 321, COSS)
		\$4,970	TE SEMINARS CONFERENCES - LINE 253;	FINANCE (TAB 913, COSS)
		\$400	TE TRAINING - LINE 254;	LEGAL (TAB 916, COSS)
		\$500	TE TRAVEL MISC - LINE 255;	LEGAL (TAB 916, COSS)
		\$10,850	TE TRAVEL, AIRFARE. MEALS ETC. LINES 247- 255;	PLANT OPERATIONS (TAB 322, COSS)
		\$6,000	TELEMETER - LINE 259.	PLANT OPERATIONS (TAB 322, COSS)
		\$200	TE-MEALS - LINE 251.	WAREHOUSE (TAB 918, COSS)
\$348,390	Utilities	\$342,000	ELECTRIC - LINE 257;	PLANT OPERATIONS (TAB 322, COSS)
		\$1,538	INTERNET - LINE 263. OCA ST. 2 AT 17-18;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$4,822	LOCAL PHONES - LINE 261;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$30	LONG-DISTANCE - LINE 262;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
\$810,025	Claims Deductibles	\$810,025	CLAIMS DEDUCTIBLES - LINE 268 (3 YEAR AVERAGE)	LEGAL (TAB 916, COSS)
\$201,674	MISC Administration	\$47,008	BANK FEES - LINE 195 (3 YEAR AVERAGE);	FINANCE (TAB 913, COSS)
		\$39,500	CONTINGENCIES - LINE 218;	EXECUTIVE DIRECTOR (TAB 910, COSS)
		\$10,996	CUSTOMER CC FEES - LINE 201;	CUSTOMER SERVICE (TAB 911, COSS)
		\$95,522	EDUCATION AND OUTREACH - LINE 273;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$98	MEMBERSHIP FEES - LINE 197;	MANAGEMENT INFORMATION SYSTEMS (TAB 912, COSS)
		\$450	MEMBERSHIP FEES - LINE 197;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$7,500	POSTAGE - LINE 204;	CUSTOMER SERVICE (TAB 911, COSS)
		\$100	POSTAGE - LINE 204;	PLANT OPERATIONS (TAB 322, COSS)
		\$200	PUBLICATION SUBSCRIPTION - LINE 278. .	PUBLIC AFFAIRS (TAB 921, COSS)
		\$300	PUBLICATION SUBSCRIPTIONS - LINE 278.	FINANCE (TAB 913, COSS)
\$4,061,463	Professional Services	\$6,000	ADVERTISING - LINE 210;	FINANCE (TAB 913, COSS)
		\$500	ADVERTISING - LINE 210;	HUMAN RESOURCES (TAB 915, COSS)
		\$4,000	ADVERTISING - LINE 210;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$82,500	CONSULTANTS - LINE 216	PUBLIC AFFAIRS (TAB 921, COSS)

Total of OCA Proposed Adjustment	Category of Adjustments	Dollar Amount	OCA Individual Line Adjustments	Location in COSS
		\$3,000	CONSULTANTS - LINE 216;	WATER QUALITY (TAB 321, COSS)
		\$1,230,000	LEGAL - LINE 228.	LEGAL (TAB 916, COSS)
		\$15,463	PAYROLL SERVICE - LINE 232;	HUMAN RESOURCES (TAB 915, COSS)
		\$1,520,000	PROFESSIONAL SERVICES - LINE 233 (2 YEAR AVERAGE)	PLANT OPERATIONS (TAB 322, COSS)
		\$1,200,000	PROFESSIONAL SERVICES - LINE 233;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
\$2,985	Executive Director	\$2,087	BONUS - LINE 16;	EXECUTIVE DIRECTOR (TAB 910, COSS)
		\$898	BONUS - LINE 16;	CUSTOMER SERVICE (TAB 911, COSS)
\$46,170	Compliance	\$250	CONSUMER CONFIDENCE REPORT - LINE 217;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$500	ANNUAL REPORT - LINE 211	PUBLIC AFFAIRS (TAB 921, COSS)
		\$2,100	ANNUAL SOFTWARE SUPPORT - LINE 113;	PUBLIC AFFAIRS (TAB 921, COSS)
		\$500	ANNUAL SOFTWARE SUPPORT - LINE 113;	WATER QUALITY (TAB 321, COSS)
		\$20	ANNUAL SUPPORT SOFTWARE - LINE 113;	HUMAN RESOURCES (TAB 915, COSS)
		\$3,000	PERMITS - LINE 198;	SEWER OPERATIONS (TAB 424, COSS)
		\$2,000	PERMITS - LINE 198;	ENVIRONMENTAL COMPLIANCE (TAB 931, COSS)
		\$24,000	PERMITS (LINE 198);	WATER DISTRIBUTION (TAB 325, COSS)
		\$13,800	TESTING MISC. - LINE 142 (50%);	WATER DISTRIBUTION (TAB 325, COSS)

VERIFICATION

I, Jennifer Presutti, hereby state that: (1) I am the Deputy Executive Director for The Pittsburgh Water and Sewer Authority (“PWSA”); (2) the facts set forth in my testimony are true and correct (or are true and correct to the best of my knowledge, information and belief); and, (3) I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: August 18, 2020



Jennifer Presutti
Director of Finance
The Pittsburgh Water and Sewer Authority