

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REJOINDER TESTIMONY OF

EDWARD BARCA

ON BEHALF OF
THE PITTSBURGH WATER
AND SEWER AUTHORITY

Docket Nos.

R-2020-3017951 (Water)

R-2020-3017970 (Wastewater)

P-2020-3019019 (DSIC)

TOPICS:

Projected Level of Expenses

Financial Metrics

DSIC

September 11, 2020

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND CURRENT POSITION.**

3 A. My name is Edward Barca and I am the Director of Finance for The Pittsburgh Water and
4 Sewer Authority (“PWSA” or “Authority”).

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

6 A. Yes, I prepared written direct testimony (pre-marked PWSA St. No. 5) which
7 accompanied the March 6, 2020 rate filing package. I also prepared supplemental direct
8 testimony (pre-marked PWSA St. No. 5-SD) which was served on May 15, 2020 and
9 rebuttal testimony (pre-marked PWSA St. No. 5-R) which was served on August 18,
10 2020. My Rebuttal Testimony addressed the financial recommendations of the other
11 parties and explained how their recommendations would cause PWSA to not meet its
12 financial metrics. I also provided additional information in support of PWSA’s rate
13 request to include our proposed Distribution System Improvement Charge (“DSIC”) and
14 Multi-Year Rate Plan.

15 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**

16 A. The purpose of my Rejoinder Testimony is to respond to surrebuttal testimony submitted
17 by the following witnesses on behalf of the Bureau of Investigation and Enforcement
18 (“I&E”) – Anthony Spadaccio, Joseph Kubas. I will also respond to surrebuttal
19 testimony submitted by the following witnesses on behalf of the Office of Consumer
20 Advocate (“OCA”) – David Habr, Jerome Mierzwa, and Karl Pavlovic. The topics I will
21 address are PWSA’s projected level of expenses, financial metrics, and PWSA’s
22 proposed Distribution System Infrastructure Charge (“DSIC”).

1 **II. PROJECTED LEVEL OF EXPENSES**

2 **Q. NOTWITHSTANDING THE REBUTTAL TESTIMONY PROVIDED BY PWSA**
3 **REGARDING THE REASONABLNESS OF ITS BUDGETING PROCESS AND**
4 **PROJECTED LEVEL OF EXPENSES, DO PARTIES CONTINUE TO**
5 **CHALLENGE PWSA’S LIKELY LEVEL OF EXPENDITURES?**

6 A. Yes. Using the fact that PWSA’s actually incurred O&M expenses for the year ended
7 December 31, 2019 were less than projected as part of PWSA’s Initial Rate case, I&E
8 continues to maintain that “PWSA’s FPFTY direct O&M expense budgeting and claim
9 amounts are not fully reliable and produce concern about the credibility and
10 reasonableness of the budgeted and forecasted amounts in this proceeding.” (See, e.g.,
11 I&E St. No. 2-SR at 3-4).

12 **Q. HOW DID PWSA RESPOND TO THESE CONCERNS?**

13 A. In her Rebuttal Testimony, PWSA Witness Presutti explained that the nature of a fully
14 projected future test year is that it is based entirely on projections and PWSA’s budgeting
15 process is rigorous and well documented to produce reliable results. (PWSA St. No. 3-R
16 at 8). Ms. Presutti also pointed out that – consistent with the settlement reached with the
17 parties in PWSA’s Initial Rate Case – the underrun was used to fund additional capital
18 projects through PWSA’s PAYGO program, establish a Rate Stabilization Fund, and pay
19 down additional debt. (PWSA St. No. 3-R at 9).

20 **Q. NOTWITHSTANDING THIS EXPLANATION, DOES I&E CONTINUE TO**
21 **HAVE DOUBTS REGARDING PWSA’S PROJECTIONS IN THIS CASE?**

22 A. Yes. I&E Witness Patel appears focused on the level of the underrun and makes the
23 statement that “excess recovery is never appropriate.” (I&E St. No. 2-R at 5).

1 **Q. UPON YOUR REVIEW OF THIS TESTIMONY, DO YOU HAVE ADDITIONAL**
2 **INFORMATION TO ADD?**

3 A. Yes. In our view, I&E is expecting PWSA's current budgeting and operational processes
4 to be similar to those of investor-owned and long-time regulated public utilities. This is
5 inappropriate. PWSA only just became subject to the Commission's jurisdiction
6 approximately two and a half years ago at the insistence of the Legislature to assist
7 PWSA to resolve many of the longstanding inconsistencies with service levels and
8 practices associated with the provisioning of water and wastewater conveyance service.
9 Layered onto this is the fact that the history of the water and wastewater conveyance
10 systems managed by PWSA date back to the 1850s. Notwithstanding this, PWSA has
11 made significant strides toward reinventing itself as a world class utility, to updating and
12 modernizing its internal systems to comply with Commission requirements and to
13 continue to invest in the infrastructure necessary to invest massively in the infrastructure
14 necessary to provide safe and reliable service. There can be no serious doubt that
15 additional revenue is needed to fund all this change and at levels which are materially
16 greater than historical expenses. As a cash-flow entity, PWSA can only receive this
17 funding from its ratepayers. Therefore, refusing to recognize these necessary increases in
18 PWSA's budgeted levels simply because PWSA experienced an underrun in 2019 makes
19 no sense and, ultimately, harms ratepayers. Importantly, the underrun from 2019 was
20 invested back into our systems and benefited our ratepayers. It also enabled us to not
21 seek a rate increase for 2020 which further benefited our ratepayers. While striving for
22 perfect budgeting is certainly a reasonable lodestar, the crucial point that Mr. Patel has
23 chosen to discount is that, unlike an investor-owned utility, every dollar of excess over

1 actually incurred expenses benefited PWSA's ratepayers. I believe that failing to
2 recognize this is unreasonable.

3 **Q. SETTING ASIDE PWSA'S DISAGREEMENT OVER THE VALIDITY OF ITS**
4 **ESTIMATES, IS PWSA WILLING TO AGAIN COMMIT TO HOW ANY**
5 **UNDERRUNS RESULTING FROM THE REVENUES APPROVED FOR FPFTY**
6 **2021 WILL BE REINVESTED FOR THE BENEFIT OF RATEPAYERS?**

7 A. Yes, any amounts of revenue received above the approved budgeted levels for FY 2021
8 will be allocated in the following manner after PWSA's fiscal audit is released for FY
9 2021 which should be in March or April of 2022.

- 10 • 30% to the Rate Stabilization Fund
- 11 • 40% to Cash Reserves
- 12 • 30% to pay down debt

13
14 This commitment would only be for FY2021, or until new base rates are established for
15 PWSA. The commitment will be reexamined in future rate cases.

16 **Q. SHOULD THIS COMMITMENT PROVIDE ADDITIONAL ASSURANCES**
17 **THAT ANY BUDGET SURPLUS WILL BE USED PRODUCTIVELY AND**
18 **BENEFIT RATEPAYERS?**

19 A. Yes. Contributing to the Rate Stabilization Fund, increasing cash reserves, and paying
20 down debt all benefit ratepayers by mitigating future rate increases while providing the
21 necessary funds and financial flexibility to complete crucial infrastructure projects. In
22 addition, allocating any potential FY 2021 surplus to those specific uses will provide the
23 PUC with a level of assurance on exactly how the monies will be used.

24 **Q. IS PWSA PROPOSING THIS APPROACH FOR FY 2022 OR FUTURE YEARS?**

25 A. No. This approach is not necessary for FY 2020 because PWSA's proposed rate increase
26 for that year would be used almost entirely for increased debt service costs. Thus, the
27 concerns about PWSA's estimates are not an issue for FY 2020.

1 **III. FINANCIAL METRICS**

2 **A. Response To I&E Witness Spadaccio (Additional Bonds Test)**

3 **Q. AS IT RELATES TO THE ADDITIONAL BONDS TEST, MR. SPADACCIO**
4 **STATES THAT HE IS CONFUSED ON WHY HIS RECOMMENDATIONS**
5 **WOULD PUT A COMPLETE STOP TO ALL CAPITAL PROJECTS. (I&E ST**
6 **NO. 1-SR AT 7). CAN YOU RESPOND?**

7 A. The PWSA’s debt service claim of \$75,364,165 in FPFTY includes the cost of a partial
8 year debt service payment of \$1,163,167 for a new debt issuance in FY 2021 as well as
9 existing debt cost of \$74,200,998. The reason that only a partial year debt service
10 payment was included for the FY 2021 issuance is because the debt will be issued later in
11 the year. This means that the PWSA will not be required to make a full year debt service
12 payment on the new debt. However, regardless of when new debt is issued, the
13 Additional Bonds Test requires that the PWSA have rates in place to meet its debt service
14 coverage requirements assuming the highest annual full year debt service payment of the
15 new debt in that year.

16 The highest annual full year debt service payment for the new debt issued in FY
17 2021 is projected to be \$8,213,195. This requires the PWSA to have the rates in place in
18 FY 2021 to pay this amount while meeting the required debt service coverage even
19 though the actual debt service amount for the new debt issuance in FY 2021 will be
20 lower. Failure to meet this Additional Bonds Test will prohibit the PWSA from issuing
21 new debt.

22 Mr. Spadaccio did not factor in the Additional Bonds Test when concluding on
23 his revenue recommendations. This will result in a complete stop to all capital projects
24 because the PWSA will not be able to issue new debt in FPFTY. I do not believe this is
25 Mr. Spadaccio’s intention but this would be the result of his revenue recommendation.

1 **Q. MR. SPADACCIO CLAIMS THAT PAYGO EXPENSES SHOULD BE**
 2 **NORMALIZED TO BE RECOVERED OVER THEIR USEFUL LIVES IN**
 3 **ACCORDANCE WITH IRC SECTION 168(A) AND ITEMIZED WITH OTHER**
 4 **OPERATING AND MAINTENANCE EXPENSES TO BE SPECIFICALLY TIED**
 5 **TO AND REFLECTED IN BASE RATES. (I&E ST. NO. 1-SR AT 10-11). CAN**
 6 **YOU COMMENT?**

7 A. Normalization is not applicable because the PWSA is a cash flow utility. This means that
 8 the PWSA must have revenues available in the current year to pay the full cost of current
 9 year expenses. Otherwise, the PWSA will not have the available funds to make the
 10 purchase.

11 As an example, Mr. Spadaccio is recommending to normalize the cost of the
 12 planned Enterprise Resource Planning (ERP) upgrade so that \$1,181,929 is recovered in
 13 rates over 5 years rather than providing the full cost \$5,909,647 in FPFTY. This would
 14 result in the PWSA not being able to purchase the ERP upgrade at all because only a
 15 portion of the required funds are available. Failure to understand this concept will
 16 inadvertently restrict the PWSA's ability to purchase any PAYGO items.

17 **B. Response To OCA Witness Habr (Debt Service Ratio)**

18 **Q. HOW DO YOU RESPOND TO OCA WITNESS HABR'S STATEMENT THAT**
 19 **"THE DEBT SERVICE RATIO IS ONLY ONE PART OF THE FINANCIAL**
 20 **METRICS PORTION OF MOODY'S SCORECARD?" (OCA ST. NO. 3 AT 1)**

21 A. Mr. Habr should not discount the debt service ratio since it is only one part of the
 22 Financial Metrics portion of the scorecard. The Financial Metrics portion represents 40%
 23 of the entire scorecard. Furthermore, the debt service coverage ratio represents 37.5% of
 24 the Financial Metrics portion. This means that the Financial Metrics portion (and the
 25 components that make it up) should be a priority for the PWSA in order to maintain and
 26 improve the current Moody's rating of A3.

1 **Q. MR. HABR ALSO STATES THAT “OCA EXHIBIT DSH-3 ACCOMPANYING**
2 **MY DIRECT TESTIMONY CLEARLY SHOWS THAT EVEN THOUGH MY**
3 **OVERALL DEBT SERVICE RATIO, 1.19X, IS AT THE UPPER END OF THE**
4 **BAA RANGE, THE FINANCIAL METRICS AS A WHOLE FALL IN THE A3**
5 **RANGE.” (OCA ST. NO. 3 AT 1). HOW DO YOU RESPOND?**

6 A. To be clear – I understand that the Moody’s scorecard is made up of more than just the
7 Financial Metric portion. However, as I previously stated, the Financial Metric portion
8 represents 40% of the entire scorecard. Having any metric that falls below the PWSA’s
9 current rating, especially in the Financial Metric portion, is very concerning as it could
10 put the PWSA at risk for a further downgrade. It is important to remember that the
11 PWSA was downgraded by Moody’s less than two years ago. Showing any weakness
12 will put the rating agencies on watch.

13 **Q. DO YOU AGREE WITH MR. HABR’S STATEMENT THAT “COST INCURRED**
14 **BY CUSTOMERS TO PROVIDE PAYGO FUNDS EXCEEDS THE COST THEY**
15 **INCUR TO PROVIDE THE FUNDS REQUIRED BY THE DEBT SERVICE**
16 **COVERAGE RATIO?” (OCA ST. NO. 3 AT 4).**

17 A. I do not agree with this statement or the calculations within OCA Exhibit DSH-2SR.
18 PAYGO funding is cheaper over the long-term because interest and debt service costs are
19 eliminated. What Mr. Habr fails to account for is that PWSA will continually have to
20 issue bonds to obtain the funding that would be produced by an annual PAYGO
21 allowance. Because of that, customer are required to pay for increasingly greater debt
22 service and debt service coverage. As explained in my Direct Testimony, PAYGO
23 funding becomes cheaper than debt funding after 10 years. The worksheets supporting
24 my calculations were also provided in discovery and included with this testimony as
25 PWSA EB-8. Considering that these bonds have 30-year lives this means that customers
26 will be paying more than under a PAYGO scenario for twenty years!

1 **IV. DISTRIBUTION SYSTEM INFRASTRUCTURE CHARGE (“DSIC”)**

2 **A. Response To I&E Witness Kubas**

3 **Q. MR. KUBAS CONTENDS THAT PWSA’S PROPOSED 10% DSIC IS**
 4 **UNNECESSARY IN PART BECAUSE, IN HIS VIEW A 10% DSIC IS NOT**
 5 **NEEDED TO CONTINUE TO ATTRACT PENNVEST LOANS AND GRANTS.**
 6 **(I&E ST. NO. 4-SR AT 12-13). CAN YOU RESPOND?**

7 A. The PWSA is grateful for the availability of Pennvest and other government loan and
 8 grant programs that serve to assist the Authority in financing essential distribution
 9 improvement projects such as its Lead Service Line Replacement Program. But the
 10 reality is that, while these programs are helpful, they do not cover the entire cost of lead
 11 service line replacement. It is projected that the PWSA will need to expend \$748,010,000
 12 on water main replacements through 2026 to eliminate the remaining lead service lines
 13 from the system. The Pennvest loan and grant received so far is \$114,348,404, or
 14 approximately 15% of that total.

15 It is also ironic that Mr. Kubas would oppose a fully funded DSIC for PWSA (at
 16 10%) when PUC regulations permit a water utility to establish an automatic adjustment
 17 charge mechanism for the servicing costs for Pennvest loans (See, 52 Pa. Code § 69.363).
 18 The portions of the PWSA’s Capital Improvement Program that have been funded via
 19 Pennvest loans are more or less the same as the system improvements that are eligible for
 20 funding through the DSIC. Yet Mr. Kubas would deny recovery of roughly half of those
 21 projects (the difference between a 10% DSIC and a 5% DSIC) and consign recovery to
 22 PWSA’s base rates.

23 **Q. MR. KUBAS ATTEMPTS TO DISTINGUISH THE FACT THAT PGW HAS**
 24 **BEEN PERMITTED TO CHARGE A DSIC ABOVE THE STATUTORY CAP**
 25 **(7.5% RATHER THAN 5%) CLAIMING THAT THE COMMISSION**
 26 **PERMITTED THE INCREASE IN THE CAP IN ORDER TO ACCELERATE**
 27 **PGW’S AT RISK MAIN REPLACEMENT AND THAT PWSA HAS NOT**
 28 **ESTABLISHED THAT IT NEEDS A DSIC TO EXPEDITE THE**

1 **REPLACEMENT OF ITS LEAD SERVICE LINES. (I&E ST. NO. 4-SR AT 11-**
 2 **12). CAN YOU COMMENT?**

3 A. My reading of the Commission’s determination is different. I believe that the PUC first
 4 concluded that PGW needed to accelerate its at risk main replacement. It then concluded
 5 that, given the available alternatives, the best way for PGW to finance this accelerated
 6 replacement was by increasing its DSIC. The Commission stated:

7 It is clear that in order for PGW to address these substantial infrastructure
 8 issues, it must obtain the additional funding necessary to further accelerate
 9 its main replacement efforts. We believe that granting PGW a waiver of the
 10 statutory 5% DSIC limitation, as provided for in Act 11, may be the most
 11 cost-effective and least problematic means of ensuring that the Company
 12 can obtain this additional funding in a timely fashion.¹
 13

14 What PWSA needs to demonstrate, therefore, is not that granting a DSIC at 10% will
 15 accelerate the replacement of lead service lines but that it is “the most cost efficient and
 16 least problematic means of assuring that [PWSA] can obtain this additional funding [to
 17 replace lead service lines] in a timely fashion.” I believe that PWSA has adequately
 18 demonstrated this. The DSIC will not be the only funding source for lead service line
 19 replacement and other distribution improvements but it will be a key part of the funding,
 20 along with base rates and government loans and grants. I have demonstrated that the
 21 PAYGO funding that the DSIC will provide is less costly to ratepayers than funding
 22 through the issuance of long term debt and it is the “least problematic” in that it provides
 23 the PUC and the Parties automatic assurance that PWSA will recover only those amounts
 24 that it actually expends.

25 Mr. Kubas seems to recognize that a DSIC provides significant advantages for

¹ *Petition of Philadelphia Gas Works for Wavier of Provisions of Act 11 to Increase the Distribution System
 Improvement Charge Cap and to Permit Levelization of DSIC Charges, Docket No. P-2015-2501500
 Opinion and Order entered January 28, 2016 at 42.*

1 PWSA. Given these advantages, and the frank admission by Mr. Kubas that the amounts
2 not permitted to be recovered in the DSIC will have to be included in current and future
3 base rate increases requests I am frankly not sure why the 10% DSIC is being opposed.

4 **Q. MR. KUBAS IMPLIES THAT THE PWSA DOES NOT HAVE ENOUGH**
5 **SUPPORT FOR A WATER DSIC AT 10% BECAUSE THE CLEARWELL AND**
6 **WATER TREATMENT PLANT AND MEMBRANE PLANT ARE NOT DSIC**
7 **ELIGIBLE. IN ADDITION, MR. KUBAS STATES THAT THE PWSA FAILED**
8 **TO IDENTIFY ANY WASTEWATER PROJECTS THAT WOULD SUPPORT**
9 **INCREASING THE WASTERWATER DSIC TO 10%. (I&E ST. NO. 4-SR AT 13-**
10 **14). CAN YOU RESPOND?**

11 A. All of the capital requirements listed within the PWSA's recently approved LTIIP as well
12 as justification in prior testimony clearly supports a 10% water and a 10% wastewater
13 DSIC.

14 As previously stated, the PWSA will need to expend \$748,010,000 on water main
15 replacements by 2026 in order to eliminate in the lead within the system. This is a DSIC
16 eligible project that addresses a public health issue along with replacing aged
17 infrastructure. This does not include other DSIC eligible replacements, such as meters,
18 hydrants, and valves, that must also be replaced over that same time. Simply taking the
19 view that there is not justification for a 10% water DSIC because the Consent Order and
20 Agreement projects are not DSIC eligible is not reasonable. It also overlooks the other
21 improvements to the system that must be addressed in the near term.

22 In addition, the PWSA plans to complete over \$134,368,000 in DSIC eligible
23 sewer projects by 2023. This includes projects such as small diameter sewer
24 rehabilitation, large diameter sewer rehabilitation, sewer reconstruction, and sewers under
25 structures. Similar to the rest of the system, the sewers have not historically received the
26 level of investment necessary to maintain an appropriate level of service. This has
27 resulted in the emergency replacement of sewers when they fail, which is substantially

1 more expense compared to proactive replacements. Therefore, the evidence is
 2 overwhelming that a 10% wastewater DSIC is justified in order to replace the current
 3 sewer infrastructure (which is failing) as well as to increase the level of service and to
 4 save costs resulting from emergency replacements.

5 **B. Response To Oca Witness Mierzwa**

6 **Q. OCA WITNESS MIERZWA HAS TESTIFIED THAT PWSA’S WATER AND**
 7 **WASTEWATER DSIC MECHANISMS SHOULD BE SEPARATELY**
 8 **RECONCILED AND STATES IN HIS SURREBUTTAL THAT IT IS NOT**
 9 **CLEAR WHETHER PWSA HAS AGREED WITH THAT RECOMMENDATION**
 10 **(OCA ST. NO. 5SR AT 2). CAN YOU PROVIDE ADDITIONAL CLARITY?**

11 A. Yes. Upon reviewing the concerns of OCA and the other parties, PWSA did intend to
 12 revise its DSIC proposal so that the Water and Wastewater DSICs would be separately
 13 calculated and reconciled. For clarity, under PWSA’s revised proposal, PWSA will:

14 1) calculate a Water and (separately) a Wastewater DSIC and bill customers each
 15 month at a level that will produce the revenues permitted by PUC authorized
 16 DSIC cap (i.e., either 10%, under PWSA’s proposal or at a lesser percentage, if
 17 the PUC were to accept the recommendation of I&E.

18 2) PWSA will undertake DSIC eligible construction and pay for that construction
 19 on a “PAYGO” basis via the revenues billed by the Water and Wastewater
 20 DSICs.

21 3) Once the year is over PWSA will compare the amount billed under each DSIC
 22 separately and compare that with amount of DSIC eligible construction (which is
 23 also consistent with PWSA’s LTIP.

24 4) If the amount of construction actually conducted for Water and (separately)
 25 Wastewater is less than the revenues billed under the DSIC PWSA will, starting
 26 on April 1, refund those dollars to applicable customers via its DSIC “e-factor”
 27 plus interest. If actual DSIC Water project expenditures exceed billed DSIC
 28 Water (or, separately, Wastewater) revenues then the e-factor will bill Water or
 29 Wastewater customers an additional amount to recover those additional
 30 expenditures.²
 31

² See PWSA Tariff, page 62, Section 4(b).

1 **Q. PLEASE STATE THE FURTHER REASONS WHY MR. MIERZWA**
2 **CONTINUES TO OPPOSE PERMITTING PWSA TO CHARGE A DSIC AT ANY**
3 **LEVEL?**

4 A. According to Mr. Mierzwa, PWSA “has not explained” why adequate funding can not be
5 obtained through base rates (OCA St. No. 5SR at 2-3). He also states that the
6 Commission has previously found that recovering construction costs in base rates is more
7 “equitable.” Finally he claims that PWSA’S proposal to bill the DSIC at a levelized
8 amount over 12 months is inconsistent with the statutory requirement that utilities must
9 incur the construction expenditures before recovering them in the DSIC. (OCA St. No.
10 5SR at 5).

11 **Q. PLEASE RESPOND TO THESE CLAIMS.**

12 A. While I believe that my Rebuttal2 Testimony adequately responded to all of these
13 contentions, it appears necessary to restate several obvious facts unmentioned by Mr.
14 Mierzwa. (PWSA St. No. 5-R at 23-34). Mr. Mierzwa’s contention that PWSA has to
15 show why it cannot fund its distribution construction through base rates ignores both the
16 fact that the General Assembly established the DSIC mechanism as a means of providing
17 regular funding for important distribution plan improvements *without* having to utilize
18 base rates. Moreover, there is no requirement in the Statute that a utility must prove that
19 funding is not available via a base rate increase. Notwithstanding this, PWSA has in fact
20 shown that the utilization of a DSIC was a more reasonable and cost efficient means of
21 providing a portion of the funding for its massive construction program – a program that
22 OCA and other parties have not only agreed with but encouraged and expanded. I
23 explained in my direct testimony that PWSA could not continue to fund 100% of that
24 massive program through base rates, via the issuance of even more long term bonds,
25 without pushing the Authority to unacceptably high debt levels. Moreover as a cash flow

1 regulated entity, it is important to have a cash source for the ongoing construction that is
 2 relatively assured. Importantly PWSA is not asking that its entire CIP be funded through
 3 the DSIC – only a relatively small portion, less than 20% of annual DSIC eligible
 4 expenditures. The rest will in fact be funded through base rates.

5 **Q. MR. MIERZWA CITES A 2018 “NEWTON ARTESIAN WATER COMPANY”**
 6 **DECISION FOR HIS INSISTENCE THAT THE USE OF BASE RATES IS**
 7 **“MORE EQUITABLE TO CUSTOMERS THAN THE USE OF THE DSIC. (OCA**
 8 **ST. NO. 5SR AT 4-5). DO YOU BELIEVE THAT THIS CITATION IS APT?**

9 A. No. As Mr. Mierzwa should be aware, Newton Artesian Water Company is an investor-
 10 owned utility and is not regulated on a cash flow basis. The DSIC, as proposed to be
 11 structured by PWSA is particularly important for a cash flow utility because it provides a
 12 regular, ongoing source of cash to permit construction financing on a PAYGO basis and
 13 helps to deleverage the capital structure. As I have explained several times, the use of
 14 PAYGO financing is actually less expensive for a cash flow utility that is continually
 15 having to access the bond market.

16 **Q. IS THERE A BETTER PRECEDENT FOR THE COMMISSION TO EXAMINE**
 17 **WHEN CONSIDERING THE EQUITY AND REASONABLENESS OF PWSA’S**
 18 **DSIC PROPOSAL?**

19 A. Yes, PWSA’s proposed DSIC is modeled on the DSIC which was approved for PGW, the
 20 only other major utility in Pennsylvania whose rates are established using the cash flow
 21 ratemaking model. Most of the allegations leveled by Mr. Mierzwa (and others) with
 22 respect to PWSA’s DSIC proposal were also raised with respect to PGW’s DSIC.
 23 PGW’s DSIC is set on a levelized basis (with a 7.5% cap) and is used exclusively to
 24 permit the financing of DSIC eligible construction on a PAYGO basis. Strangely, Mr.
 25 Mierzwa did not acknowledge this most relevant precedent.

26 **Q. SINCE PGW CHARGES ITS DSIC ON A LEVELIZED BASIS DOES THAT**
 27 **MEAN THAT IT IS PERMITTED TO BILL CUSTOMERS IN ITS DSIC EVEN**

1 **THOUGH IT MAY NOT YET HAVE INCURRED THE EXPENDITURE FOR**
 2 **THAT YEAR?**

3 A. Absolutely. But, just as with PWSA’s proposal, customers are protected because PGW is
 4 obligated to reconcile its DSIC billings with its actual expenditures; if PGW’s actual
 5 distribution improvement expenditures are less than the amounts billed in the DSIC then
 6 PGW must return the overbilled amounts to customers with interest. PGW requested and
 7 received a waiver of the statutory provision that Mr. Mierzwa cites that requires that,
 8 generally DSIC expenditures must be incurred before they can be billed through the
 9 DSIC. (I am advised by counsel that, like PWSA, PGW has a provision in the Public
 10 Utility Code that permits the PUC, at its request, to waive otherwise applicable statutory
 11 provisions when in the public interest.) This structure was viewed as adequate protection
 12 for PGW customers and was in the public interest to permit it. It should be viewed
 13 exactly the same way for PWSA.

14 **C. Response OCA Witness Pavlovic**

15 **Q. OCA WITNESS PAVLOVIC STATES “COMPARED TO THIS, THE**
 16 **INCREMENTAL 2021 CAPITAL FUNDING, BASED ON THE PROPOSED**
 17 **DEBT REVENUE BOND AND SFR LOAN INTEREST EXPENSE IN THE 2021**
 18 **REVENUE REQUIREMENT, IS APPROXIMATELY \$299 MILLION. THUS, I**
 19 **CONCLUDE THAT REVENUE BOND AND LOAN FUNDING SUFFICIENT TO**
 20 **COVER THE 2021 DSIC-ELIGIBLE PROJECTS IS ALREADY INCLUDED IN**
 21 **PWSA’S PROPOSED REVNEUE REQUIREMENT.” (OCA ST. NO. 4SR AT 12)**
 22 **CAN YOU RESPOND?**

23 A. Mr. Pavlovic is not interpreting the cost of service model correctly. Approximately
 24 \$37,000,000 of the SRF loan that he references will be remaining to be spent in FPPTY.
 25 The SRF loan can only be spent on the 2019 and 2020 small diameter water main
 26 replacement projects. In addition, the PWSA plans to issue a revenue bond in the FPPTY
 27 in the amount of \$142,022,834, of which approximately \$118,010,000 will be spent on
 28 PA DEP Consent Order and Agreement projects. That only leaves \$24,012,834 to be

1 spent on water treatment plant and stormwater projects (which are not DSIC eligible).
2 This further justifies the PWSA need for a water and sewer DSIC at 10% so that funding
3 is available to fund meter, valve, hydrants, and sewer line replacements.

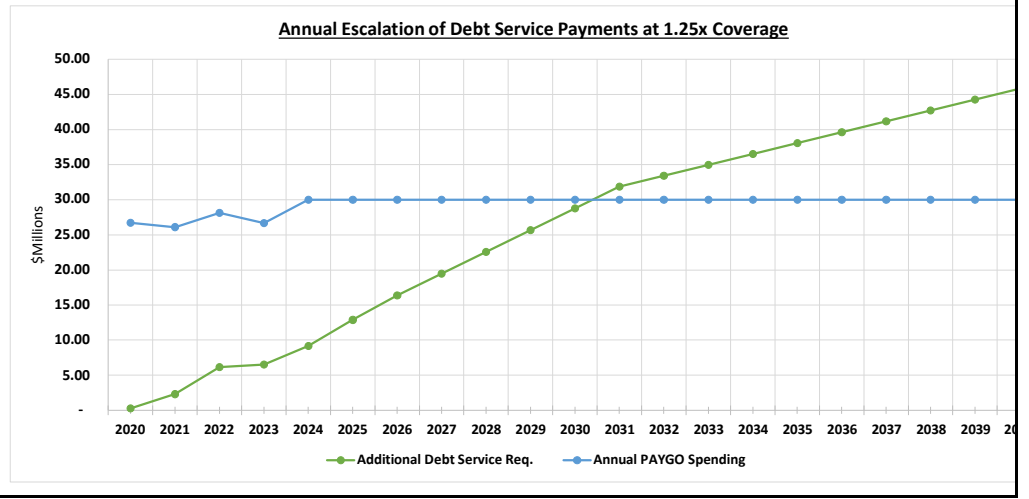
4 **V. CONCLUSION**

5 **Q. DOES THAT COMPLETE YOUR REJOINDER TESTIMONY?**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
1	Projected Debt Issuances																					
2	Fiscal Year	Series 2020 @ \$139.3M	Series 2021 @ \$142.0M	Series 2022 @ \$144.6M	Series 2023 @ \$187.3M	Series 2024 @ \$143.4M	Series 2025 @ \$265.0M	Series 2026 @ \$212.0M	Series 2027 @ \$212.0M	Series 2028 @ \$212.0M	Series 2029 @ \$212.0M	Series 2030 @ \$212.0M	Series 2031 @ \$212.0M	2032 (No debt issued)	Series 2033 @ \$212.0M	2034 (No debt issued)	Series 2035 @ \$212.0M	2036 (No debt issued)	Series 2037 @ \$212.0M	2038 (No debt issued)	Series 2039 @ \$212.0M	2040 (No debt issued)
3	2020	1,141,091	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	2021	8,057,318	1,163,167	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	2022	8,057,318	8,213,195	8,363,108	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	2023	8,057,318	8,213,195	8,363,108	1,516,812	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	2024	8,057,318	8,213,195	8,363,108	10,834,375	1,161,354	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	2025	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	7,750,682	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	2026	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	6,200,546	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	2027	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	6,200,546	-	-	-	-	-	-	-	-	-	-	-	-	-
11	2028	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-	-	-	-	-	-
12	2029	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-	-	-	-	-
13	2030	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-	-	-	-
14	2031	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-	-	-
15	2032	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-	-
16	2033	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-	-
17	2034	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	-	-	-	-	-	-	-
18	2035	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-	-
19	2036	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-	-
20	2037	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-	-	-
21	2038	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	-	-	-
22	2039	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	6,200,546	-	-
23	2040	8,057,318	8,213,195	8,363,108	10,834,375	8,295,389	15,501,365	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	12,401,092	-	-
24																						
25																						
26																						
27																						
28																						
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30	Fiscal Year	Total	1.25x DSC Requr.	Difference
31	2020	1,141,091	1,426,364	285,273
32	2021	9,220,485	11,525,606	2,305,121
33	2022	24,633,621	30,792,026	6,158,405
34	2023	26,150,433	32,688,041	6,537,608
35	2024	36,629,350	45,786,688	9,157,338
36	2025	51,514,067	64,392,584	12,878,517
37	2026	65,465,296	81,831,620	16,366,324
38	2027	77,866,388	97,332,985	19,466,597
39	2028	90,267,480	112,834,350	22,566,870
40	2029	102,668,572	128,335,715	25,667,143
41	2030	115,069,664	143,837,080	28,767,416
42	2031	127,470,756	159,338,445	31,867,689
43	2032	133,671,302	167,089,128	33,417,826
44	2033	139,871,848	174,839,810	34,967,962
45	2034	146,072,394	182,590,493	36,518,099
46	2035	152,272,940	190,341,175	38,068,235
47	2036	158,473,486	198,091,858	39,618,372
48	2037	164,674,032	205,842,540	41,168,508
49	2038	170,874,578	213,593,223	42,718,645
50	2039	177,075,124	221,343,905	44,268,781
51	2040	183,275,670	229,094,588	45,818,918


Fiscal Year	Additional Debt Service Req.	Annual PAYGO Spending
2020	0.28	26.73
2021	2.30	26.10
2022	6.16	28.13
2023	6.53	26.68
2024	9.16	30.00
2025	12.88	30.00
2026	16.37	30.00
2027	19.47	30.00
2028	22.57	30.00
2029	25.67	30.00
2030	28.77	30.00
2031	31.87	30.00
2032	33.42	30.00
2033	34.97	30.00
2034	36.52	30.00
2035	38.07	30.00
2036	39.62	30.00
2037	41.17	30.00
2038	42.72	30.00
2039	44.27	30.00
2040	45.82	30.00



VERIFICATION

I, Edward Barca, hereby state that: (1) I am the Director of Finance 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: September 11, 2020



Edward Barca
Deputy Director of Finance/Treasurer
The Pittsburgh Water and Sewer Authority