

SUPPLEMENT NO. 19

TO

TARIFF WATER – PA P.U.C. NO. 1

**DATA IN SUPPORT OF
PROPOSED SUPPLEMENT NO. 19
TO TARIFF WATER – PA P.U.C. NO. 1**

City of Lock Haven Water Department

Reasons for Proposed Increase in Water Rates and Other Tariff Changes Pursuant to 52 Pa. Code Sections 53.52(a)(1) and (b)(1)

Summary of Proposed Increase

The City of Lock Haven Water Department (“Lock Haven” or the “City”) hereby submits the following information in support of Supplement No. 19 to its Tariff Water – PA P.U.C. No. 1 as required by Section 53.52 of the Pennsylvania Public Utility Commission’s (“Commission” or “PUC”) regulations, 52 Pa. Code § 53.52. Lock Haven proposes to increase the base water rates for all customers (including customers located inside and outside the City) by \$990,432 per year, or 64.2%. Of this amount, the City is specifically seeking Commission approval to increase rates for jurisdictional customers located outside the City by \$377,823 or 71.4%.

Simultaneous with this base rate filing, Lock Haven is also filing a separate Petition for Authorization to Implement a PENNVEST Surcharge (“PENNVEST Petition”) pursuant to Section 1307 of the Public Utility Code, 66 Pa. C.S. § 1307, and Sections 69.361-69.364 of the Commission’s regulations, 52 Pa. Code §§ 69.361-69.364. The proposed PENNVEST Surcharge (“PVS”) will allow the City to timely recover the interest and principal charges associated with low-interest loans from PENNVEST that have and will continue to be awarded to the City since its last rate case, as well as a bridge loan providing necessary funding until an additional PENNVEST loan is finalized. These amounts have not been previously included in Lock Haven’s revenue requirement claims, and also are not included in the proposed base rate increase. The PVS is necessary to fund critical infrastructure projects, which have either been mandated by the Pennsylvania Department of Environmental Protection (“DEP”) or are necessary to complete the DEP-mandated projects. These projects are critically important to

maintain the safety and reliability of Lock Haven's water system. The total proposed increase to be recovered from the PVS, to be put in place at the same time as the base rate increase goes into effect, is \$334,396 (for both inside and outside City customers). Of this amount, Lock Haven is seeking to recover \$106,048 from jurisdictional customers outside the City.

Background on City of Lock Haven Water Department

The City of Lock Haven Water Department serves residents and occupants of the City of Lock Haven as well as surrounding communities, including portions of Allison Township, Castanea Township, and Wayne Township. Of the total 3,257 customers, 2,181 are located in the City of Lock Haven and 1,076 are located in Wayne (528), Castanea (524) and Allison (24) Townships. The estimated service area population is 9,750. Only the rates and service provided to customers outside the city limits of Lock Haven are subject to the review and approval of the PUC.

The City owns and operates two water supply reservoirs that constitute the principal water sources for the system. Both reservoirs are located on McElhattan Creek with the Boyd H. Keller reservoir in Wayne Township and the upstream Warren H. Ohl reservoir in Greene Township. The total water supply capacity is 664 million gallons. An independently operated treatment plant provides potable water to City customers. The Lock Haven water distribution and transmission system includes 157.5 miles of transmission and distribution piping, ranging in size from 4-inch through 18-inch.

Reasons for the Proposed Increase

Lock Haven's last rate increase went into effect as of January 1, 2011. While the City has maintained present rates for well over a decade – both for customers located inside and outside the City – additional revenues are now necessary to meet rising operational costs and fund

critical, mandated system improvements. These improvements are necessary to update aging infrastructure and continue providing safe and adequate service to customers.

As discussed in detail in Lock Haven's PENNVEST Petition, DEP has mandated major modifications to certain City infrastructure that will require significant investment to complete. These projects are the primary drivers of this rate filing, and they are critically necessary to ensuring that Lock Haven can continue providing safe and adequate water service to customers.

Specifically, Ohl Dam requires significant upgrades and is part of an ongoing two-phase repair project. Because of the potential for downstream loss of life and extensive property damage during a dam breach, Ohl Dam is classified by DEP as a "High Hazard" structure and subject to passing the maximum flood event known as the "Probable Maximum Flood (PMF)." Engineering studies have revealed that the existing dam has inadequate spillway capacity, passing only 68% of the PMF. The DEP designated Ohl Dam as having a "significant deficiency in spillway capacity" and has directed the City to upgrade the spillway to current standards, in addition to other modifications.

Similarly, Keller Dam is also classified by the PADEP as a "High Hazard" structure and subject to passing the PMF. Engineering studies have revealed that the existing spillway can only pass 68% of the PMF. PADEP has designated Keller Dam as having a "substantial deficiency in spillway capacity" and has directed the City to upgrade the spillway to current standards and complete a variety of other improvements.

Further, Lock Haven has successfully explored, drilled and tested a groundwater source along McKinney Road in Youngdale, Wayne Township, Clinton County, PA as a supplemental water source. The reasons are two-fold. First, the reservoirs are vulnerable during periods of extreme drought which puts their ability to supply ordinary system demand in jeopardy.

Secondly, lowering either Ohl or Keller reservoir(s) for construction is an unnecessary risk, because it would make the system more vulnerable in water emergencies, such as those that have occurred in the past. As such, a supplemental water source must be developed before Lock Haven can proceed with the DEP-mandated dam projects discussed above (other than Ohl Dam Phase I, which has already been completed).

These projects are either currently or anticipated to be funded by low-interest PENNVEST loans. A recent PENNVEST loan was conditioned on the City filing the instant rate increase proposal with the PUC. Further, PENNVEST has advised that it will not approve further funding for Lock Haven until a rate increase is granted. As such, this rate increase is critically necessary and needed as soon as possible to allow these DEP-mandated projects to proceed and provide the City with the resources necessary to continue operating the system.

Reasons for Other Tariff Changes

As discussed in the attached Water Rate Study and in response to the filing requirements below, the City is proposing changes to its rate structure. After a detailed investigation, it was determined that the existing rate structure is not fairly and equitably recovering the cost of service to individual rate classes. As a result, Lock Haven is proposing to eliminate the existing quarterly minimum charges with usage allowances, and instead implement fixed service charges without usage allowances. For residential customers, the City proposes to eliminate the existing multi-tier residential volumetric rate and instead implement a two-tier inclining block rate structure. Additionally, for the Commercial/Industrial, Educational, and Public Health customer classes, the City proposes to eliminate the existing multi-tier declining block rate structure and instead implement a separate uniform rate for each class. These rate structure changes will bring

the various customer classes closer to their cost of service, and will also create price signals that encourage water conservation.

Lock Haven is also proposing to modify the tariff language on Service Connections to more clearly describe the responsibilities of the Water Department and customers, and to include proposed connection fees. Finally, general updates are made to the tariff to reflect current practices, terminology and applicable regulations.

Lock Haven's Requests are in the Public Interest

Lock Haven's requested rate increase and related proposals are in the public interest and should be approved. As discussed above, the City has not increased rates in over 13 years. The requested increase is essential to provide operating funds for the Water Department and to allow the City to make critical, DEP-mandated improvements to its infrastructure. Notably, the City's proposed revenue requirement does not include a request for a rate of return. Lock Haven intends to apply any approved rate increase in the same manner to both inside and outside-City customers. The City is simply requesting the additional funds that are necessary to continue providing safe and adequate service to its customers. Therefore, Lock Haven's rate proposal is in the public interest and should be approved.

WATER RATE STUDY

Total Number of Customers Served by the City of Lock Haven Water Department
52 Pa. Code § 53.52(a)(2)

Tariff Subdivision	Number of Outside-City Customers
Residential	997
Commercial	40
Industrial	13
Education	0
Public Health	26
Total	1,076

Number of Customers, by Tariff Subdivision, Whose Bills Will Be Affected by the Change
52 Pa. Code § 53.52(a)(3) and (b)(3)

Tariff Subdivision	Number of Outside-City Customers
Residential	997
Commercial	40
Industrial	13
Education	0
Public Health	26
Total	1,076

Statement of the Effect of the Proposed Tariff Changes on the Utility's Customers
52 Pa. Code § 53.52(a)(4) through (a)(11)

Section 53.52(a)(4): The proposed tariff changes are comprised of three separate changes: 1) increase to base rate revenues, 2) implementation of a PENNVEST surcharge, and 3) rate structure change for base rates for all customer classes.

The first change includes an increase to base rate revenues from outside-City customers of \$377,823 in fiscal year ("FY") 2025. The proposed increase to base rates reflects a 71.4 percent increase over projected base rate revenues from outside-City customers in FY 2024.

The second change includes the implementation of a proposed PENNVEST Surcharge that would recover costs associated with all PENNVEST loans incurred since the last base rate case in 2010 and for any future PENNVEST loans. The PENNVEST surcharge is anticipated to generate \$106,048 from outside-City customers in FY 2025.

The combined increase to base rates and PENNVEST Surcharge revenues of \$483,872 (\$377,823 + \$106,048) reflects a 91.5 percent increase over projected rate revenues in FY 2024.

The third change includes changes to the City's water base rate structure. Proposed changes to the base rate structure include:

- Eliminating the quarterly minimum charges with usage allowances.
- Implementing fixed service charges without usage allowances that were designed to meet a fixed revenue target of 25 percent of total base rate revenues.
- Modifying the scaling of the service charges to reflect the relative maximum capacities of the various water meter types and sizes used by customers of the City's water system.
- Eliminating the multi-tier residential volumetric rates and implementing a two-tier inclining block rate structure for residential customers.
- Eliminating the multi-tier declining block rate structures for Commercial / Industrial, Educational, and Public Health volumetric rates and implementing a separate and distinct uniform rate for each tariff subdivision.

Changes to the base rate structure will affect how the additional revenues of \$377,823 from the proposed tariff change will be recovered from each outside-City tariff subdivision.

Table 1 shows the effect of the tariff change to base rates only on the utility's outside-City customers. Column 1 shows the additional revenues to be recovered by tariff subdivision without any change to the base rate structure,

while Column 2 shows the additional revenues to be recovered by tariff subdivision with the proposed changes to the base rate structure discussed in this section.

Table 1.

Tariff Subdivision	-Column 1- Additional Revenues from Increase in Base Rates (No base rate structure changes)	-Column 2- Additional Revenues from Increase in Base Rates (Proposed base rate structure changes)
Residential	\$208,099 (64.2% increase)	-\$22,551 (7.0% decrease)
Commercial	\$14,334 (64.2% increase)	\$9,717 (43.5% increase)
Industrial	\$95,330 (64.2% increase)	\$338,657 (228.1% increase)
Educational	\$0 (0.0% increase)	\$0 (0.0% increase)
Public Health	\$21,780 (64.2% increase)	\$52,002 (153.3% increase)
Total	\$339,543	\$377,823

Table 2 shows the effect of the tariff change on the utility’s outside-City customers, including the implementation of a proposed PENNVEST Surcharge. Column 1 shows the additional revenues to be recovered by tariff subdivision without any change to the base rate structure and the implementation of a PENNVEST Surcharge, while Column 2 shows the additional revenues to be recovered by tariff subdivision with the proposed changes to the base rate structure discussed in this section and the implementation of a PENNVEST Surcharge.

The proposed PENNVEST Surcharge would be assessed based on meter size and is scaled using the same scaling approach that has been proposed in this section for the quarterly service charge.

Table 2.

Tariff Subdivision	-Column 1- Additional Revenues from Increase in Base Rates (No base rate structure changes)	-Column 2- Additional Revenues from Increase in Base Rates (Proposed base rate structure changes and PENNVEST Surcharge)
Residential	\$287,655 (88.7% increase)	\$57,005 (17.6% increase)
Commercial	\$21,761 (97.5% increase)	\$17,143 (76.8% increase)
Industrial	\$107,068 (72.1% increase)	\$350,395 (236.0% increase)
Educational	\$0 (0.0% increase)	\$0 (0.0% increase)
Public Health	\$29,107 (85.8% increase)	\$59,328 (174.9% increase)
Total	\$445,591	\$483,872

Section 53.52(a)(5): Revenues are projected to increase by \$377,823 in FY 2025 for outside-City customers based on the proposed change to base rates in that year. In addition, revenues are projected to increase by \$106,048 in FY 2025 for outside-City customers as a result of the proposed implementation of a PENNVEST Surcharge in that year.

There is not expected to be any change to the utility's expenses as a result of the proposed change to the utility's revenue.

Section 53.52(a)(6): There is not expected to be any change in the service rendered by the utility as a result of the proposed change to the utility's revenue.

Section 53.52(a)(7): Not applicable.

Section 53.52(a)(8): Not applicable.

Section 53.52(a)(9): Lock Haven did not undertake any customer polls that indicate customer acceptance or desire for the proposed tariff changes. The tariff changes are in the public interest as discussed above in response to 52 Pa. Code § 53.52(a)(1).

Section 53.52(a)(10): The City of Lock Haven Water Department will implement the proposed tariff changes upon Commission approval.

Section 53.52(a)(11): Not applicable.

Operating Income Statement of the Utility for a 12-Month Period Ending December 31, 2023
52 Pa. Code § 53.52(b)(2) and 53.52(c)(5)

Lock Haven Water Fund Operating Income Statement

	<u>FY 2023 Actual</u>
Revenues:	
User Rate and Charges	\$ 1,303,535
Reimbursements	203,755
Interfund Transfers In	23,326
Miscellaneous Revenues	<u>26,390</u>
Total Revenues	\$ 1,557,005
Operating Expenses:	
General Expenses	\$ 1,763,531
LHCA Property Maintenance	46,827
Interfund Transfers Out	<u>103,087</u>
Total Operating Expenses	\$ 1,913,445
Debt Service	\$ 217,452
Capital Projects Funded with Cash	\$ -
Total Expenditures	\$ 2,130,897
Revenues Over / (Under) Expenditures	\$ (573,892)

Calculation of the Total Increases, In Dollars, by Tariff Subdivision, Projected to an Annual Basis
52 Pa. Code § 53.52(b)(4)

Tariff Subdivision	Total Annual Dollar Increase – Base Rates Only (without PENNVEST Surcharge)	Total Annual Dollar Increase (with PENNVEST Surcharge)
Residential	-\$22,551	\$57,005
Commercial	9,717	17,143
Industrial	338,657	350,395
Educational	0	0
Public Health	52,002	59,328
Total	\$377,823	\$483,872

Calculation of the Number of Customers, By Tariff Subdivision, Whose Bills Will Be Decreased
52 Pa. Code § 53.52(b)(5)

Under the City's proposed rates, no customers' bills for water service will be decreased.

Calculation of the Total Decrease, In Dollars, by Tariff Subdivision, Projected to an Annual Basis
52 Pa. Code § 53.52(b)(6)

Under the City's proposed rates, there will not be a decrease in total annual water revenues.

Rate of Return Calculations
52 Pa. Code § 53.52(c)(1)

The proposed revenue requirement does not include a request for a return on equity and reflects the Company's cash needs.

Balance Sheet as of December 31, 2023
52 Pa. Code § 53.52(c)(2)

See the attached Balance Sheet below.

Summary, By Detail Plan Accounts, of the Book Value of Utility Property
as of December 31, 2023
52 Pa. Code § 53.52(c)(3)

An estimated summary of the book value of utility property as of December 31, 2023 is provided below. Lock Haven will provide updated audited data when it becomes available.

BOOK VALUE OF PROPERTY PLANT AND EQUIPMENT:

DESCRIPTION	HISTORICAL COST	ACCUMULATED DEPRECIATION	BOOK VALUE @ 12/31/23	2023 DEPR EXP.
WATER SYSTEM	\$ 2,363,145	\$ 1,253,340	\$ 1,109,806	\$ 42,594
VEHICLES	<u>286,057</u>	<u>286,057</u>	<u>-</u>	<u>14,824</u>
Total Equipment and Vehicles	\$ 2,649,203	\$ 1,539,397	\$ 1,109,806	\$ 57,418
WATER RESERVOIR (Land/Land Impr)	\$ 7,239,529	\$ 4,647,454	\$ 2,592,075	\$ 311,481
PURIFICATION EQUIPMENT	46,278	24,923	21,355	1,000
OFFICE EQUIPMENT	385,392	354,729	30,663	2,341
DEVELOPERS FEES	<u>254,318</u>	<u>140,261</u>	<u>114,057</u>	<u>5,086</u>
Total Public Utility System	\$ 7,925,517	\$ 5,167,366	\$ 2,758,150	\$ 319,909
CONSTRUCTION IN PROGRESS	\$ 4,798,752	\$ -	\$ 4,798,752	\$ -
TOTALS	\$ 15,373,471	\$ 6,706,763	\$ 8,666,708	\$ 377,327

Depreciation Reserve as of December 31, 2023
52 Pa. Code § 53.52(c)(4)

An estimated summary of the depreciation reserve as of December 31, 2023 is provided below. Lock Haven will provide updated audited data when it becomes available.

DESCRIPTION	2022 ACCUMULATED DEPRECIATION	2023 DEPRECIATION	2023 ACCUMULATED DEPRECIATION
WATER SYSTEM	\$ 1,210,746	\$ 42,594	\$ 1,253,340
VEHICLES	<u>271,234</u>	<u>14,824</u>	<u>286,057</u>
Total Equipment and Vehicles	\$ 1,481,979	\$ 57,418	\$ 1,539,397
WATER RESERVOIR (Land/Land Impr)	\$ 4,335,972	\$ 311,481	\$ 4,647,454
PURIFICATION EQUIPMENT	23,922	1,000	24,923
OFFICE EQUIPMENT	352,388	2,341	354,729
DEVELOPERS FEES	<u>135,175</u>	<u>5,086</u>	<u>140,261</u>
Total Public Utility System	\$ 4,847,457	\$ 319,909	\$ 5,167,366
CONSTRUCTION IN PROGRESS	\$ -	\$ -	\$ -
TOTALS	\$ 6,329,437	\$ 377,327	\$ 6,706,763

Brief Description of a Major Change in the Operating or Financial Condition of the Utility
Occurring Between the Date of the Balance Sheet and Transmittal of the Tariff Supplement
52 Pa. Code § 53.52(c)(6)

Not applicable.

Customer Notice

52 Pa. Code § 53.45(b)(1), (2), and (4)

The following customer notice is posted in the City of Lock Haven Water Department office and will remain posted for at least 60 days before the proposed rate increase becomes effective. Notice has also been mailed to customers in writing on or before May 23, 2024.

Press Release
52 Pa. Code § 53.45(b)(3)

The following press release is being distributed on May 24, 2024, simultaneously with the filing of this rate case.

Affidavit re: Notice Requirements
52 Pa. Code § 53.45(h)

The following affidavit confirms that the notice requirements contained in 52 Pa. Code § 53.45(b) have been met.