

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

February 7, 2019

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

Re: Implementation of Section 1329 of the Public
Utility Code
Docket No. M-2016-2543193

Dear Secretary Chiavetta:

Attached for electronic filing are the Reply Comments of the Office of Consumer Advocate in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script that reads "Erin L. Gannon".

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50026
E-Mail: EGannon@paoca.org

Enclosures:

cc: Shaun Sparks, Law Bureau
Certificate of Service
*266141

CERTIFICATE OF SERVICE

Re: Implementation of Section 1329 of the Public Utility Code : Docket No. M-2016-2543193
:

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate's Reply Comments, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 7th day of February 2019.

SERVICE BY E-MAIL and INTER-OFFICE MAIL

Erika McLain, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

John Evans
Office of Small Business Advocate
300 North Second Street
Suite 202
Harrisburg, PA 17101

John D. Hollenbach, P.E.
General Manager and Vice President
SUEZ Water Pennsylvania Inc.
6310 Allentown Boulevard
Harrisburg, PA 17111

Alexander R. Stahl, Esquire
Regulatory Counsel
Aqua Pennsylvania Inc.
762 West Lancaster Avenue
Bryn Mawr, PA 19010

Jeffrey A. Hines, P.E.
President and Chief Executive Officer
The York Water Company
130 East Market Street
York, PA 17401

David P. Zambito, Esquire
Jonathan P. Nase, Esquire
Cozen O'Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101

Susan Simms Marsh, Esquire
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Francis J. Catania, Esquire
Catania & Parker, LLP
230 North Monroe Street, 2nd Floor
P.O. Box 2029
Media, PA 19063

Kevin M. Fox, P.E.
Service Group Manager, Financial Services
Herbert, Rowland & Grubic, Inc.
369 East Park Drive
Harrisburg, PA 17111

Steven A. Hann, Esquire
Hamburg, Rubin, Mullin, Maxwell, &
Lupin, P.C.
375 Morris Road
P.O. Box 1479
Lansdale, PA 19446-0773

David R. Kaufman, Chairman
NAWC PA Chapter
c/o Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033

Pennsylvania Rural Water Association
138 West Bishop Street
Bellefonte, PA 16823

Pennsylvania State Association of Boroughs
2941 North Front Street
Harrisburg, PA 17110

Pennsylvania Municipal Authorities
Association
100 North Front Street
Suite 401
Lemoyne, PA 17043

Pennsylvania State Association of Township
Supervisors
4855 Woodlands Drive
Enola, PA 17025

/s/ Christine Maloni Hoover
Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50026
E-Mail: CHoover@paoca.org

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Counsel for Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: February 7, 2019
*266150

I. INTRODUCTION

On January 28, 2019, the Commission issued a Secretarial Letter granting Pennsylvania-American Water Company's (PAWC) request for leave to file supplemental comments on the Tentative Supplemental Implementation Order (TSIO) entered in Docket No. M-2016-2543193. In its Supplemental Comments, PAWC proposes that, in Applications filed under Section 1329, customers will be provided notice that, upon request, they are able to obtain notice of the potential bill impact of the rate base addition. The Secretarial Letter allows the submission of reply comments by February 7, 2018. The Office of Consumer Advocate (OCA) appreciates the opportunity to provide Reply Comments. As set forth herein, the two-step notice procedure proposed by PAWC does not meet the fundamental requirements of 52 Pa. Code §§ 53.45(b)(1-4), the "Milesburg notice" and the Commonwealth Court's Order in New Garden.

The OCA reiterates its willingness to continue working with PAWC, Steelton, and the Commission to resolve the conflicting positions regarding the content of notices sent to customers. To that end, the OCA has filed several petitions in pending Application proceedings filed under Section 1329 seeking a stay of those proceedings so the issues can be resolved across-the-board and without the lengthier delay and additional resources required for case-by-case litigation and appeals.

II. COMMENTS

In McCloskey v. Pa. P.U.C., 195 A.3d 1055, 1069 (Pa. Commw. 2018) (New Garden), the Commonwealth Court held that to meet due process requirements, individualized notice must be provided directly to all ratepayers and ratepayers must be afforded an opportunity to participate in a Section 1329 proceeding. Id. Notice is required because the ratemaking rate base determination made in the proceeding “is fundamental to a determination of rates” and a rate increase involves a substantial property right. Id. at 1068-69. The Commonwealth Court directed the Commission to provide notice to all ratepayers in accordance with 52 Pa. Code § 53.45. Id. Section 53.45 of the Commission’s regulations addresses notice that is required in a rate case. It requires notice to be given to the public by posting in each company office, by written or printed notice, or alternatively by bill insert as part of the monthly billing cycle, and by news release. See 52 Pa. Code 53.45(b)(1-4). The regulation contains explicit language for the notice that the utility sends to its customers, including the impact on a typical residential, commercial, and industrial customer’s bill. 52 Pa. Code § 53.45(b)(1)(i).

In its Supplemental Comments, PAWC proposes to provide a Notice of Proposed Acquisition and Rate Base Addition (Notice) to all customers and provide a Statement of Reasons and Potential Bill Impact (Statement) to “interested” customers, upon request. PAWC Supp. Comments at 3. The Company’s Notice does not include any information regarding potential bill impact. As such, the proposed notice does not satisfy the requirements of Section 53.45 and, therefore, does not comply with the New Garden Order.

This failure is not remedied by PAWC's proposed two-step notice process.¹ The proposed Statement contains some bill impact information but the Statement will not be provided to all customers – only those who contact PAWC to request it. The Commonwealth Court required notice to **all customers** in accordance with Section 53.45. New Garden at 1069.

For these reasons, the two-step procedure and *pro forma* documents provided with PAWC's Application do not meet the fundamental requirements of Section 53.45(b)(1-4) and the New Garden Order. The OCA recommends that the Commission adopt a single notice that is provided to all customers and includes information regarding the impact of the requested \$22.34 million ratemaking rate base on customers' bills. The Court in New Garden directed that the notice be provided in accordance with 52 Pa. Code § 53.45, which requires that the notice show the impact on customers' bills, separated by customer class, and using a typical usage level.²

In the interest of moving the implementation process forward, however, the OCA proposes that the notice provided in Section 1329 proceedings show the impact on revenue requirement depending on whether the revenue requirement increase related to the ratemaking rate base determination is allocated to existing water or wastewater customers (depending on the acquisition), to acquired customers, or to both. In the OCA's view, this is the minimum rate impact information that can be included in a notice for a Section 1329 proceeding while still

¹ The OCA points out that, in general rate proceedings, information regarding bill impact is included in the **Notice** provided to all customers rather than the Statement. See, for example, the Notice and Statement that PAWC utilized in its most recent base rate case at Docket No. R-2017-2595853, which are attached hereto as Appendices C and D.

² In Barasch v. Pa. P.U.C., 546 A.2d 1296 (Pa. Commw. 1988) (Milesburg), as in New Garden, the Commonwealth Court found that notice should be provided in a manner consistent with 52 Pa. Code § 53.45. It held:

Because an increase in rates involves a substantial property right, ratepayers are entitled to notice of a Commission's administrative proceeding in which a decision is made to increase rates in a subsequent rate base proceeding.

Milesburg at 1305-06. A copy of the "Milesburg notice" accepted by the Commission following the Court's decision in Milesburg is attached hereto as Appendix E (South River Partners v. West Penn Power Co., Docket No. C-00935287, Appendix A of the Fifth Interim Order of Administrative Law Judge Nemeec). The notice provided an estimated monthly cost for each customer class of the proposed energy contract.

advising customers that future rates could increase based on the outcome of the application proceeding. The OCA recommends adding this information to PAWC's proposed Notice.

Specifically, the OCA recommends adding the bill impact information in chart form. In the OCA's view, the chart PAWC included in its proposed Statement of Reasons and Potential Bill Impact is an effective means to relay the required information.³ In the alternative, if a chart is not used, the OCA recommends adding one or two sentences to the notice to state the range of potential rate impact for existing and acquired customers.

The OCA does not recommend, however, that the Commission adopt the *pro forma* Statement of Reasons and Potential Bill Impact (Attachment B to PAWC's Supplemental Comments).⁴ Many of the statements contained therein – particularly those in the latter paragraphs – are unique to the acquiring entity and the particular acquisition. For example, Section 1329 does not require that the acquiring entity be an existing Pennsylvania utility.

The OCA submits that additional revisions to the content of PAWC's proposed Notice are needed to conform the Notice to New Garden, Milesburg, and the notice requirements under 52 Pa. Code § 53.45, while providing clear, concise information to customers.

- PAWC's proposed Notice does not include a full description of the PUC's role. Pursuant to 52 Pa. Code § 53.45(b)(1)(i), required language in the notice of a rate proceeding is a description of the PUC's role in the proceeding. The OCA submits that similar language to what is included in rate case notices regarding the PUC's role, as modified to reflect that this is an

³ The OCA recommends a minor revision to the row headings to improve accuracy and readability. See Appendix A, hereto.

⁴ In its Comments, PAWC requests the Commission adopt the Statement of Reasons and Potential Bill Impact (together with supporting workpapers) would be a checklist item for Applications filed under Section 1329. PAWC Supp. Comments at 2. While the OCA opposes adopting the specific Statement of Reasons and Potential Bill Impact provided by PAWC, as discussed above, the OCA submits that submission of workpapers supporting the bill impact information provided in the Notice would facilitate review of the Notice by the Bureau of Technical Utility Services and interested parties.

application proceeding, should be added to the notice. For example, the PUC may approve, modify or deny the acquisition and may approve or, modify or deny the requested addition to rate base.

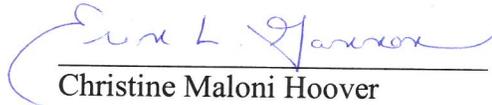
- PAWC's proposed notice states that customers may contact the utility or the PUC's Bureau of Consumer Services for more information. The OCA submits that its contact information should also be included, with a description of its role. The intent of the notice is to provide customers with complete and accurate information so they can determine whether and how to participate in the proceeding. The OCA is a valuable, additional resource for the existing and future utility customers affected by the proposed acquisition.

The OCA's proposed revisions to PAWC's *pro forma* Notice are attached hereto as Appendices A (chart) and B (sentences). For ease of reference, redlined versions are also provided.

III. CONCLUSION

The OCA thanks the Commission for the opportunity to provide Reply Comments on Pennsylvania-American Water Company's Supplemental Comments. The OCA respectfully requests that the Commission carefully consider the concerns raised in these Reply Comments and adopt a (one-step) notice that informs customers about potential bill impact, in accordance with New Garden and the Commission's regulations at 52 Pa. Code §§ 53.45(b)(1-4), as well as the Milesburg notice.

Respectfully Submitted,



Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50026
E-Mail: CHoover@paoca.org

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

DATED: February 7, 2019

APPENDIX A
OCA Proposed Revisions to PAWC Proposed Notice (Chart)

PROFORMA

NOTICE OF PROPOSED ACQUISITION AND RATE BASE ADDITION

[Docket No.]

Dear Customer:

On [date], the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of [utility] for approval to acquire the [municipality or authority] water/wastewater system assets. [Municipality or authority] serves approximately [number] customers in [county], Pa. [Utility's] application also requests that the PUC authorize an addition of up to \$_____ to [utility's] rate base pursuant to 66 Pa. C.S. § 1329. A utility's rate base is the value of property used by the utility to provide service to its customers and is one of several components used to establish a utility's customer rates.

This acquisition will not immediately, but may in the future, affect [water or wastewater] bills of [utility] customers, including the new [municipality or authority] customers. Your rates will not change until the conclusion of [utility's] next rate case where [utility] requests and receives PUC approval to increase its rates. Currently, it is not known when [utility] will file its next rate case. At that time, based on a preliminary analysis of the potential rate impacts, [utility] estimates that the rates of the average customer could increase. The amount of the increase will be determined in the [utility's] next base rate case, and will be dependent on how the Commission chooses to apportion the increase among the acquired and existing customers of the [utility].

| Scenario | Percentage Increase in Rates | |
|--|---|--------------------------------|
| | Customer of [municipality or authority] | Existing Customer of [utility] |
| Increase allocated to entire customer base | XX% | XX% |
| Half of increase allocated to existing customer base, half of increase allocated to acquired customers | XX% | XX% |
| Increase allocated to acquired customer base | XX% | 0% |

[For wastewater acquisitions, additional scenarios would be presented by the utility related to a combined water/wastewater revenue requirement under Act 11 of 2012.]

Upon request, [utility] will send you a Statement of Reasons, explaining the reasons for the acquisition.

PUC ROLE

The state agency that approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$_____ in additional rate base. After examining the evidence, the PUC may approve, modify or deny the

acquisition and may approve, modify or deny the \$_____ addition to rate base. The PUC will issue a decision on the application on or around [date].

ACTIONS YOU CAN TAKE

You can challenge [utility's] request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to [utility's] acquisition of [municipality or authority's] [water or wastewater] system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Filing a protest or a petition to intervene. If you want to be a party to the case, you must file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before [date]. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on [utility's] counsel at [name and address].

The documents filed in support of the application are available on the PUC's website at www.puc.pa.gov, for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, and at [utility's] offices at [address]. The PUC docket number is [_____]. For more information, you may contact [utility] at [toll-free phone number] or the PUC's Bureau of Consumer Services at 1-800-692-7380. You also may contact the Office of Consumer Advocate (OCA) for any questions you have about this filing. The OCA is a state agency that represents the interests of Pennsylvania utility consumers. You can reach the OCA toll-free at 800-684-6560 or at consumer@paoca.org.

PROFORMA

NOTICE OF PROPOSED ACQUISITION AND RATE BASE ADDITION
[Docket No.]

Dear Customer:

On [date], the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of [utility] for approval to acquire the [municipality or authority] water/wastewater system assets. [Municipality or authority] serves approximately [number] customers in [county], Pa. [Utility's] application also requests that the PUC authorize an addition of up to \$ _____ to [utility's] rate base pursuant to 66 Pa. C.S. § 1329. A utility's rate base is the value of property used by the utility to provide service to its customers and is one of several components used to establish a utility's customer rates. ~~This acquisition will not immediately, but may in the future, affect your water or wastewater bill.~~

~~This acquisition will not immediately, but may in the future, affect your water or wastewater bills of [utility] customers, including the new [municipality or authority] customers. [Utility] is not requesting a rate increase as part of the acquisition.~~ Your rates will not change until the conclusion of [utility's] next rate case where [utility] requests and receives PUC approval to increase its rates. ~~At this time~~ Currently, it is ~~unclear~~ not known when [utility] will file its next rate case ~~and what the impact of the [municipality or authority] acquisition may be on your rates.~~ At that time, bBased on a preliminary analysis of the potential rate impacts, [utility] estimates that the rates of the average customer could increase. The amount of the increase will be determined in the [utility's] next base rate case, and will be dependent on how the Commission chooses to apportion the increase among the acquired and existing customers of the [utility]. ~~The following chart illustrates examples of various potential customer impacts:~~

| <u>Scenario</u> | <u>Percentage Increase in Rates</u> | |
|---|--|---------------------------------------|
| | <u>Customer of [municipality or authority]</u> | <u>Existing Customer of [utility]</u> |
| <u>Increase allocated to entire customer base</u> | <u>XX%</u> | <u>XX%</u> |
| <u>50% Half of increase allocated to existing customer base, half of increase allocated to acquired customers</u> | <u>XX%</u> | <u>XX%</u> |
| <u>100% Increase allocated to acquired customer base</u> | <u>XX%</u> | <u>0%</u> <u>—</u> |

[For wastewater acquisitions, additional scenarios would be presented by the utility related to a combined water/wastewater revenue requirement under Act 11 of 2012.]

Upon request, ~~the company~~ [utility] will send you a Statement of Reasons ~~and Potential Bill Impact~~, explaining the reasons for the acquisition ~~and the potential impact upon your future bills.~~

PUC ROLE

The state agency that approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$ [redacted] in additional rate base. After examining the evidence, the PUC may approve, modify or deny the acquisition and may approve, modify or deny the \$ [redacted] addition to rate base. The PUC will issue a decision on the application on or around [date].

ACTIONS YOU CAN TAKE

~~The PUC is the state agency that reviews proposed acquisitions and proposed rates. The PUC will issue a decision on the application on or around [date].~~ You can ~~support or~~ challenge [utility's] request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to [utility's] acquisition of [municipality or authority's] [water or wastewater] system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Filing a protest or a petition to intervene. If you want to be a party to the case, you must file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before [date]. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on [utility's] counsel at [name and address].

The documents filed in support of the application are available on the PUC's website at www.puc.pa.gov, for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, ~~on the PUC's website at www.puc.pa.gov~~ and at [utility's] offices at [address]. The PUC docket number is [redacted]. For more information, you may contact [utility] at [toll-free phone number] or the PUC's Bureau of Consumer Services at 1-800-692-7380. You also may contact the Office of Consumer Advocate (OCA) for any questions you have about this filing. The OCA is a state agency that represents the interests of Pennsylvania utility consumers. You can reach the OCA toll-free at 800-684-6560 or at consumer@paoca.org.

APPENDIX B
OCA Proposed Revisions to PAWC Proposed Notice (Sentence)

PROFORMA

NOTICE OF PROPOSED ACQUISITION AND RATE BASE ADDITION

[Docket No.]

Dear Customer:

On [date], the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of [utility] for approval to acquire the [municipality or authority] water/wastewater system assets. [Municipality or authority] serves approximately [number] customers in [county], Pa. [Utility's] application also requests that the PUC authorize an addition of up to \$_____ to [utility's] rate base pursuant to 66 Pa. C.S. § 1329. A utility's rate base is the value of property used by the utility to provide service to its customers and is one of several components used to establish a utility's customer rates.

This acquisition will not immediately, but may in the future, affect [water or wastewater] bills of [utility] customers, including the new [municipality or authority] customers. Your rates will not change until the conclusion of [utility's] next rate case where [utility] requests and receives PUC approval to increase its rates. Currently, it is not known when [utility] will file its next rate case. At that time, [utility's] request for an increase in rate base of up to \$_____ could increase [water/wastewater] rates by approximately [XX-XX]% for existing [utility] customers and by approximately [XX-XX]% for acquired [municipality or authority] customers. These amounts could change [and some of the increase could be paid by utility's existing water customers].

Upon request, [utility] will send you a Statement of Reasons, explaining the reasons for the acquisition.

PUC ROLE

The state agency that approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$_____ in additional rate base. After examining the evidence, the PUC may approve, modify or deny the acquisition and may approve, modify or deny the \$_____ addition to rate base. The PUC will issue a decision on the application on or around [date].

ACTIONS YOU CAN TAKE

You can challenge [utility's] request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to [utility's] acquisition of [municipality or authority's] [water or wastewater] system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Filing a protest or a petition to intervene. If you want to be a party to the case, you must file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before [date]. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on [utility's] counsel at

[name and address].

The documents filed in support of the application are available on the PUC's website at www.puc.pa.gov, for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, and at [utility's] offices at [address]. The PUC docket number is [_____]. For more information, you may contact [utility] at [toll-free phone number] or the PUC's Bureau of Consumer Services at 1-800-692-7380. You also may contact the Office of Consumer Advocate (OCA) for any questions you have about this filing. The OCA is a state agency that represents the interests of Pennsylvania utility consumers. You can reach the OCA toll-free at 800-684-6560 or at consumer@paoca.org.

PROFORMA

NOTICE OF PROPOSED ACQUISITION AND RATE BASE ADDITION

[Docket No.]

Dear Customer:

On [date], the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of [utility] for approval to acquire the [municipality or authority] water/wastewater system assets. [Municipality or authority] serves approximately [number] customers in [county], Pa. [Utility's] application also requests that the PUC authorize an addition of up to \$ _____ to [utility's] rate base pursuant to 66 Pa. C.S. § 1329. A utility's rate base is the value of property used by the utility to provide service to its customers and is one of several components used to establish a utility's customer rates. ~~This acquisition will not immediately, but may in the future, affect your water or wastewater bill.~~

~~This acquisition will not immediately, but may in the future, affect your water or wastewater bills of [utility] customers, including the new [municipality or authority] customers. [Utility] is not requesting a rate increase as part of the acquisition.~~ Your rates will not change until the conclusion of [utility's] next rate case where [utility] requests and receives PUC approval to increase its rates. ~~At this time~~ Currently, it is ~~unclear-not known~~ when [utility] will file its next rate case ~~and what the impact of the [municipality or authority] acquisition may be on your rates.~~ At that time, [utility's] request for an increase in rate base of up to \$ _____ could increase [water/wastewater] rates by approximately [XX-XX]% for existing [utility] customers and by approximately [XX-XX]% for acquired [municipality or authority] customers. This amount could change [and some of the increase could be paid by utility's existing water customers].

Upon request, ~~the company~~ [utility] will send you a Statement of Reasons ~~and Potential Bill Impact~~, explaining the reasons for the acquisition ~~and the potential impact upon your future bills.~~

PUC ROLE

The state agency that approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$ _____ in additional rate base. After examining the evidence, the PUC may approve, modify or deny the acquisition and may approve, modify or deny the \$ _____ addition to rate base. The PUC will issue a decision on the application on or around [date].

ACTIONS YOU CAN TAKE

~~The PUC is the state agency that reviews proposed acquisitions and proposed rates. The PUC will issue a decision on the application on or around [date].~~ You can ~~support or~~ challenge [utility's] request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to [utility's] acquisition of [municipality or authority's] [water or wastewater] system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Filing a protest or a petition to intervene. If you want to be a party to the case, you must

file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before [date]. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on [utility's] counsel at [name and address].

The documents filed in support of the application are available on the PUC's website at www.puc.pa.gov, for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, ~~on the PUC's website at www.puc.pa.gov~~ and at [utility's] offices at [address]. The PUC docket number is [_____]. For more information, you may contact [utility] at [toll-free phone number] or the PUC's Bureau of Consumer Services at 1-800-692-7380. You also may contact the Office of Consumer Advocate (OCA) for any questions you have about this filing. The OCA is a state agency that represents the interests of Pennsylvania utility consumers. You can reach the OCA toll-free at 800-684-6560 or at consumer@paoca.org.

APPENDIX C
PAWC Notice (Rate Zone 1) 2017 Base Rate Case



NOTICE OF PROPOSED WATER RATE CHANGES

Dear Customer:

On April 28, 2017, Pennsylvania American Water filed a request with the Pennsylvania Public Utility Commission (PUC) to increase your water rates as of June 27, 2017. A full investigation of this request could delay the change until January 2018. This notice describes our request, the PUC's role, and what actions you can take.

RATE REQUEST

Pennsylvania American Water is requesting a rate increase of \$107.9 million per year in total for all of its water and wastewater operations. Since the last rate request in 2013, Pennsylvania American Water will have invested approximately \$1.26 billion to improve service reliability, water quality and fire protection for more than 400 communities across the Commonwealth. Specifically, the company's capital spending includes necessary upgrades to water and wastewater treatment facilities, storage tanks, wells and pumping stations to ensure that its systems meet all regulatory standards. Pennsylvania American Water also will have replaced approximately 450 miles of aging pipeline, as well as valves, service lines and other parts of its nearly 10,700-mile network of water and sewer lines.

By making prudent, ongoing investments to maintain and upgrade our water and wastewater systems, Pennsylvania American Water is committed to protecting our communities from public health concerns and quality of life issues associated with failing infrastructure.

If the company's entire request is approved, the typical water bill for:

- Residential customers using 3,630 gallons a month would increase from \$55.63 to \$65.12 per month.
- Commercial customers using 22,000 gallons a month would increase from \$258.97 to \$312.00 per month.
- Industrial customers using 475,600 gallons a month would increase from \$4,008.22 to \$4,886.73 per month.

Pennsylvania American Water's filing with the PUC also requests a combined revenue requirement for the company's water and wastewater operations as authorized by legislation enacted in 2012.

To find out how the request might affect your water bill, or to address any other questions you might have, please contact Pennsylvania American Water's customer service center at 1-800-565-7292. You can also find the rates requested by Pennsylvania American Water in Original Tariff Water Pa PUC No. 5, and Original Tariff Wastewater PA PUC No. 16 on our website at www.pennsylvaniaamwater.com. Under the Customer Service menu, select "Your Water Rates." You can also review the material filed with the PUC at our office at 800 West Hersheypark Drive, Hershey, PA 17033. In addition, you can request that we mail you a copy of Pennsylvania American Water's Statement of Reasons, which is a plain language summary of why we are requesting the rate change.

PUC ROLE

The state agency that approves rates for regulated public utilities is the PUC. The PUC will review and investigate the requested rate increase. Pennsylvania American Water must prove that the requested rates are reasonable. After examining the evidence, the PUC might grant all, some or none of the request, or it might reduce existing rates. As a result, the final effect on your bill might be different than the company's request.

ACTIONS YOU CAN TAKE

There are three ways you can challenge Pennsylvania American Water's request:

- 1) Send a letter to the PUC. You can tell the PUC why you object to the requested rate increase in your letter. You can also tell the PUC about any other concerns you have about the company. This information can be helpful when the PUC investigates the rate request. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Attend or present testimony at a PUC public input hearing. You can attend or be a witness at a PUC public hearing. The PUC holds public input hearings if it opens an investigation of Pennsylvania American Water's rate request and if there is enough interest in the case. At these hearings, you can present your views in person to the PUC judge and to company representatives. Testimony under oath becomes part of the rate case record. The PUC holds these hearings in the service area of the company. For more information, call the PUC at 1-800-692-7380.
- 3) File a formal complaint. If you want to be a party to the case, you must file a formal complaint. You then have an opportunity to take part in all the hearings about the rate increase request. You can receive copies of all materials distributed by the other parties. Formal complaints should be filed with the PUC before June 27, 2017. If no one files a formal complaint, the Commission may grant all, some or none of the request without holding a hearing before a PUC judge. You can request a formal complaint form by writing to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265, or by going to its website at www.puc.state.pa.us.

APPENDIX D
PAWC Statement of Reasons 2017 Base Rate Case



Statement of Reasons for the 2017 Rate Increase Request

We have asked the Pennsylvania Public Utility Commission (PUC) to approve a tariff that, if fully implemented, would increase Pennsylvania American's present annual operating water and wastewater revenues of \$107.9 million, or 16.4 percent. From our past experience, it is likely that the PUC will suspend and investigate this request and that any changes in rates are not likely to occur until January of 2018.

The primary reasons for the rate increase are as follows:

- The Company must construct and replace the treatment facilities, infrastructure and equipment needed to provide high-quality service and continue to meet state and federal drinking water and wastewater standards.
- Since Pennsylvania American's last base rate increase was approved in December 2013, Pennsylvania American will have invested over \$1.26 million in system improvements. While customers are already enjoying the benefits of many of these improvements, only a portion of the cost to finance them is covered in the Company's current water service charges.
- Pennsylvania American is committed to investing in its water and wastewater treatment facilities and distribution and collection systems to replace aging infrastructure, to ensure service reliability, enhance water quality and increase fire protection for customers.
- To finance needed plant investments, the Company must be able to raise capital on reasonable terms. Unless adjusted, the Company's present rates will not ensure our ability to attract the capital necessary to continue to make the investments in infrastructure that will guarantee the highest quality service.

PENNSYLVANIA-AMERICAN WATER COMPANY

**STATEMENT OF SPECIFIC REASONS
FOR PROPOSED INCREASE IN RATES**

Pennsylvania-American Water Company (“PAWC” or the “Company”) is filing herewith Original Tariff Water-Pa. P.U.C. No. 5 and Original Tariff Wastewater PA P.U.C. No. 16. These tariffs, which bear a proposed effective date of June 27, 2017, would increase the Company's total annual operating revenues by \$107.9 million, or approximately 16.4%, above the level of pro forma revenues for the fully projected future test year ending December 31, 2018. The reasons for the proposed increase are summarized below.

RATE INCREASE

One of the factors accounting for the need for rate relief is the Company's substantial investment in new utility plant. The Company is planning to invest approximately \$743 million in new utility plant during the future test year of 2017 and its fully projected future test year in 2018. Moreover, by the end of the fully projected future test year, PAWC will have invested over \$1.26 billion in utility plant since its last general water rate increase filing in 2013.

Absent rate relief, the overall rate of return for the Company on an original cost basis as of December 31, 2018 will be only 6.29%. More importantly, the indicated return on common equity is anticipated to be 7.20%, which is obviously less than required, by any standard, to permit a reasonable return on such common equity and to provide a reasonable opportunity for the Company to attract the additional capital required to finance needed plant additions.

Ms. Ann E. Bulkley, Senior Vice President of Concentric Energy Advisors and an expert on the subject of rate of return, has recommended an equity return rate of 10.80% and resulting overall return rates of 8.30% and 7.51%, respectively, for the Company's water and wastewater operations. Ms. Buckley's rate of return recommendations are being filed with the Company's supporting data as PAWC Statement No. 13 and Exhibit No. 13-A and may be summarized as follows:

WATER OPERATIONS

| TYPE OF CAPITAL | RATIO | COST RATE | WEIGHTED COST RATE |
|------------------------|--------------|------------------|---------------------------|
| Long Term Debt | 44.89% | 5.25% | 2.36% |
| Preferred Stock | 0.17% | 8.66% | .01% |
| Common Equity | 54.94% | 10.80% | 5.93% |
| Overall Rate of Return | | | 8.30% |

WASTEWATER (WW) OPERATIONS

| TYPE OF CAPITAL | RATIO | COST RATE | WEIGHTED COST RATE |
|------------------------|--------------|------------------|---------------------------|
| Long Term Debt | 35.24% | 5.25% | 1.85% |
| WW Specific Financing | 21.51% | 4.59% | 0.99% |
| Preferred Stock | 0.13% | 8.66% | .01% |
| Common Equity | 43.12% | 10.80% | 4.66% |
| Overall Rate of Return | | | 7.51% |

The Company is filing herewith all of the supporting data required by the Pennsylvania Public Utility Commission's ("Commission") regulations. The Company is basing its claim principally on the fully projected future test year data and, therefore, the discussion that follows will essentially address such data.

Pursuant to Section 315(e), which was added to the Pennsylvania Public Utility Code ("Code") by Act 11 of 2012 ("Act 11"), the Company is employing in this case a fully projected future test year ending December 31, 2018. The Company is also providing supporting data based on a historic test year ended December 31, 2016 and a future test year ending December 31, 2017. The revenue and expense data for the year ending December 31, 2018 have been prepared in a manner substantially consistent with the Company's most recent (2013) general water rate filing and in accordance with the accepted practices of the Commission.

To establish anticipated operating revenues under the proposed rates, operating revenues for the historic test year ended December 31, 2016 were adjusted: (1) to annualize various rate changes and to annualize additional revenues obtained from acquisitions of water and wastewater systems; (2) to reflect the trend of declining residential per-customer consumption; and (3) to reflect changes in the number of customers and usage by specific customers during the historic, future and fully projected future test years.

After extensive and careful review of the Company's accounts, actual operating expenses for the historic test year ended December 31, 2016 were adjusted to reflect currently effective and anticipated changes in expense levels, as summarized in Exhibit No. 3-A, through December 31, 2018. Such adjustments capture, among other things, increases in labor (salaries and wages), changes in production costs and a decrease in post-employment benefits.

Operating revenue deductions other than expenses have also been adjusted to reflect changes in taxes other than income taxes, including the General Assessments for the Commission, the Office of Consumer Advocate and the Office of Small Business Advocate. Federal and State income taxes have been calculated on a pro forma basis to reflect the effect on the Company's taxable income of the proposed rates, the various expense adjustments made for ratemaking purposes and the use of currently effective state and federal income tax rates.

Annual depreciation charges included for ratemaking for major plant accounts have been calculated using the straight-line remaining life method. Provision has also been made for the deferred federal income taxes resulting from the use of the Accelerated Cost Recovery System for qualifying property additions, in accordance with the provisions of the Economic Recovery Tax Act of 1981, from the use of the Modified Accelerated Cost Recovery System for qualifying property additions, in accordance with the Tax Reform Act of 1986, and from capitalized repair deductions.

After making the proper allowances for all necessary adjustments to determine the appropriate levels of revenue and expense for ratemaking purposes, the Company's anticipated operating income under the proposed rates will be:

| | |
|------------------------------|--------------------|
| Operating Revenues | \$765,222,202 |
| Operating Revenue Deductions | <u>502,219,209</u> |
| Operating Income | \$263,002,993 |

The rate base elements which are submitted as part of this filing reflect the original cost of the Company's utility plant, as taken from its continuing property records, together with anticipated additions and retirements occurring through the year ending December 31, 2018. The

Company's claim for accrued depreciation applicable to original cost has been determined on the basis of the ratemaking book reserve, consistent with the procedures approved by the Commission in the past. As previously noted, the resulting claim for depreciated utility plant in service encompasses the Company's planned investment of approximately \$743 million in new and acquired utility plant during the future test year of 2017 and the fully forecasted future test year of 2018.

From the depreciated utility plant in service figures, the Company has deducted contributions-in-aid-of-construction, customer advances for construction and excluded property. Also deducted is the net cash working capital amount of long-term debt interest and preferred stock dividends accrued prior to payment, unamortized investment tax credits generated prior to 1971, extension deposits in suspense and the accumulated balance of deferred taxes attributable to accelerated depreciation and capitalized repair deductions. In addition, allowances for materials and supplies, cash working capital, prepaid taxes net of accrued taxes, and the unamortized portion of the Company's investment in certain property obtained through acquisitions are reflected in the Company's rate base claim. As so developed, the estimated original cost measure of value at December 31, 2018 is \$3,199,393,006.

It is evident from the above and from the voluminous supporting data filed herewith that the proposed rate increase is just and reasonable and represents the minimum rate increase necessary to enable the Company to earn a reasonable return on the fair value of its property used and useful in the public service and to maintain the integrity of its existing capital.

RATE STRUCTURE

As part of its supporting data, the Company has submitted, in Exhibits No. 12 A-F, Cost of Service Studies performed by the engineering firm of Gannett Fleming Valuation and Rate Consultants, Inc. The results of the Cost of Service Studies were one of the factors considered by the Company in developing its rate structure proposal.

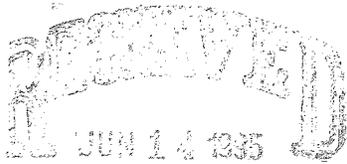
The principal elements of that proposal consist of the following:

- The consolidation of rate zones such that the rates charged customers are the same regardless of geographic location;
- An increase of monthly service charges to be more in line with customer costs;
- The combining of a portion of the revenue requirement for wastewater operations with the revenue requirement for water operations pursuant to Section 1311(c), which was also added to the Code by Act 11.
- The increase of public fire hydrant rates from \$15.10 to \$17.11 per year, which is 25% of the cost of public fire protection service, pursuant to Section 1328 of the Code; and
- The allocation of the requested rate increase in a manner designed to realign revenues by major customer classes to be more commensurate with the indicated cost of service.

CONCLUSION

In summary, the proposed increase in revenues is the minimum increase necessary to permit the Company to preserve public health and safety and to maintain the integrity of its existing capital, attract additional necessary capital at reasonable costs and have an opportunity to actually achieve a fair rate of return, particularly on its common equity capital. For these and the other reasons set forth above, the proposed rates should be permitted to become effective as filed.

APPENDIX E
“Milesburg Notice” from Docket No. C-00935287



OFFICE OF
UNDER ADVOCATE

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

| | | |
|----------------------------------|---|------------|
| South River Power Partners, L.P. | : | |
| | : | Docket No. |
| v. | : | C-00935287 |
| | : | |
| West Penn Power Company | : | |

FIFTH INTERIM ORDER

Introduction

South River Power Partners, L.P., has asked this Commission to require West Penn to enter into a long-term contract for the purchase of electric power under the provisions of the Public Utility Regulatory Policies Act of 1978 and this Commission's regulations.

By Order entered June 3, 1994, this Commission granted West Penn's petition for permission to institute competitive bidding for power purchases to the extent that it authorized West Penn to utilize a competitive bidding program for the procurement of qualified facility capacity on an interim basis. In its Order this Commission waived its regulations at 52 Pa. Code §57.31 et seq. to the extent that the regulations require West Penn to negotiate with qualifying facilities for capacity purchases, effective July 22, 1993. With regard to the present case initiated by South River, this Commission stated that:

Therefore, whether or not South River's proposed project is exempted from West Penn's interim competitive bidding program will depend on our final decision on South River's complaint. If we grant South River's requested relief and direct West Penn to enter into a power purchase agreement with South

River, then South River's proposed QF would obviously be exempted from West Penn's interim competitive bidding program. If, however, we dismiss South River's complaint, then South River in order to have the opportunity to sell capacity and associated energy to West Penn, would be required to participate in any interim competitive bidding process conducted by West Penn.

Order entered 6/3/94 at P-00930737, slip op. p. 17.

South River, West Penn and another party filed appeals from the above Order which resulted in the stay of this matter from August 2, 1994 until May 4, 1995, when the stay was lifted by the Fourth Interim Order. The stay was lifted as a result of the withdrawal of the appeals. That order also set forth a schedule to consider West Penn motions pertaining to continuing a stay, dismissing the case and West Penn's request to present testimony on various factual aspects associated with compliance with the "Milesburg notice" requirements. A further prehearing conference was scheduled and held on June 2, 1995 to consider the above matters as well as concerns of South River. The conference was immediately followed by an on-the-record hearing to take oral argument on the motions and any testimony that any party wanted to present on the contents, costs and mechanisms involved in preparing and mailing the "Milesburg notice".

In the course of the conference, counsel for West Penn stated that West Penn was dropping its request for a stay. The matters that were discussed and argued included West Penn's motion to dismiss, the nature, contents and mechanics of a "Milesburg notice", West Penn's request to bifurcate the proceeding to the extent of first addressing the issue of a legally enforceable

obligation, discovery and scheduling. Each is discussed in turn below.

Motion to Dismiss

West Penn filed its renewed motion to dismiss under date of April 24, 1995. As reasons to reconsider the prior decision denying its first motion to dismiss, West Penn contends that this Commission's regulations on avoided cost at 52 Pa. Code §57.34(c)(4)(iii) are no longer applicable. Further, West Penn contends that the power purchase area of law is changing rapidly and that state court and FERC decisions indicate that the present matter should be dismissed.

In its response and at the further prehearing conference, South River urged that the motion be denied as had West Penn's first motion to dismiss in an interim order dated December 20, 1993. West Penn is correct, as acknowledged by South River, that the Commonwealth Court has recently questioned the application of this Commission of the so-called coal plant proxy. See Pennsylvania Electric Company v. Pa.P.U.C., ___ Pa. Commonwealth Ct. ___, 648 A.2d 63 (1994). However, counsel for South River noted that South River's petition, while asserting that the coal plant proxy applies, nevertheless provides in its paragraph 18 an alternative request for relief which would encompass a different method for the calculation of avoided costs.

Admittedly the area of purchased power is being closely considered in both state and federal forums. That argues more to the need to more fully develop the record in this case than to

terminate it at this juncture. Based on the above brief review and the rationale of the prior interim order that denied the first motion to dismiss, I conclude that the present West Penn motion should likewise be denied.

Milesburg Notice

No one disputes the need to notify West Penn's customers of the pendency of the present case. See Interim Order, C-00935287 (this case) dated 2/23/94, slip op. pp. 5-8. The method, timing, cost and content are very much in dispute between West Penn and South River.

As in other cases filed and tried in Pennsylvania, the notice will be provided by a billing stuffer. West Penn will be directed to include the notice in a billing cycle for or before September 1995. I conclude this is doable based on the testimony of West Penn's witness at the June 2, 1995 conference/hearing.

The cost of the notice was dealt with in the second interim order dated February 23, 1994, which directed South River to pay for printing the notice and provide to West Penn for inclusion in the billing envelopes. The testimony presented by West Penn does not support imprinting the envelopes or the payment of overtime for West Penn employees. To be clear here, South River's obligation is to provide the printed notices (paper, ink, imprinting, boxing or other containers, etc. to West Penn's specifications) to West Penn or pay its costs as testified to by its witness.

As to content, the notice drafted by the Commission's Law Bureau is direct and performs the necessary function of providing clear notice to West Penn's ratepayers of the pending application and an approximation of financial effects of various outcomes in the litigation process. Assuming the notice is inserted in the September billing cycle, the date for filing complaints should be October 30, 1995. (If inserted in the August cycle, the date should be October 2, 1995.) For the convenience of the parties, a copy of the Law Bureau notice is attached as Appendix A.

Bifurcation and Schedule

After a review of the current cases cited by the parties and the transcript of the prehearing conference presided over by ALJ Kashi in Petition of MidAtlantic Cogen, Inc., P-00940820, February 10, 1995, I am satisfied that resolution of this present matter can be expedited by treating the issue of a legally enforceable obligation as a threshold matter. To that end, the parties are directed to propose a schedule for hearings in November 1995 to address whether a legally enforceable obligation exists. Briefing will be accelerated or done by trial brief. Hearings on all remaining issues would be held in January 1996, or as soon as reasonably possible. All parties should submit their proposals for a schedule to me in writing on or before July 14, 1995. Thereafter a schedule for hearings and briefing(s) will be established in a further interim order. As the prior stay has been lifted, the parties should consider the discovery procedures established in the

interim order dated February 23, 1994 as operative until modified by a further order.

ORDER

In consideration of the foregoing,

IT IS ORDERED THAT:

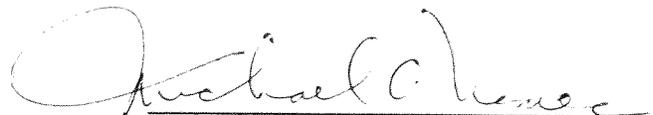
1. The motion of West Penn Power Company to dismiss the present proceeding is denied.

2. West Penn shall include with its bills to its customers on or before its September 1995, billing cycle the Milesburg notice as drafted by this Commission's Law Bureau as approved above and attached here as Appendix A.

3. South River Power Partners, L.P. shall provide the printed Milesburg notice in accordance with West Penn's requirements for inclusion in the billing cycle at its sole and exclusive expense as discussed in the preceding interim order.

4. All parties wishing to do so shall provide the undersigned presiding officer with proposed schedules for hearing and briefing in accordance with the discussion in the preceding interim order on or before July 14, 1995.

Date: June 12, 1995



MICHAEL A. NEMEC
Administrative Law Judge

Parties of Record: C-00935287

South River Power Partners, L.P.
51 Locust Avenue
Suite 302
New Canaan, CT 06840

Clifford B. Levine, Esquire
Alice B. Mitinger, Esquire
Thorp, Reed & Armstrong
One Riverfront Center
Pittsburgh, PA 15222

Alan P. Buchmann, Esquire
Squire, Sanders & Dempsey
4900 Society Center
127 Public Square
Cleveland, OH 44114

Theresa Judith Colecchia, Esquire
Allegheny Power Service Corp.
800 Cabin Hill Drive
Greensburg, PA 15601

Michael D. McDowell, Esquire
John L. Munsch, Esquire
West Penn Power Company
800 Cabin Hill Drive
Greensburg, PA 15601

Tanya J. McCloskey, Esquire
Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Charles E. Rainey, Jr., Esquire
Law Bureau
Pa. Public Utility Commission
Room G-28, North Office Building
Harrisburg, PA 17105-3265

Charles F. Hoffman, Esquire
Albert W. Johnson, II
Office of Trial Staff
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17120

Bernard A. Ryan, Jr., Esquire
Regina L. Matz, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101-1503

David F. Boehm, Esquire
Michael L. Kurtz, Esquire
Boehm, Kurtz & Lowry
2110 Society Bank Bldg.
36 East 7th Street
Cincinnati, OH 45202

Derrick P. Williamson, Esquire
David M. Kleppinger, Esquire
McNees, Wallace & Nurick
100 Pine Street, P.O. Box 1166
Harrisburg, PA 17108-1166

Steven F. Baicker-McKee, Esquire
Joseph Kubacki, Jr., Esquire
Babst, Calland, Clements
and Zomnir
Two Gateway Center, Eighth Floor
Pittsburgh, PA 15222

NOTICE OF FILING OF PETITION
FOR AN ORDER DIRECTING WEST PENN
POWER COMPANY TO PURCHASE CAPACITY
AND ENERGY FROM SOUTH RIVER POWER
PARTNERS, L.P.

TO OUR CUSTOMERS:

On October 28, 1993, South River Power Partners, L.P. (South River) filed a petition with the Pennsylvania Public Utility Commission ("PUC") requesting that the PUC order West Penn Power Company ("West Penn") to purchase capacity and energy from South River's proposed qualifying facility (QF). Under a federal law and state regulations implementing that law, electric utilities such as West Penn are required to purchase power from QFs at rates based upon the costs the electric utility can avoid by buying QF power ("avoided costs"). An electric utility's avoided cost includes both avoided capital and operating costs, as applicable. South River contends that West Penn needs capacity and, under PUC regulations, is required to purchase power from South River's proposed QF under a long term contract at rates that include avoided capital and operating costs. West Penn has denied that it needs the capacity represented by South River's proposed QF. West Penn also claims that the cost of the proposed purchase is too high.

South River's petition has been assigned by the PUC to an administrative law judge for evidentiary hearings. At the end of the hearings the PUC will rule on South River's request. If the PUC rules that West Penn needs additional generating capacity and that the purchase price is at or below West Penn's avoided costs, the PUC may order West Penn to sign a power purchase contract with

South River. South River's proposed QF is a 240 MW coal and coal-fired facility to be located in Fayette County, Pennsylvania.

If the PUC orders West Penn to sign a contract with South River, the cost for the purchased power will be collected from ratepayers over the term of the contract. The costs would be collected through West Penn's Energy Cost Rate on a dollar for dollar basis. It cannot be stated exactly what these costs might be because the PUC has not yet determined how much generating capacity West Penn may need, if any. At the low end, the costs may be zero if the PUC finds that West Penn doesn't need any more generating capacity. At the high end the costs may reach approximately \$134 million per year if the PUC finds that West Penn needs all of the capacity offered by South River. However, these costs would be no more than West Penn's avoided costs, as determined by the Commission. West Penn makes no profit on power purchases from QFs.

If South River's petition is granted, average customers may pay the following costs per month based on an annual payment of \$162 million by West Penn:

| | <u>Estimated Monthly Cost</u> | |
|--|-------------------------------|-----------|
| Average Residential Customer (843 kwh/month) | \$ | 7.48 |
| Average Commercial & Small Industrial Customer (6,700 kwh/month) | \$ | 55.04 |
| Average Industrial Customer (4,713,467 kwh/month) | \$ | 30,601.94 |

If the PUC orders West Penn to buy power from South River these costs would be collected from all ratepayers when South River's proposed QF goes into commercial operation. South River projects its proposed QF will go into commercial operation on July 1, 1998.

You can examine a copy of the petition filed in this case at any local West Penn office or at West Penn's general office in Greensburg, Pennsylvania. You can also examine all of the documents filed in these cases in the PUC's File Room in Harrisburg.

As a customer, you are entitled to participate in the PUC hearings for this case. To do that, you must file a complaint with the PUC no later than _____ which is approximately thirty (30) days after all customers have received this notice. You may obtain complaint forms by writing the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17120 or by calling the PUC at (717) 787-6982. You don't need to have an attorney to do so. You can also send a letter with your comments to the PUC and request the PUC to establish a public hearing at which you may state your comments. Complaints and letters must include the case docket number, which is C-00935287. You must send any complaints and letters to: Secretary, Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.