

**PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
HARRISBURG, PA 17120**

Public Meeting held March 2, 2023

Commissioners Present:

Gladys Brown Dutrieuille, Chairman  
Stephen M. DeFrank, Vice Chairman  
Ralph V. Yanora  
Kathryn L. Zerfuss  
John F. Coleman, Jr.

Pennsylvania Public Utility Commission

v.

Docket No.  
R-2022-3036491

Elverson Water Company, Inc.

**ORDER**

**BY THE COMMISSION:**

On October 31, 2022, Elverson Water Company, Inc. (EWC), Utility Code 210011, filed Supplement No. 11 to Tariff Water – Pa. P.U.C. No. 2 (October 2022 Supplement) with the Pennsylvania Public Utility Commission (Commission) to become effective January 1, 2023. The October 2022 Supplement proposes to increase EWC’s total annual operating revenues for water service by approximately \$41,031, or 22%. On November 29, 2022, EWC filed Supplement No. 12 to Tariff Water – Pa. P.U.C. No. 2, which voluntarily postponed the effective date of the October 2022 Supplement to April 1, 2023.

EWC provides water service to approximately 558 residential, 21 commercial, five industrial, 12 public, and 56 fire protection customers in Elverson Borough and portions of West Nantmeal, East Nantmeal, and Warwick Townships in Chester County, Pennsylvania. EWC's rate structure for general metered water service consists of a customer charge by meter size and a uniform consumption charge per 1,000 gallons of

water usage for all meter sizes. Bulk water service rates include a distinct uniform consumption charge per 1,000 gallons of water usage. Private fire protection, public fire protection, and construction water services are charged at flat rates. All of these rates are subject to an additional PENNVEST surcharge (PVS), and all customer billings are rendered quarterly. EWC's current quarterly rates for metered service and consumption became effective June 30, 2014, and EWC's current PVS rate became effective March 31, 2019.

Through the October 2022 Supplement, EWC proposed increases to customer charges and consumption charges. For private fire protection customers, EWC proposed rate increases for connection sizes of three inches or less and decreases for four-inch, six-inch, and eight-inch connection sizes. EWC also proposed an increase for public fire protection customers.

Finally, through the October 2022 Supplement, EWC proposed to decrease its PVS from 48.75% to 34.00%. The PVS was established to fund the repayment of PENNVEST Loan No. 80190. Pursuant to the Commission Order entered May 3, 2018, at Docket No. R-2018-3001106, an annual reconciliation of PVS funds collected and disbursed shall be filed with the Commission each succeeding year the loan is outstanding, and that the annual reconciliation is subject to the Commission's reconciliation procedure detailed at Docket No. M-2013-2345492.

Investigation and analysis of this proposed tariff supplement and the supporting data indicates that the proposed tariff supplement may be unlawful, unjust, unreasonable, and contrary to public interest. It also appears that consideration should be given to the reasonableness of EWC's existing rates, rules, and regulations. At the same time,

investigation and analysis of this tariff supplement and the supporting data indicates that a lesser increase in rates may be just and reasonable;<sup>1</sup> **THEREFORE,**

**IT IS ORDERED:**

1. That if, on or before ten (10) days after the date of entry of this Order, Elverson Water Company, Inc. files a tariff or tariff supplement, effective upon five (5) days' notice to the Commission, that cancels and supersedes the tariff supplement filed October 31, 2022, at Docket No. R-2022-3036491, and contains proposed changes in rates calculated to produce additional annual revenues of approximately \$26,201 that incorporate the schedule of rates and the PENNVEST surcharge rate of 35.80 percent shown on Attachment A, attached hereto, the tariff or tariff supplement proposing the increase shall be permitted to become effective upon five (5) days' notice.

2. That Elverson Water Company, Inc.'s next tariff supplement filed with the Commission shall be labelled as Supplement No. 13 to Tariff Sewer - Pa. PUC No. 2.

3. That if Elverson Water Company, Inc. does not file a tariff or tariff supplement cancelling and superseding the tariff supplement filed October 31, 2022, at Docket No. R-2022-3036491, as described in Ordering Paragraph 1 of this Order, on or before ten (10) days of the date of entry of this Order, or if the Commission has not granted Elverson Water Company, Inc. additional time to file, the following shall apply:

a. That an investigation on Commission motion shall be instituted, without further Order of the Commission, to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in Elverson Water Company, Inc.'s proposed tariff supplement filed October 31, 2022, at Docket No. R-2022-3036491;

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<sup>1</sup> See Attachments A, C and E of this Order for the adjusted rate schedule, rate case summary, and staff adjustments, respectively.

b. That the tariff supplement filed October 31, 2022, at Docket No. R-2022-3036491, shall be, without further Order of the Commission, suspended until November 1, 2023, unless otherwise directed by Order of the Commission;

c. That within ten days following the suspension of the tariff supplement filed October 31, 2022, at Docket No. R-2022-3036491, pursuant to 52 Pa. Code § 53.71 (relating to previous rates and posting of supplement), Elverson Water Company, Inc. shall e-file a tariff supplement, which shall bear no effective date, with the Commission and post the tariff supplement at the offices of Elverson Water Company, Inc. announcing that the aforementioned tariff supplement is suspended until November 1, 2023. A sample copy of a suspension supplement is attached to this Order as Attachment B;

d. That this investigation shall include consideration of the lawfulness, justness, and reasonableness of the existing rates, rules, and regulations of Elverson Water Company, Inc.; and

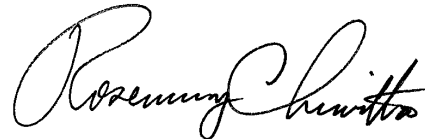
e. That this case be assigned to the Office of Administrative Law Judge for Alternative Dispute Resolution, if possible, for the prompt scheduling of such hearings as may be necessary culminating in the issuance of a recommended decision.

4. That pursuant to Ordering Paragraph 7 of the Commission Order entered May 3, 2018, at Docket No. R-2018-3001106, Elverson Water Company, Inc. shall continue to file with the Commission an annual reconciliation of the surcharge funds collected and disbursed each succeeding year the loan is outstanding, and that the annual reconciliation shall be subject to the Commission's reconciliation procedure detailed at Docket No. M-2013-2345492.

5. That a copy of this Order shall be served upon Elverson Water Company, Inc., the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Pennsylvania Infrastructure Investment Authority, and the Department of Environmental Protection – Southeast Regional Office and its Bureau of Regulatory Counsel, and any persons who have filed formal complaints against Elverson Water Company, Inc.’s proposed tariff supplement.

6. That this Order is without prejudice to any formal complaints timely filed against Elverson Water Company, Inc.’s proposed rate changes.

**BY THE COMMISSION,**

A handwritten signature in black ink, appearing to read "Rosemary Chiavetta". The signature is fluid and cursive, with the first letter of each word being significantly larger and more stylized.

Rosemary Chiavetta  
Secretary

(SEAL)

ORDER ADOPTED: March 2, 2023

ORDER ENTERED: March 2, 2023

**ATTACHMENT A**  
**Schedule of Rates**

**Section A - Rates for Metered Service**

1. Customer Charge: Each customer will be assessed a customer service charge based upon the size of the customer's meter as follows:

Customer Charge	
Meter Size	Per Quarter
¾ inch	\$ 15.74
1 inch	\$ 27.37
1½ inch	\$ 54.75
2 inch	\$ 85.54
3 inch	\$ 157.39
4 inch	\$ 256.62
6 inch	\$ 513.24

2. Consumption Charge: In addition to the above Customer Charge, the following water consumption charges will apply for water supplied.

Rate per 1,000 Gallons  
\$ 5.93

**Section B - Fire Protection Rates**

1. Private Fire Protection: A customer charge for private fire protection service will be assessed as follows:

Size of Connection	Per Quarter
¾ inch	\$ 15.74
1 inch	\$ 25.18
1½ inch	\$ 53.52
2 inch	\$ 89.54
2 ½ inch	\$ 131.17
3 inch	\$ 176.29
4 inch	\$ 268.63
6 inch	\$ 503.68
8 inch	\$ 716.34

2. Public Fire Protection: For public fire protection, the charge shall be \$ 68.43 per hydrant per quarter.

Section D - Construction Rates

The flat rate charge for unmetered residential building construction shall be \$68.43 per quarter per dwelling unit under construction until construction is completed.

The flat rate charge for unmetered nonresidential construction shall be \$68.43 per quarter per building or unit under construction until construction is completed.

Section G – Bulk Water Sales

For bulk water sales, the charge shall be:

Rate per 1,000 Gallons

\$7.98

Section H - PENNVEST Surcharge

3. The PVR proposed with this filing shall be:

PENNVEST Rate (PVR)

35.80%

**ATTACHMENT B**

Sample Suspension Supplement

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Supp. No. \_\_\_\_\_ to  
\_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_

(COMPANY NAME)

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(TERRITORY SERVED BY COMPANY)

The application of rates proposed in Tariff \_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_ filed to become effective \_\_\_\_\_, is hereby suspended until \_\_\_\_\_, at Docket No. \_\_\_\_\_. Presently effective rates contained in Tariff \_\_\_\_\_ Pa. P.U.C. No. \_\_\_\_\_ and supplements thereto, will continue in effect until otherwise amended. Issued in compliance with Title 66 Pa. C.S. § 1308.



**ATTACHMENT C**  
**RATE CASE SUMMARY**

	Company Claimed						Per Staff	
	Previous Year Ended	Test Year Ended	Adjustments	Adjusted Test Year	Proposed Increase	Totals	Staff Adjustments	Adjusted Company Totals
	6/30/2021	6/30/2022						
Operating Revenues:	\$	\$	\$	\$	\$	\$	\$	\$
Water Revenues	182,932	186,526	-	186,526	41,031	227,557	(14,830)	212,727
<b>Total Revenues</b>	<b>182,932</b>	<b>186,526</b>	<b>-</b>	<b>186,526</b>	<b>41,031</b>	<b>227,557</b>	<b>(14,830)</b>	<b>212,727</b>
Operating Expenses:								
Operating Labor	48,315	49,313	16,000	65,313		65,313		65,313
Operating Supplies	6,722	8,474	700	9,174		9,174		9,174
Maintenance Supplies	2,098	21,760	3,000	24,760		24,760		24,760
Purchased Power	4,720	4,611	900	5,511		5,511		5,511
General office expenses	58,312	69,106	12,000	81,106		81,106		81,106
Other Misc.	1,132	535	-	535		535		535
<b>Subtotal</b>	<b>121,299</b>	<b>153,799</b>	<b>32,600</b>	<b>186,399</b>		<b>186,399</b>	<b>-</b>	<b>186,399</b>
Taxes and Depreciation								
Depreciation	40,266	40,202	-	40,202	-	40,202	(30,702)	9,500
State/Federal Income Tax	-	-	-	-	-	-		-
Assessments	-	-	-	-	-	-	172	172
Property/PURTA Tax	-	-	-	-	-	-		-
<b>Subtotal</b>	<b>40,266</b>	<b>40,202</b>	<b>-</b>	<b>40,202</b>	<b>-</b>	<b>40,202</b>	<b>(30,530)</b>	<b>9,672</b>
<b>Total Expenses</b>	<b>161,565</b>	<b>194,001</b>	<b>32,600</b>	<b>226,601</b>		<b>226,601</b>	<b>(30,530)</b>	<b>196,071</b>
Income Available for Return	21,367	(7,475)	(32,600)	(40,075)		956	15,700	16,656
Rate Base at Original Cost		30,877		30,877	-	30,877	165,761	196,638
Rate of Return		-24.209%		-129.790%		3.096%	5.374%	8.470%

Note: Company claims and proposed increases are found in the filing's Schedules C and D.

**ATTACHMENT D**  
**RATE BASE SUMMARY**

<b>Test Year Ended 06/30/2022</b>	<b>Company (\$)</b>	<b>Adjust (\$)</b>	<b>Per Staff (\$)</b>
Total Depr. Plant in Service	1,645,564	(27,693)	1,617,871
Less: Accrued Depr.	980,034	(349,577)	630,457
Net Depreciable Plant	665,530	321,884	987,414
Add: Non-Depr. Plant	1,602	-	1,602
Net Plant in Service	667,132	321,884	989,016
Add: Cash Working Capital	-	23,300	23,300
Less: CIAC Net of Accrued Depr.	636,255	179,423	815,678
Total Rate Base	30,877	165,761	196,638

**ATTACHMENT E**  
**STAFF ADJUSTMENTS AND REDUCTIONS**

PAGE 1 OF 2

<b>(a) Reduction to Company claim for:</b>		Rate of Return	
Company Claim:	Company calculated income available for return:	\$	956
	Rate base:	\$	30,877
	Rate of return on rate base:		3.10%
Adjustment:	Staff Calculated income available for return:	\$	16,656
	Staff Calculated Rate base:	\$	196,638
	Rate of return on rate base per Attachment F:		8.47%
<b>(a) Total Rate of Return Adjustment:</b>			<b>5.37%</b>
<b>(b) Adjustment to Company Claim for:</b>		Revenue Increase	
Company Claim:	Company position provided on filing's Schedule C	\$	41,031
Adjustment:	Permitted rate of return	x	Staff Adj. Rate Base
	8.470%		\$ 196,638
		=	Income Available for Return
			\$ 16,656
	Staff Adj. Expenses	+	Inc. Avail. For Return
	\$ 196,071		\$ 16,656
		=	Permitted Rev.
			\$ 212,727
	Permitted Revenue	-	Existing Revenue
	\$ 212,727		\$ 186,526
		=	Permitted Increase
			\$ 26,201
<b>(b) Total Revenue Increase Adjustment</b>			<b>\$ (14,830)</b>
<b>(c) Adjustment to Company Claim for:</b>		Annual Depreciation	
Company Claim:	Company position provided on filing's Schedule D	\$	40,202
Adjustment:	Staff calculation using adjusted service lives:	\$	25,124
Less:	Depreciation of contributions in aid of construction	\$	15,624
		Difference	\$ 30,702
Adjustments to annual depreciation expense for rate base and CIAC			
<b>(c) Total Annual Depreciation Adjustment</b>			<b>\$ (30,702)</b>
<b>(d) Adjustment to Company Claim for:</b>		Rate Base	
<u>Net Plant in Service</u>			
Company Claim:	Company's position provided in the filing's Exhibit D	=	\$ 30,877
Adjustment:	Staff position reflecting corrected service lives and to remove Well #7. Per Appendix C.	=	\$ 196,638
			\$ 165,761
<b>(d) Total Rate Base Adjustment</b>			<b>\$ 165,761</b>

**ATTACHMENT E**  
**STAFF ADJUSTMENTS AND REDUCTIONS**

PAGE 2 OF 2

<b>(e) Adjustment to Company Claim for:</b> Cash Working Capital (CWC)			
Company Claim:	EWC did not make a claim for Cash Working Capital	\$	-
Adjustment:	A CWC claim of 1/8 a company's operation and maintenance expense, excluding the depreciation expense, when:	\$	23,300
	adjusted expenses =	\$	186,399
<b>(e) Total Cash Working Capital Adjustment</b>		<b>\$</b>	<b>23,300</b>
<b>(f) Adjustment to Company Claim for:</b> Assessments			
Adjustment:	Increased operating revenues will result in additional assessment expenses. The following assessment factors apply for the Fiscal Year 2022-2023:		
	PUC =	0.004800773653	
	DPC =	0.000057385134	
	OCA =	0.001428143830	
	OSBA =	0.000287052829	
	Total =	0.006573355446	
	Revenue Inc. =	\$	26,201
	Adjustment =	\$	172
Sources: BP8 Case ID Nos. 3034382 (PUC), 3034393 (DPC), 3034394 (OCA), and 3034395 (OSBA).			
<b>(f) Total Assessments Adjustment</b>		<b>\$</b>	<b>172</b>

**ATTACHMENT F**  
**RATE OF RETURN ANALYSIS SHEET**

	<b><u>Capital Structure Employed</u></b>	<b><u>Interest Expense Used for Tax Calculation</u></b>
Docket Number: R-2022-3036491		
Date:	(X) Company	(X) Actual
Name: Elverson Water Company, Inc.	( ) Cons. System	( ) Hypothetical
Affiliation:	( ) Hypothetical	( ) Normalized
Test Year End: 06/30/2022	( ) Other	( ) Other

<b><u>Capital Structure and Cost Rates</u></b>											
<b><u>Per Commission</u></b>					<b><u>Company Claimed</u></b>						
Debt	51.52	x	6.30	=	3.25	STD	94.89	x	-3.85	=	-3.65
P/S	00.0	x	0.00	=	0.00	LTD	0.00	x	0.00	=	0.00
C/E	<u>48.48</u>	x	<u>10.76</u>	=	<u>5.22</u>	C/E	<u>5.11</u>	x	<u>0.00</u>	=	<u>0.00</u>
Total	100				<u>8.47</u>	Total	100				<u>-3.65</u>

Elverson Water Company, Inc. (Elverson or the Company) presents a rate of return calculation of -3.65% based on a capital structure composed of 94.89% debt and 5.11% equity. When a utility’s capitalization is atypical relative to the barometer group of water utilities (Barometer Group), as we have here, the Commission will utilize a hypothetical capital structure. The Barometer Group is a group of water utilities with actively traded stocks used to determine a quarterly return on equity. Based upon the Barometer Group, the Commission will use a capital structure of 51.52% debt and 48.48% equity.

Elverson claims a weighted debt cost of -3.65%. For a Baa corporate bond, the December 2, 2022 Blue Chip Financial Forecast (BCFF) forecasts a 6.2% yield for Q4 '22 and 6.4% forecast for Q1 '23. As the Company’s claimed debt cost is atypical, the Commission will utilize the average of the BCFF yields for a 6.3% cost of debt.

The pre-adjusted cost of equity is based on a Discounted Cash Flow analysis of the Barometer Group. The Barometer Group-related range of appropriate, market-derived returns is currently (Q3 '22) 6.31% to 11.20% with a mean of 8.76%. Elverson does not present an equity return component. The Commission recommends a 10.76% cost of equity, which is 200 basis points over the mean and within the upper DCF range of the Barometer Group. This reflects the size and scope of the Company’s operations as compared to the Barometer Group. The resulting return, based upon the hypothetical capital structure and costs, is 8.47%.

Marc Hoffer  
Marc Hoffer

**Rate of Return-Company Claimed and Per Commission  
Elverson Water Company, Inc.**

**Commission Rate of Return:**

<u>Capital Components</u>	<u>Capital Ratios</u> %	<u>Cost Rates</u> %	<u>Weighted Cost</u> %
Total Debt	51.52	6.30	3.25
Preferred Stock			
Common Equity	<u>48.48</u>	<u>10.76</u>	<u>5.22</u>
Total Return	<u>100.0</u>		<u>8.47</u>

**Company Claimed Rate of Return:**

<u>Capital Components</u>	<u>Capital Ratios</u> %	<u>Cost Rates</u> %	<u>Weighted Cost</u> %
Short Term Debt	94.89	-3.85	-3.65
Long Term Debt	0.00	0.00	0.00
Common Equity	<u>5.11</u>	<u>0.00</u>	<u>0.00</u>
Total Return	<u>100.0</u>		<u>-3.65</u>