COMMONWEALTH OF PENNSYLVANIA

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September 21, 2023

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

Re: Pennsylvania Public Utility Commission
v.
Columbia Water Company
Docket No. R-2023-3040258

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Brief in this matter.

Copies have been emailed to the parties listed on the enclosed Certificate of Service.

Respectfully submitted,

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Certificate of Service

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CERTIFICATE OF SERVICE

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| Pennsylvania Public Utility Commission | : | |
| v. | : | Docket No. R-2023-3040258 |
| Columbia Water Company | : | |

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Reply Brief, 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. This document was filed electronically on the Commission's electronic filing system.

Dated this 21st day of September 2023.

SERVICE BY E-MAIL ONLY

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Dated: September 21, 2023

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | |
| | : | Docket Nos. R-2023-3040258 |
| v. | : | C-2023-3040567 |
| | : | C-2023-3040746 |
| Columbia Water Company | : | |

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REPLY BRIEF
OF THE
OFFICE OF CONSUMER ADVOCATE

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Dated: September 21, 2023

TABLE OF CONTENTS

APPENDICES

TABLE OF AUTHORITIES

**Page(s)**

**Cases**



**Administrative Decisions**

**Statutes**

**Regulations**



**Other Authorities**

LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| American Water Works Association | AWWA |
| Boil Water Advisory | BWA |
| Bureau of Investigation & Enforcement | I&E |
| Capital Asset Pricing Model | CAPM |
| Columbia Water Company | CWC or Company |
| Discounted Cash Flow | DCF |
| East Donegal Township Municipal Authority | EDTMA |
| Equity Risk Premium | ERP or MRP |
| Federal Energy Regulatory Commission | FERC |
| Local Distribution Companies | LDC |
| Market Risk Premium | MRP or ERP |
| Office of Consumer Advocate | OCA |
| Office of Small Business Advocate | OSBA |
| Operating & Maintenance | O&M |
| Pennsylvania Corporate Net Income Tax | CNIT |
| Public Utility Commission | PUC or Commission |
| Risk Premium Analysis | RP |
| Weighted Average Cost of Capital | WACC |

## I. INTRODUCTION

The OCA submits this Reply Brief in response to the Main Brief filed by Columbia Water Company (CWC or the Company). The OCA specifically will respond to those matters raised by CWC that were not previously addressed or that require clarification. The OCA does not waive its opposition on contested issues because it does not repeat arguments here and incorporates by reference the arguments and analysis in its Main Brief.[1]

Tables showing the OCA's calculated revenue requirement and reflecting the OCA's accounting adjustments and cost of capital, were attached to the OCA's Main Brief in Appendix A. For ease of reference, they are also attached to this Reply Brief. *See* Appendix A, Tables I-IV. Tables showing a class rate impact analysis including (1) proposed monthly customer charges and percentage of increase from existing rates and (2) proposed impact on the average customer bill in dollars and percentage of increase were attached to the OCA's Main Brief and are also attached hereto as Appendix B, Tables A-C.

The OCA opposes the Company's proposed rate increase because it is unjust and unreasonable. When the claims are adjusted to reflect a supportable level of revenue recovery effective January 2024, the resulting annual revenue increase is no more than $657,819 (9.1%). App. A, Table I. This compares closely to the $703,712 increase recommended by the Bureau of Investigation & Enforcement (I&E) based on similar adjustments to capital structure, return on equity and rate case expense. I&E M.B. at 8-35; I&E M.B., App. A at 1-3.

[1] Further, the OCA continues to support the proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs attached to its Main Brief and opposes those proposed by the other parties that are inconsistent with the OCA's position.

A. History of the Proceeding

As discussed in the Main Briefs, on April 28, 2023, CWC filed an application with the Pennsylvania Public Utility Commission (PUC or Commission) to increase its base rates, followed by an Errata on May 18, 2023 (May Errata).[2] CWC requests an increase in annual water service revenue of $999,900, or 14.2%, based on the future test year (FTY) ending December 31, 2023. CWC Exh. GDS 1 at 1-1 (Revised). The Company's requested rate increase reflects an overall rate of return (ROR) of 8.28%. *Id.* at 8.

The OCA continues to oppose CWC's proposed rate increase for the reasons discussed in the Main Brief, and below. The OCA's adjustments result in a lesser, but still substantial, 9.1% increase to water revenue. As noted above, tables that show the components of the OCA's revenue requirement are provided in Appendix A to this Brief. *See* App. A., Tables I-IV.

B. Burden of Proof

Both the Company and the OCA established that CWC bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase. OCA M.B. at 5-6; CWC M.B. at 3-4. The OCA demonstrated in its Main Brief, and as further elaborated in its arguments below, the Company has failed to satisfy its statutory burden and, thus, the Commission must deny the Company's requested relief.

[2] The May Errata (as it was labeled when first filed by CWC) was subsequently attached to CWC Statement 2 as GDS Exh. 1 and is referred to in this Brief as CWC Exh. GDS 1.

## II. SUMMARY OF ARGUMENT

The Commission should approve a revised rate increase for CWC's customers at an amount that is no higher than that shown in the OCA's schedules. CWC is seeking to increase rates for its water and wastewater operations by a total of $999,900, or by 14.2%. Many of the arguments raised in CWC's Main Brief were fully addressed in the OCA's Main Brief.

Based on the evidence of record in this proceeding, CWC cannot meet its burden of proof to show that proposed increase will result in just and reasonable rates. The OCA and I&E showed that CWC's request for a 11.25% return on equity and a disproportionately equity-heavy capital structure would create unnecessary cost for ratepayers, and should be rejected. The OCA also identified numerous issues related to operation and maintenance expenses, taxes, that improperly increase costs. At the same time, the OCA identified ways that CWC could improve its service that the Company has declined to implement. Further, the OCA's customer and usage charges recognize the importance of cost causation and gradualism, and should be adopted. For the reasons set forth in this Reply Brief and in the OCA's Main Brief, the OCA respectfully requests that the Commission reject CWC's proposed rate increase. The record supports an increase of no more than $657,819 in annual revenues. *See* App. A; Table I.

## III. ISSUES RESOLVED AMONG THE PARTIES

CWC does not separately address the issues resolved between the Company and the OCA, rather it addresses them among the list of issues to be decided. The OCA reiterates that these issues were resolved in the course of testimony in the manner set forth in the OCA's Main Brief. *See* OCA M.B. at 9; CWC M.B. at 14-16 (net negative salvage); CWC M.B. at 38-39 (membership dues); CWC M.B. at 39-40 (mailing expense); CWC M.B. at 40-41 (directors fees and expenses); CWC M.B. at 45 (interest expense deduction for EDTMA). With regard to interest synchronization, as identified in the OCA's brief, based on the Company's rejoinder testimony, the OCA determined to accept CWC's position that interest expense associated with the payment of PENNVEST loans should be accounted for in the interest synchronization calculation. OCA M.B. at 6, 31. This impacted the OCA's interest synchronization adjustment, and therefore taxes, which changed the OCA's regulatory assessment adjustment since it is based on final revenue. These changes and the resulting update to the OCA recommended revenue requirement are reflected in the Rate Case and Rate Impact tables attached to the OCA's Main Brief and Reply Brief. App. A (Tables I-IV); App. B (Tables A-C).

## IV. RATE BASE

### A. Cash Working Capital

As discussed in the OCA's Main Brief, the OCA made no change to the Company's method of calculating cash working capital cost. OCA M.B. at 11. The OCA's specific adjustment to rate base flows from the OCA's adjustments to CWC's Operation & Maintenance expense claims. OCA St. 1SR at 2. As the OCA has shown its expense adjustments to be reasonable and prudent in its testimony and briefs, the OCA's cash working capital adjustment should also be adopted. This adjustment reduces CWC's revised rate base by $25,501, as shown on OCA Schedule JLR-4 Surrebuttal. OCA St. 1SR at 2; App. A, Table I, col. C, ln. 25; CWC Exh. GDS 1R.

## V. REVENUES

The OCA proposed no adjustments to the Company's level of revenues at present rates, as updated by the Company in its rebuttal. OCA M.B. at 11-12; App. A, Table I, col. D, ln. 12; CWC M.B. at 20.

## VI. EXPENSES

### A. Rate Case Expense

The Company claimed a total rate case expense of $392,330 and proposes to normalize it over three years based on its expectation about when it will file its next base rate case. CWC M.B. at 33-34; CWC St. 2R at 17. The OCA and I&E challenged the normalization period and recommended using 60 months and 59 months, respectively, on the basis that Commission practice is to set a normalization period for rate case expense based upon historic filing frequency. OCA St. 1 at 6-7; OCA St. 1SR at 22; I&E M.B. at 9-11. The Company does not dispute that is the average interval between its last rate filings and recognizes that actual filing frequency is considered by the Commission. But it argues for using a shorter normalization period, relying on a 1984 case where the Commission applied a normalization period different than the actual historical filing interval. CWC M.B. at 35 (citing *Butler Township v. Pa. PUC*, 473 A.2d 219, 222-23 (Pa. Cmwlth. Ct. 1984) (*Butler Township*)). Review of that case shows that the Commission determined to use a *longer* normalization period of two years instead of one year. The Commonwealth Court found that the rate case expense at issue was substantial and "could be a real burden on [the utility's] ratepayers" if normalized over one year. The *Butler Township* case is readily distinguished from the situation here, where the Company seeks to do the opposite – increase the burden on ratepayers by setting rates to recover an additional ***$50,000*** per year. OCA Sch. JLR-6 ($52, 311 adjustment); I&E St. 1 at 10 ($510,981 adjustment).

In this case, well established ratemaking principles should apply. As discussed in the OCA's Main Brief, the Commission has consistently held that the normalization period should not be determined based on the utility's plans for filing future rate cases. *See, e.g.*, *Pa. PUC v. Emporium Water Co.*, R-2014-2402324, 48-49 (Order Jan. 18, 2015) (*Emporium 2015*); *Pa. PUC v. Borough of Quakertown*, R-2011-2251181, 37 (Order Sept. 13, 2012) (*Quakertown*); Pa.

*PUC v. City of Lancaster – Bureau of Water*, 2011 Pa. PUC LEXIS 1685 at *56-57; *Pa. PUC v. Metropolitan Edison Co.*, 2007 Pa. PUC LEXIS 5, *155-57 (*Met-Ed 2007*); *Pa. PUC v. City of Lancaster – Bureau of Water*, 2005 Pa. PUC LEXIS 44, *84; *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. Ct. 1996) ("[t]he period of normalization is determined by examining the utility's actual historical rate filings, not upon the utility's intentions") (*Popowsky 1996*) (citing *Pa. PUC v. Borough of Media Water Works*, 72 Pa. PUC 144 (1990).[3]

There is good reason to base normalization periods on known and actual historic filing intervals rather than a utility's projections – those projections have been shown to be unreliable.[4] I&E raises the example of the 2012 PPL Gas rate case. I&E M.B. at I&E M.B. at 9, n. 25. There, the Commission permitted the utility to use a 24-month normalization period based on utility's projections instead of 32 months based on historical filing frequency. *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597, 47-48 (Order Dec 28, 2012).[5] The actual interval turned out to be 36 months. I&E M.B. at 9, n. 25. Another example is *Quakertown 2012*, where the utility argued against using historical filing intervals because it was currently building a $2 million water treatment plant that would be completed the following year, which would lead to more frequent rate case filings. *Quakertown 2012* at 34-35, 37. The utility asked for a three-year normalization period. *Id*. at 34. The Commission adopted a seven-year normalization period based on Quakertown's history of rate filings. *Id*. It noted, however, that "[i]f Quakertown does submit a rate filing in shorter period of time, as a result of its treatment plant project or other

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[3] Links to unpublished Commission Orders and administrative materials cited in this Brief are provided in footnotes. www.puc.pa.gov/pcdocs/1339803.docx (*Emporium 2015*); www.puc.pa.gov/pcdocs/1191436.docx (*Quakertown 2012*).

[4] CWC cites to a 2015 Emporium Water case as reason for the Commission to consider its claims about the timing of a future rate case in setting the normalization period. As discussed in Section VI.D. (Office Expenses), *infra*, that case actually supports the OCA and I&E position. The Commission found the utility's stated intentions to be less reliable than normalization based on the utility's actual filing history. *Emporium 2015* at 49.

[5] www.puc.pa.gov/pcdocs/1206360.docx.

circumstances, then it may be appropriate to consider a shorter normalization period going forward." *Id*. Review of Quakertown's filings with the Commission shows that Quakertown has yet to file another rate case, meaning it has been 11 years since its last rate filing.[6]

CWC's arguments in the present case, should likewise be rejected. The Company argues that it should be allowed to use a three-year normalization period because it will need to address the rates of its EDTMA rate district after its agreement to freeze rates ends in 2025. CWC M.B. at 10. The evidence in EDTMA acquisition proceeding indicates there may be no need for a base rate filing in the near term. *Application of Columbia Water Co.*, A-2021-3027134 (Order Feb. 3, 2022) (*EDTMA 2022*). CWC projected that current EDTMA rates would generate net operating income of $150,080 annually. *Id*. at 14. As for capital improvements, the Company told the Commission that those would be funded through that income and borrowed funds, which might include PENNVEST loans. *Id*. at 10. The Company already has a PENNVEST surcharge mechanism in place, to which it can incorporate new PENNVEST loans without filing a base rate case. *See, e.g., The Columbia Water Co. Supplement No. 117 To Tariff – Water Pa. P.U.C. No. 7*, R-2022-3036936, 4 (Order Feb. 9, 2023).[7] The Company's representations in the acquisition proceeding undercut its current claims about the timing of its next base rate case.

Likewise, there is no certainty that CWC's infrastructure improvement and lead service line commitments will drive the Company to file another base rate case sooner than its historical average, as CWC claims. CWC M.B. at 10. First, the Company's LTIIP investment through the

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[6] This is confirmed by the utility's current fee schedule, which reflects the same rates approved in its 2012 rate case. www.quakertown.org/home/showpublisheddocument/3868/638108382390100000. The tariff, order approving the tariff and fee schedule are attached as Appendix C to this Brief. www.puc.pa.gov/pcdocs/1192816.pdf; www.puc.pa.gov/pcdocs/1197391.docx.

[7] www.puc.pa.gov/pcdocs/1773526.pdf

end of 2023 will be recovered in the base rates set in this proceeding.[8] As for LTIIP investment (including investment to replace lead service lines)[9] in and after 2024, that will be recoverable through the DSIC. If customer bills are increased in this base rate proceeding, that will also serve to increase the amount of revenue that is recoverable under the Company's 5% DSIC cap.[10] Further, CWC stated in support of its current LTIIP "that its DSIC has allowed it to manage infrastructure replacement costs in an effective manner by directly targeting those costs without the need for additional rate case filings." *Petition of Columbia Water Co. for Approval of its Second Long-Term Infrastructure Improvement Plan*, P-2022-3034702, 5 (Order Dec. 8, 2022).[11] Again, CWC's representations in another proceeding show that the Company's projections are not a reliable or reasonable measure for normalizing rate cases expense and do not warrant a deviation from the Commission's practice of basing normalization periods on known and actual historic filing intervals.

Decreasing the normalization period serves to increase rates. If the actual interval turns out to be shorter than five years, that shorter interval will be factored into the actual, historic filing frequency in that next case and reduce the normalization period to the Company's benefit. *See* OCA M.B. at 13. That is a more reasonable result than increasing rates in this case and putting the customers at risk that the projected timing of CWC's next case – timing that is entirely at the discretion of the utility – shows to be longer than three years. The Company's proposal to increase rates by $50,000 per year should be rejected.

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[8] 2023 LTIIP investment already recovered through its DSIC will be rolled into new base rates. 66 Pa. C.S. § 1358(b)(1) ("The distribution system improvement charge shall be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the distribution system improvement charge.")

[9] Costs for customer owned (as well as utility owned) lead service line replacement costs are eligible for recovery through the DSIC. 66 Pa. C.S. §§ 1311(b)(2)(iii); 1351.

[10] For the year ending December 31, 2022, CWC reported recovering $105,428 in DSIC revenue. www.puc.pa.gov/pcdocs/1782973.pdf

[11] www.puc.pa.gov/pcdocs/1766947.pdf

For the reasons discussed here and in the OCA's Main Brief, the OCA (and I&E) adjustment to rate case expense is soundly supported and should be adopted by the Commission. OCA M.B. at 12-13. The OCA adjustment, which normalizes costs over 60 months, reduces annual expense by $52,311.[12] OCA St. 1 at 6-7; OCA St. 1SR at 22; OCA Sch. JLR-6 SR; App. A, Table II, col. G, ln. 31.

B. Materials and Supplies Expense

As discussed on pages 14 to 18 of the OCA's Main Brief, CWC has claimed a total of $432,400 for materials and supplies expense as of December 31, 2023. This is based on the Company, first, using the HTY 2022 expense of $377,390 that was the highest level experienced in the past five years, and then adding $55,010 to the base amount of expense to set the end of FTY level of expense for ratemaking.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Materials and Supplies Expense | $277,720 | $319,473 | $282,301 | $295,427 | $377,390 |

OCA M.B. at 14; OCA St. 1 at 8. The OCA made a two-step adjustment, first to reduce the base amount of expense by $59,017, from the abnormal high of $377,390 to $318,373, based on the average of actual expense for the most recent three years. OCA M.B. at 14-16; OCA Sch. JLR-7 SR; App. A, Table II, col. G, ln. 32. Second, to reduce the going level adjustment by $14,400, to reflect a five-year normalization of an included $18,000 cost for unusual road restoration work. OCA M.B. at 16-18; OCA Sch. JLR-8 SR; App. A, Table II, col. G, ln. 33.

As the basis for the OCA's adjustment and rebuttal of the Company's arguments is discussed at length in the OCA's Main Brief, here, the OCA will respond here to only three

[12] As noted above, I&E makes a similar adjustment of $50,981 based on a 59-month normalization period. I&E M.B. at 10; I&E St. 1 at 10.

matters. First, CWC argues that the increased level of expense in HTY 2022 is not an anomaly but reflects the continuation of higher costs and supply chain congestion. CWC M.B. at 27-28. The Company rejects evidence that prices are declining based on the decline in the 12-month percentage change CPI, claiming that OCA witness Rogers concedes that the CPI does not represent the goods and services that CWC will need to purchase in the ordinary course of its operations. CWC M.B. at 27 (citing OCA St. 1SR at 4, ln. 16-19). In fact, Ms. Rogers' complete testimony was:

> While the core CPI may not cover all items the Company has included in this [expense] category with such specificity, it is a reasonable measure of past and current price inflation broadly. It would be impossible for any price index to specifically detail every possible cost item in an economy.

OCA St. 1SR at 4 (addressing the overlapping CPI issue in the context of Other – Maintenance Expense). Moreover, while OCA witness has provided evidence that supply chain issues that caused recent shortages are beginning to subside, *the Company – the party with the burden of proof – has provided no evidence* to support its own projections that material shortages will continue at HTY levels beyond 2023. *Id.* at 11-12.

Second, and more generally, the Company downplays the volatility of this category of expense. Even if the Company has not "seen" material price declines in the FTY, it remains that this is a highly variable expense that could change greatly depending on activity in a given year, and if unit costs for supplies go up or down in relation to the quantity of the supply purchased. OCA St. 1 at 8, 10. As OCA witness Rogers noted, this variability is clear from the data, which showed significant swings before and after inflation rose in 2021: "Materials and Supplies expenses fluctuate from year to year. Hence, no single year is representative of the normal level of expenses. I believe it is necessary to normalize this account in order to avoid an overcollection of these expenses from customers." OCA St. 1 at 8.

Finally, the Commission should reject CWC's argument that the OCA's adjustments to Materials and Supplies and Other – Maintenance expense are unnecessary because the Company has already made a "blackbox adjustment" to its total operating expenses. CWC M.B. at 32-33. The adjustment is "blackbox" and by definition not attributable to a particular expense. It was made to reduce overall revenue requirement. CWC M.B., App. C at 10 (Finding of Fact 105). The OCA's adjustments to CWC's expense are specific to those expense claims and evidence presented in the case and based on facts and applicable law and ratemaking principles specific to those claims. Moreover, CWC only proposes that there should be an adjustment if the Commission awards more than a $999,900 increase.[13] CWC M.B. at 21, n.61; CWC St. 2R at 4. If the Commission adopts OCA and I&E adjustments to other expenses or rate of return, that reduce CWC's revenue requirement below $999,900, the blackbox adjustment no longer exists as it was never necessary in the first instance. CWC has only demonstrated a justifiable increase that is well below $1 million and, thus, its "blackbox" adjustment is illusory. Accordingly, the Company's "blackbox adjustment" should be given no weight in the consideration of what is a representative and appropriate level to set Material and Supplies and Other – Maintenance expenses for ratemaking purposes.

In conclusion, Columbia's proposed claim of $377,390 for the base amount of materials and supplies expense should be reduced by $59,017 to reflect the three-year normalization recommended by the OCA. *See* App. A, Table II, col. G, ln. 32. The bases for adopting the OCA's additional $14,400 normalization adjustment to the going level adjustment and rejecting CWC's alternative normalization period are addressed on pages 16 to 19 of the OCA's Main

[13] This is demonstrated by the fact that the amount of the adjustment decreased, from $532,994 to $293,524, as the "justified" increase moved closer to $999,900. CWC St. 2 at 16; CWC Exh. GDS 1 at 1-14 (Revised); CWC St. 2R at 4; CWC Exh. 1R at 1-4.

Brief. In the Company's Main Brief, CWC raises no new arguments from those to which the OCA has already responded and rebutted.

The OCA's adjustments to the company's Materials and Supplies expense claim are necessary to assure that ratepayers pay only a reasonable and justified level of expense in future rates. The Company's Materials and Supplies expense should be reduced by $73,417, the sum of the OCA's two adjustments. OCA M.B. at 19-20; OCA St. 1SR, Sch. JLR-7SR, JLR-8SR; App. A, Table II, col. G, ln. 32, 33.

C. Other - Maintenance Expense

The reasoning and support for the OCA's adjustment to Other – Maintenance expense, and the Company's objections, mirror those for Materials and Supplies. CWC's selection of the highest level of costs experienced in the past five years as a base amount, to which a going level adjustment is added, is not reasonable. OCA M.B. at 20-24.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| 636.0 Other – Maintenance | $166,024 | $202,508 | $212,500 | $229,295 | $263,888 |

*Id*. at 20; OCA St. 1 at 10. OCA witness Rogers normalized the base amount using the average of the three most recent years of actual expenses rather than the use of a single, abnormal high per books value, to ensure just and reasonable rates that do not burden ratepayers. OCA St. 1SR at 3, 12-13. The resulting normalization is $235,228 and decreases the expense by $28,660. OCA M.B. at 20-21; OCA St. 1 at 10-11; OCA Sch. JLR-9 SR; App. A, Table II, col. G, ln. 34.

Review of the Company's Main Brief shows that the OCA has already responded to and rebutted CWC's arguments. OCA M.B. at 20-24. In addition, the OCA respectfully refers the Presiding Officers and Commission to Section VI.B, above, for discussion of a few additional issues relating to Materials and Supplies expense that also bear on the OCA's adjustment to Other – Maintenance expense.

For the reasons discussed in the OCA's Main and Reply Briefs, the Company's claim for Other – Maintenance expense and its alternative normalization period proposal are not supported by the evidence and would unreasonably increase rates. The OCA's adjustment to reduce the Company's HTY level of Other – Maintenance by $28,600 to a normalized level is well supported in principle and on the record and should be adopted. OCA Sch. JLR-9 SR; App. A, Table II, col. G, ln. 34; *see Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 at *72, 100; *see also Pa. PUC v. PECO Energy – Gas Div.*, 2021 Pa. PUC LEXIS 241 at *56, 59.

D. Office Expenses

CWC accepted OCA's determination that the cost of upgrading billing software should be removed from the Company's Going Level Adjustment to office expenses because it was a one-time expense, and should be normalized. CWC M.B. at 37. The Company disputes, however, the OCA's recommendation to normalize the $25,995 expense over five years and argues for three years. CWC M.B. at 37-38; CWC St. 2R at 19.

While CWC and the OCA agree that the software upgrade expense should be normalized over the same period used for rate case expense, the Company has not shown – for either type of expense – that a shortened period is warranted. As stated above, the Commission has consistently held that the normalization period should be determined by a utility's historic filing frequency, and not from its own projections for when it will next file a rate case. *Supra*, Section VI.A. (citing, inter alia, *Quakertown* at 34; *Met-Ed 2007* at *157; *Popowsky 1996* at 1154).

The Commission explained its reasoning in *Emporium 2015*, stating:

> Normalization is used to develop a "normal level" of an expense… in order to best reflect a normal, annual level of expenses during the estimated life of new rates. . . It is for that reason that use of an actual historic filing pattern often presents the best evidence of a representative time period to anticipate the company's future behavior with respect to filing its next rate case.
>
> . . .
>
> Given the Company's proposed three-year normalization of its rate case expense in 2006, which we allowed, and which was followed by the passage of over seven years before the Company filed its next rate case filing, we believe normalization based on [Emporium's] actual filing history rather than any statement of present intent is more reliable. As Commonwealth Court has affirmed, a normalization period determined by examining the utility's actual historical rate filings, rather than based upon the utility's intentions, is proper.

*Emporium 2015* at 48-49 (citing *Popowsky 1996* at 1154).

CWC will ultimately determine when its next base rate increase will be filed. If the Company does file a rate case within the next 60 months, then the normalization period for its claimed expenses in that case will reflect a shorter historical filing frequency than exists now.

As the Company has not provided any compelling reason to shorten the normalization period, its proposal to increase rates by more than $3,000 per year should be rejected, to prevent customers from bearing the risk of overpaying for the Company's one-time office expense. *See Butler Township* at 222 (a utility may recover more than its initial expenditure, when rates remain unchanged beyond the normalization period).

Therefore, the OCA adjustment to office and management expense is supported, for the reasons stated above and earlier in regard to the normalization period for rate case expense, and should be adopted by the Commission. The OCA adjustment, which normalizes costs over 60 months, reduces annual expenses by $3,466. OCA St. 1SR at 23; OCA Sch. JLR-10 SR; App. A, Table II, col. G, ln. 35.

E. Regulatory Assessments

As discussed in their Main Briefs, the OCA and the Company applied similar approaches to identify the appropriate level of adjustment to the Company's Regulatory Assessment claim, at different revenue levels. OCA M.B. at 25; CWC M.B. at 42. As Regulatory Assessments are calculated on the basis of revenues, changes to revenue will flow through to change the expense. OCA St. 1 at 13; OCA St. 1SR at 24-25. Thus, the parties' disagreement regarding Regulatory Assessment is limited to their disagreement on revenue requirement. OCA M.B. at 25; CWC M.B. at 42.

Based on the OCA's recommended revenue requirement, CWC's regulatory assessment claim should be decreased by $1,991. *Id*.; OCA St. 1SR at 25; App. A, Table II, col. M, ln. 36.

F. East Donegal Township Municipal Authority Expenses

As discussed in the OCA's Main Brief, the fact that the Company has proposed to increase base rates only for the customers in the Columbia and Marietta rate districts requires careful scrutiny of the Company's cost of service claim to assure that Columbia and Marietta customers are not required to pay costs related to the Company's provision of service to customers in the EDTMA rate district. OCA M.B. at 25-30; OCA St. 1 at 14-15.

The Company argues that it has fully captured and removed the costs associated with EDTMA by removing directly assigned costs related to EDTMA. CWC M.B. at 23-24. OCA witness Rogers explained that "removing only those costs directly assigned to the division ignores the reality that there are general operating costs of CWC that the division benefits from and is therefore responsible for contributing to." OCA St. 1 at 14. As discussed in the OCA's Main Brief, Ms. Rogers identified 16 expense categories for which she developed allocation factors based on EDTMA's share of total Company costs, to determine the portion of costs to allocate to the division in instances where costs were not or could not be directly assigned. OCA M.B. at 27; OCA St. 1SR at 15.

In its Main Brief, CWC continues to object to the OCA's adjustments on the basis that they overstate the costs to operate the EDTMA system and do not reflect that EDTMA was acquired three months into the HTY. CWC M.B. at 23-24. OCA witness Rogers responded to this concern by decreasing her adjustments to the 2022 historic portion of the FTY expense by 25%. OCA St. 1SR at 19-20. Ms. Rogers also showed that her adjustments were not duplicative. Specifically, CWC claimed in rejoinder testimony that Ms. Rogers reduced insurance costs, mailing expense and management fees (bank charges), even though the Company had already removed direct costs from those categories. CWC St. 2RJ at 4-5. For insurance costs, the Company removed some costs related to other types of insurance but did not remove any costs for general liability insurance, which typically encompasses components for Officers and Director's liability, cybersecurity, etc. that are properly shared among the divisions. OCA St. 1SR at 18; OCA St. 1 at 19. For mailing expense, the Company removed the portion of costs assigned to EDTMA from the going-level adjustment but not from the per-books year end 2022 value. OCA St. 1SR at 20. Similarly, for management fees (bank charges), Ms. Roger's additional allocation was justified because the Company had already removed the portion of costs assigned to EDTMA from the going-level adjustment, but not from the per-books year end 2022 value. Further, "[i]n its response to OCA Set 7-39, the Company noted that it is unable to separate out those banking fees exclusive to the EDTMA division in 2022." OCA St. 1 at 17.

It is telling that, while CWC continues to oppose the OCA's EDTMA adjustments, the Company makes an alternative recommendation that reduces the total of the adjustments by less than 3%, from $48,987 to $47,693, as shown in the table below. CWC St. 2R at 13; OCA St. 1SR at 21; App. A, Table II, col. G, ln. 37.

| Account Description | EDTMA Allocation Percentage | OCA Original Proposed Allocation Amount | Company Proposed Allocation Amount | OCA Revised Proposed Allocation Amount |
|---|---|---|---|---|
| Officers, Directors & Majority Stockholders | 4.94% | $1,854 | $1,391 | $1,359 |
| Materials and Supplies | 8.39% | $30,106 | $22,580 | $22,193 |
| Accounting | 8.39% | $2,994 | $2,246 | $2,287 |
| Legal | 8.39% | $2,600 | $1,950 | $2,027 |
| Management Fees (Bank Charges) | 8.39% | $10,837 | $8,128 | $8,128 |
| Testing | 8.39% | $2,586 | $1,940 | $1,939 |
| General Liability | 4.94% | - | - | $1,447 |
| Workman's Compensation | 4.94% | $73 | $55 | $73 |
| Bad Debt Expense | 6.33% | $747 | $560 | $582 |
| Membership Dues | 8.39% | $1,261 | $946 | $841 |
| Stockholders Expenses | 8.39% | $151 | $113 | $117 |
| Uniforms | 8.39% | $499 | $374 | $376 |
| Director's Fees & Expenses | 8.39% | $9,172 | $6,879 | $7,097 |
| Mailing | 6.33% | $342 | $257 | $257 |
| Travel | 8.39% | $41 | $31 | $31 |
| Education | 8.39% | $310 | $233 | $233 |
| **Total** | | **$63,573** | **$47,693** | **$48,987** |

For all of these reasons and as further discussed in the OCA's Main Brief, the OCA's adjustment to allocate costs to EDTMA is reasonable and should be adopted, as spread among the individual expense categories, to ensure that Columbia and Marietta rate customers are not burdened with costs related to the EDMTA system. OCA M.B. at 25-30; OCA St. 1SR at 21; App. A, Table II, col. G, ln. 37.

## VII. TAXES

### A. State Taxes

#### 1. Rates Should Not Be Set Using a Tax Rate the Company Knows Will Be Too High.

The Company's revenue requirement should be developed using the Pennsylvania Corporate Net Income Tax (CNIT) rate of 8.49% that will be in effect when CWC's new base rates are implemented in January 2024. OCA M.B. at 30-31; OCA St. 1 at 24.

On January 1, 2024, the state income tax rate decreases from the current 8.99% to 8.49%. OCA St. 1 at 24. The suspension period for CWC's requested rate increase ends on January 27, 2024, as a result, the effective tax rate when new rates go into effect will be 8.49%. However, the Company continues to argue that its rates should be calculated using the tax rate effective during its FTY ending December 31, 2023 – 8.99% – even though that tax rate will no longer be correct when new rates take effect in 2024. CWC M.B. at 47.

As stated in the OCA's Main Brief, while most costs for the period beginning January 2024 must be projected, the CNIT is known and certain. OCA M.B. at 31; *see, e.g., Pa. PUC v. Philadelphia Gas Works*, 2007 Pa. PUC LEXIS 46, *45; *see also* 66 Pa. C.S. § 315(e) (use of a future test year requires reliance on appropriate data evidencing accuracy of projections).

CWC recognizes that 8.49% will be the applicable tax rate for 2024 but argues that the Commission should permit the Company to apply a different tax rate because it will flow through the state income tax reductions through its State Tax Adjustment Surcharge (STAS). CWC M.B. at 47-48. In other words, CWC asks the Commission to set unnecessarily and artificially higher rates until a change is made to a surcharge to decrease rates to the appropriate level, rather than developing base rates using the known and actual CNIT rate. The Company's proposal should be rejected. This is unnecessarily complicated and would result in an overcollection of tax revenue from customers that must be then reduced through the STAS.

For these reasons and as discussed on pages 30 to 31 of the OCA's Main Brief, the OCA respectfully asks the Commission to use the correct CNIT rate of 8.49% in setting base rates. OCA 1SR at 24-25; OCA Sch. JLR-16 SR; App. A, Table II, col. M, ln. 38.

### B. Interest Synchronization

As explained in the OCA's Main Brief, the OCA modified its interest synchronization method to reflect its acceptance of the Company's position regarding inclusion of the interest expense associated with the PENNVEST loans. OCA M.B. at 10-11, 32; App. A, Table III, col. B, ln. 17-19. While the method has been resolved, the OCA and Company continue to disagree on the amount of the adjustment. The OCA calculated the interest synchronization impact of the OCA's weighted cost of debt resulting from the OCA's recommended hypothetical capital structure, discussed in Section VIII.C. OCA M.B. at 31-32, 38-43. As the OCA's recommended hypothetical capital structure is reasonable, the OCA's interest synchronization adjustment should be adopted in this proceeding. *See* App. A, Table III.

## VIII. COST OF CAPITAL AND RATE OF RETURN

### A. Introduction

As detailed in the OCA Main Brief, the appropriate overall rate of return for CWC based upon the facts of this case is 6.31%. OCA M.B. at 34. This is derived from the OCA's recommended capital structure of 49.4% debt (at a cost of 3.15%) and 50.6% equity (at a cost of 9.40%). OCA M.B. at 33-49, 54-55. The OCA's alternative recommendation is 36.66% debt with a 3.15% cost rate and 63.34% equity ratio with an 8.8% equity cost rate for an overall return of 6.73%. OCA M.B. at 42-43, 55. The OCA's cost of equity analysis is based upon two variations of the DCF Model and consideration of a proper CAPM analysis. OCA M.B. at 42-50, 54-55. The OCA's ratemaking recommendation would provide the Company with a reasonable opportunity to earn a return from Columbia and Marietta rate district customers on capital used to finance plant in rate base and should be adopted.

In contrast, the Company's request for an overall rate of return of 8.28%, which includes a return on common equity of 11.25%, and a ratemaking capital structure of 36.66% long-term debt and 63.34% common equity is overstated and would not result in just and reasonable rates, if approved by the Commission. OCA M.B. at 33-55. Indeed, CWC gives little to no weight to its DCF result of 9.13%, other than as the basis to argue for a higher cost of equity based upon Mr. D'Ascendis's overstated CAPM/ECAPM results and size adjustment. OCA M.B. at 34, 43-54. The OCA has not contested the Company's cost of debt of 3.15%. OCA M.B. at 34,[14] App. A. Table I(A). In all other respects, the Commission should reject the Company's cost of capital position as unreasonable to set new base rates for Columbia and Marietta rate district customers.

B. Capital Structure

The Company's direct case has been built upon its capital structure of 36.66% long term debt and 63.34% common equity. OCA M.B. at 38; *see* CWC M.B. at 51-58. According to the CWC, this is the Company's "actual capital structure." As described in the OCA Main Brief, the Company's requested capital structure in this case is better described as CWC's proposed "ratemaking capital structure." OCA M.B. at 40-41. The burden is on the Company to prove the reasonableness of this element of its ratemaking claim, a burden which the OCA contends the

[14] The OCA Main Brief at page 34 contains a Table presenting the Company's cost of capital claim. The Table contains a typographical error where the Company's debt cost rate is identified as "3.11" not the correct "3.15" value as reflected in the immediately following Table presenting OCA witness Garrett's cost of capital recommendation. OCA M.B. at 34.

Company has not met. OCA M.B. at 41-42; 66 Pa. C.S. § 315(a); *Pa. PUC v. Pennsylvania American Water Co.*, 2004 Pa. PUC LEXIS 29 at *16-18 (Jan. 29, 2004) (*PAWC 2004*).

The alternative capital structure for ratemaking proposed by the OCA (49.40% debt, 50.60% equity) or by I&E (50/50) should be adopted by the Commission, consistent with legal standards and prior decisions regarding when to use an alternative or hypothetical capital structure. OCA M.B. at 33-43. The capital structure proposed by the OCA or I&E should be adopted by the Commission to set just and reasonable base rates for the Columbia and Maritta rate district customers.

1. The Company's Actual Capital Structure Is Atypical, Unreasonable and/or Uneconomical, and Should Not Be Used to Set Just and Reasonable Rates.

The Company's position that the 36.66% debt and 63.34% capital structure is appropriate to set rates in this proceeding because its actual capital structure was used to set rates in its 2009 and 2013 rate cases disregards that, here, the record shows that CWC's debt and equity ratios are outside the range of the proxy group used by the Company, the OCA and I&E. OCA witness Garrett and Company witness D'Ascendis have used the same group of six companies as a proxy group. OCA M.B. at 38. The Company's proposed 36.66% debt ratio is "notably lower than the average debt ratio of the proxy group, which is 49.5%."[15] *Id*. at 38 (corrected); OCA St. 2 at 6; OCA Exh. DJG-14. Further, CWC's debt ratio of 36.66% is below the 39.9% low end of the proxy group companies' debt ratios. OCA M.B. at 40; OCA Exh. DJG-14. Company witness D'Ascendis acknowledged that the Company's "ratemaking common equity ratio of 63.34% for CWC is slightly outside the range of common equity ratios" maintained by CWC's proxy group companies. CWC St. 4 at 18; *see* CWC M.B. at 52. He recognized that "the Utility Proxy Group

[15] Notice of errata. The OCA Main Brief at page 38 contains the phrase: "because the common equity ratio of CWC's requested capital structure is significantly higher than the average of the six regulated water utilities in the proxy group (49.4%). OCA St. 2 at 6." This phrase contains two errors: 1) "common equity" should be "debt," and 2) "higher" should be corrected to read "lower."

company with the highest (top of the range) common equity ratio consisted of 62.44% common equity." CWC St. 4 at 52. I&E's proxy group included the same company (American States Water Co.) that was the low and high end of the CWC/OCA proxy group ratios. I&E Exh. 1, Sch. 5; *compare with* CWC Exh. DWD-2 at 3 (2021); OCA Exh. DJG-14 (2022). CWC's proposed ratemaking debt and equity ratios are well outside the range of the I&E proxy group for 2022 (and 2021). When the average debt and equity ratios for the proxy groups are used, the results are more glaring. The average long-term debt/equity proxy group ratio for CWC's most recent data year is roughly 51/49 percent and, for I&E, it is roughly 49/51 percent. CWC Exh. DWD-2 at 3 (2021); I&E Exh. 1, Sch. 5 (2022).

Thus, whether at the highest and lowest data points or the average, the Company's requested capital structure is outside the range of the proxy group for the most recent year of data. The hypothetical 50/50 percent capital structure used by the OCA and I&E is far closer to the proxy groups than the Company's actual capital structure, and is the more reasonable and appropriate capital structure to use in this proceeding. OCA M.B. at 39-41; *see also* I&E M.B. at 15-18.

The OCA Main Brief sets forth the legal framework and considerations for establishing just and reasonable rates, following *Bluefield*, *Hope*, *Permian Basin*, and Pennsylvania based federal, state and Commission based decisions. OCA M.B. at 35-43; *see Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Va.*, 262 U.S. 679 (1923) (*Bluefield*); *Federal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591 (1944) (*Hope*); *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968); *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989) (*Duquesne Light), affirming Barasch v. Pa. PUC*, 532 A.2d 325 (Pa. 1987); *Pa. PUC v. Pennsylvania Power Co*., 55 PaPUC 552, 579 (1982) (*Penn Power*).

The OCA Main Brief also describes the legal framework under which the Commission considers whether and when to exercise its discretion to set rates based upon a hypothetical capital structure, rather than the capital structure adopted by the utility's management. OCA M.B. at 39-42; *T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 474 A.2d 355, 362 (Pa. Cmwlth. Ct. 1984); *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. Ct. 1981).

CWC recognizes that the Commission has discretion to use a hypothetical capital structure where a utility's actual capital structure is atypical. CWC M.B. at 53. However, it argues that the analysis in a recent case involving Aqua Pennsylvania, Inc. supports a finding that a hypothetical capital structure should not be used for the Company. *Id*. (citing *Pa. PUC v. Aqua Pennsylvania, Inc*., R-2021-3027385 (Order May 16, 2022) (*Aqua 2022*).[16] In fact, the Aqua case supports use of a hypothetical capital structure.

In *Aqua 2022*, the Commission acknowledged "the veracity" of the OCA's general position "that the Commission has the discretion to employ a hypothetical capital structure where a company's actual capital structure is unreasonable or uneconomical." *Aqua 2022* at 138. The Commission described the legal standard or screen applied by the Commission "for deciding whether to use a party's hypothetical capital structure in setting rates…" *Id*. at 139. "[I]f a utility's actual capital structure is within the range of similarly situated proxy group of companies, rates are set based on the utility's actual capital structure." *Id*. at 139 [citations omitted].

As discussed above, the fact that the Company's actual capital structure *is not within the range* of similarly situated proxy group utilities is supported by the testimony of the Company's own witness, as well as OCA witness Garrett and I&E witness Keller. The Commission should

[16] www.puc.pa.gov/pcdocs/1744354.pdf

adopt the hypothetical capital structure identified by OCA witness Garrett or the similar capital structure proposed by I&E to set rates, based on the specific evidentiary record in this case.

Moreover, the use of the Company's atypical equity-heavy capital structure would increase customer rates unnecessarily. The adverse impact on ratepayers of setting rates based upon the Company's actual capital structure rather than the OCA recommended capital structure or the 50% debt, 50% equity ratios recommended by I&E is significant. OCA M.B. at 40-41. That single change represents about 28% of the Company's total requested revenue increase, or a revenue requirement of approximately $279,480. *Id*.; I&E M.B. at 16. The Commission can and should find that the Company's actual capital structure is atypical such that the Commission should exercise its discretion and implement a hypothetical capital structure to better balance the interests of ratepayers compared to the utility and shareholders. OCA M.B. at 38-43, 54-55.

2. <u>The Company's Arguments in Favor of Using the Company's Actual Capital Structure for Ratemaking Are Unsound and Would Not Result in Just and Reasonable Rates.</u>

a. <u>The Company Must Provide Substantial Evidence in This Case to Support Its Proposed Capital Structure for Ratemaking Proposal.</u>

The Company quotes from *Aqua 2022* the Commission's summary of standards for deciding when to employ a hypothetical capital structure. CWC M.B. at 53-54. But rather than admit that the Company's current rate filing shows the Company's current capital structure is not within the range debt and equity ratios of the current proxy group, CWC points to the prior Commission orders from 2009 and 2014 that allowed the Company an increase in base rates employing the Company's then actual capital structures. CWC M.B. at 54-55.

The OCA Main Brief acknowledged and opposed this Company theory, as presented in the rebuttal testimony of CWC witness D'Ascendis. OCA M.B. at 41-42; *Pa. PUC v. Columbia Water Co*., 2009 Pa. PUC LEXIS 1423 (2009) (*CWC 2009)*; *Pa. PUC v. Columbia Water Co*., R-2013-2360798, 32-43 (Order Jan. 23, 2014) (*CWC 2014*).[17] The Company's present rate filing and circumstances should be the focus of the Commission's consideration, based upon the Commission's decision in *Aqua 2022* and similar, earlier cases. *Aqua 2022* at 139. The Company's present rate request presents specific, unique issues including but not limited to a) the proposed combination of the Columbia and Marietta rate districts, b) the Company's position that it has removed the plant and assets, direct expenses, and interest deduction related to the EDMTA rate district acquired in 2022, and c) the Company's request for an increase in annual revenues capped at $999,900. OCA M.B. at 4-5, 10, 25-30; *see* Section X.A, *infra*.

The only proxy groups for comparison of capital structure ratios in this care are those of CWC, the OCA, and I&E based on recent data. The Commission should reject the Company's suggestion that the Company has some on-going dispensation from 2009 and 2014 to use an imbalanced capital structure with a high equity ratio for ratemaking in this case. *See* CWC M.B. at 54-57. Nor do these prior CWC cases impose a requirement on the OCA to prove that utility management has abused its discretion. OCA M.B. at 41-42. The burden of proof is on the utility, which must show that every aspect of their rates are just and reasonable. 66 Pa. C.S. § 315(a); *PAWC 2004* at *16-18.

The Company has not supported its capital structure position in this case. Instead record evidence provided by OCA witness Garrett and I&E witness Keller shows that CWC's current proposal to use its atypical capital structure would unreasonably increase costs to the Company's Columbia and Marietta rate district customers. OCA M.B. at 41.

[17] www.puc.pa.gov/pcdocs/1266459.docx

b. The Company Overstates and Misstates the Role of a Hypothetical Capital Structure.

The Company projects that adoption of the OCA or I&E hypothetical capital structure would necessitate that the Company raise significant additional debt capital and Company action to satisfy investor expectations, outcomes that Company predicts would be negative for the Company and for ratepayers. CWC M.B. at 56-58. As set forth in the OCA Main Brief, the Company misses the distinction between a utility's *actual* capital structure, which is fully within the discretion of utility management and *ratemaking* capital structure. OCA M.B. at 41-42; *see* OCA St. 2SR at 9; *see also* I&E M.B. at 17 ("use of a hypothetical capital structure never implies that the Company is obligated to acquire more debt to make its actual capital structure match that of the hypothetical. Rather, the hypothetical capital structure is simply a tool to reflect the industry norm.")

Moreover, Company witness D'Ascendis testified that the Company's PENNVEST debt "is outside and not included in the Company's capital structure for ratemaking." OCA M.B. at 53, citing Tr. 100. As Mr. D'Ascendis explained, because the PENNVEST surcharge provides a flow of payment of debt and interest from ratepayers, investors would care less about that debt because CWC would not have to pull from operating cash to pay it. OCA M.B. at 53 (citing Tr. 99-101).

Similarly, the Company's rejoinder testimony expressed concern regarding debt covenants, however those Company witnesses did not acknowledge the debt related to EDMTA. Contrast, CWC M.B. at 56-57, quoting CWC St. 4-RJ (D'Ascendis) and CWC St. 1-RJ at 4 (Lewis), with CWC St. 2R at 23 (Shambaugh). Company witness Shambaugh made an adjustment to remove for ratemaking the interest deduction tied to EDMTA related debt, debt that is documented in the Company's Annual Report to the PUC for year ending 2022. *See* CWC Exh. GDS 5R at 1.

The Commission should reject the Company's conflicting testimony that implies that all of the Company's debt and equity is included in the Company's actual capital structure and that adoption of the hypothetical capital structure proposed by OCA or I&E will have negative outcomes for Company shareholders. Instead, the allowed return and revenues should be set consistent with sound ratemaking principles, including adoption by the Commission of the OCA or I&E proposed hypothetical capital structure to set just and reasonable rates. "[I]t is incumbent on the Commission to determine a fair cost of capital, which directly relates to the authorized rate of return." OCA St 2SR at 9.

The OCA's concern that adoption of the Company's proposed capital structure would impose unreasonable costs on the Columbia and Marietta rate district customers is well-founded. This base rate case does not affect all of the Company's customers and rate districts, nor will it alter rates for each of the Company's sources of revenues such as the PENNVEST surcharge. The evidence shows that CWC's 36.66% debt and 63.34% actual capital structure is not reasonable and/or would be uneconomical for the purpose of setting rates in this proceeding. OCA M.B. at 38-39. As part of the "Commission's duty to regulate utilities in a manner which provides customers with reliable service at reasonable cost" the Commission may determine "that a particular utility's capital structure is unreasonable or uneconomical when balancing the goals of safety, prudent management, and economy and utilize a hypothetical capital structure for rate-making." *Pa. PUC v. Carnegie Natural Gas Co.*, 54 PaPUC 381, 393 (1980), *aff'd on appeal Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. Ct. 1981).

3. <u>The Commission Should Set Rates for Columbia and Marietta Rate District Customers Using a Hypothetical Capital Structure.</u>

The OCA proposed hypothetical capital structure of 49.40% debt and 50.60% equity is based upon the testimony and observations of OCA witness Garrett. OCA M.B. at 33-43, 54-55. The OCA proposed capital structure of 49.40% debt and 50.60% equity is based upon the average of the companies in the proxy group which utilize debt ratios between 39.9% and 58.7%. *See* OCA Exh. DJG-14. The OCA's proposed hypothetical capital structure is reasonable, based upon Mr. Garrett's expertise and the evidentiary record, and should be adopted by the Commission to set just and reasonable rates for the Columbia and Marietta customers consistent with the legal standards described in the OCA Main Brief. OCA M.B. at 33-43, 54-55. The hypothetical capital structure of 50% debt and 50% equity proposed by I&E represents a reasonable alternative. OCA M.B. at 33, 40-43.

4. <u>In the Alternative, If the Commission Adopts the Company's Actual Capital Structure, the Commission Should Set the Return on Equity at 8.8%.</u>

In the event the Commission accepts the Company's proposed actual capital structure for ratemaking, adoption by the Commission of a cost of equity of no higher than 8.8% is a necessity, to offset the increased capital costs that would occur under the Company's capital structure. OCA M.B. at 33-35, 42-43, 54-55. Adoption of this OCA alternative position would be necessary to address the balancing of consumer interests and to provide CWC with no more than a reasonable opportunity to earn a fair return on its investment, consistent with legal standards discussed in the OCA Main Brief. OCA M.B. at 35-43, 54-55.

In contrast, the Company suggests that adoption of the Company's actual capital structure offers customers a "significant benefit" in the form of CWC's "access to low-cost financing." CWC M.B. at 58. Further, the Company describes its capital structure equity ratio of 63.66% as "slightly more equity rich" than the Company's proxy group. CWC M.B. at 52. CWC witness Mr. D'Ascendis' adjustment of -0.11% is supposed to be sufficient to account for the lower financial risk. CWC M.B. at 60,74-75. The Commission should reject these Company positions.

First, OCA witness Garrett strongly disagreed with Company witness D'Ascendis' theory that customers somehow benefit from the Company's high-cost, equity rich capital structure. OCA St. 2SR at 7; *see* CWC St. 4R at 7-8. As OCA witness Garrett testified, the Company has an incentive to strive for the highest Weighted Average Cost of Capital (WACC), to result in higher rates. OCA M.B. at 40; OCA St. 2 at 58-61. Mr. Garrett rejected CWC witness D'Ascendis' suggestion that the Company and ratepayers are aligned. OCA St. 2S at 8. The Company's focus on the cost of debt to make this argument does not present the whole story. As Mr. Garrett explained, "[s]ince debt is much cheaper than equity (especially under Mr. D'Ascendis' proposed ROE), having a *higher debt ratio* in the weighed cost of capital calculation can reduce the overall cost."[18] OCA St. 2SR at 8 (emphasis added). Adoption of the OCA's primary position, use of a hypothetical capital structure with a higher ratio of debt, would protect consumers from an unfair transfer of wealth. OCA M.B. at 40.

Second, the Company's -0.11% adjustment for financial risk is not a reasonable alternative to setting rates based upon the OCA, or I&E, hypothetical capital structure and appropriate market-based cost of equity. OCA M.B. at 42-43; *see* CWC M.B. at 74-75. As Mr. Garrett testified, the Company's final recommended ROE of 11.25%, inclusive of the -0.11% adjustment "is nonetheless unrealistically high." OCA St. 1SR at 9. As a matter of concept, OCA witness Garrett stated an adjustment for financial risk under the CAPM should be -0.70%. *Id.*

[18] The Company's ratemaking capital structure does not reflect all outstanding debt, where the Company's PENNVEST debt and related plant is excluded for ratemaking. OCA M.B. at 53-54; *see* Tr. 100 (CWC's PENNVEST debt "is outside and not included in the Company's capital structure for ratemaking.")

However, adoption of the OCA alternative, pairing the Company's actual capital structure with a cost of equity no higher than 8.8% is the necessary alternative.

C. Cost Rate of Common Equity

1. Introduction

The OCA Main Brief describes OCA witness Garrett's expert analysis and careful consideration of the appropriate models, inputs, and judgment to apply when developing an estimated cost of equity appropriate to set just and reasonable rates for CWC and the Company's Columbia and Marietta rate district customers. OCA M.B. at 43-55.

Mr. Garrett conducted both DCF and CAPM analyses, supporting a cost of equity of 9.4% (DCF Analysts Growth) and 8.2% (CAPM at Proxy Debt Ratio), respectively. OCA M.B. at 44-49; OCA St. 2 at 5, 6, Fig. 2. The OCA's primary recommendation is based upon the OCA hypothetical capital structure, the 3.15% debt cost rate, the DCF indicated 9.40% equity cost rate and overall rate of return of 6.31%. OCA M.B. at 55; OCA St. 2 at 5, 6, Fig. 2. The OCA's alternative recommendation is that if the Commission determines to use the Company's capital structure for ratemaking, then the cost of equity must be lower to account for the low risk profile of the Company's capital structure. The OCA's alternative recommendation is 36.66% debt with a 3.15% cost rate and 63.34% equity ratio with an 8.8% equity cost rate for an overall return of 6.73%. OCA M.B. at 55. In the OCA alternative, the 8.8% equity cost rate is the median result of Mr. Garrett's recommended ROE range. *Id.*

2. The OCA's Cost of Equity Models and Results are Supported, Contrary to the Company's Criticisms.

The Company's Main Brief sketches out a small number of criticisms of the OCA's cost of capital recommendation, apart from the capital structure issues addressed above. *See* CWC M.B. at 80-84. Given that OCA witness Garrett's recommended DCF result is 9.4% and the

Company's is 9.13%, it is unsurprising the Company offers no criticism of the OCA DCF approach and result. OCA M.B. at 44-45.

The Company's first critique is that OCA witness Garrett's CAPM analysis is flawed because he failed to use the ECAPM in his analysis. CWC M.B. at 80. Second, the Company faults Mr. Garrett's derived his market risk premium (MRP, or equity risk premium, ERP as used by Mr. Garrett) as based on a variety of deficient sources and methods, leading to a result of 5.5% which CWC states is well below historic averages. *Id*.

The OCA Main Brief provides a detailed review of the rationale and choices made by Mr. Garrett, based upon his professional experience, to develop a CAPM analysis. OCA M.B. at 47-51. Mr. Garrett explained the source of his ERP values are reliable and objective sources and updated the ERP value sourced from Kroll (formerly Duff & Phelps). The OCA Main Brief addresses both the support for Mr. Garrett's CAPM analyses and criticism of Company witness D'Ascendis' more complicated approach and reliance on historic data. *Id*. at 47-49, 49-51. The OCA does not agree with the Company's criticism, for the reasons set forth in the OCA Main Brief and Mr. Garrett's testimonies.

Contrary to the Company's critique, OCA witness Garrett specifically did not conduct an ECAPM because of the underpinnings of the model. OCA St. 2SR at 5. Mr. Garrett explained that since the betas used in the OCA CAPM from Value Line are already adjusted "to account for the concept that unadjusted, 'raw' betas might be too low for low-beta stocks." OCA St. 2SR at 5. Mr. Garrett did not agree with the Company's ECAPM presumption that such adjusted Value Line betas must be adjusted yet again to a higher level." *Id*. The use of multiple models may identify outliers. However, the use of multiple models that are flawed such as used by Company witness D'Ascendis does not ensure greater accuracy. OCA M.B. at 43-44. Mr.

Garrett's decision to not conduct an ECAPM does not diminish the value of OCA's cost of equity estimates. Mr. Garrett's CAPM result of 8.2% (based upon the OCA capital structure) provides better information about the appropriate cost of equity for CWC. OCA M.B. at 33-35, 47-49, 54-55.

### 3. The OCA's Omission of a Size Adjustment to the OCA Recommended Cost of Equity Is Not a Flaw.

The Company states that OCA should have but did not account for the business risk inherent in the Company due to its small size relative to the proxy group used by both the Company and the OCA. CWC M.B. at 84.

The Company is incorrect. OCA witness Garrett evaluated the Company's claim that cost of equity results determined by Company witness D'Ascendis should include an additional 1.00% "business risk adjustment" due to the Company's relative small size. OCA M.B. at 54-56. Mr. Garrett addressed the arc of time since the first scholarly article by Banz to the present and concluded the "size" phenomenon was not a supported and durable relationship in the market, such that an adjustment to small cap stocks would be warranted. *Id.* at 52; OCA St. 2 at 53-56; OCA St. 2SR at 6-7. Even if a small size adjustment might be supported in theory, OCA witness Garrett described public utilities as already subject to a protective regulatory framework, such that public utilities do not face the same downside bankruptcy risk as a purely competitive firm would face. OCA M.B. at 52-53. Based on the Company's use of PENNVEST loans to fund rate base and recover principal and interest costs through a surcharge, the Company has accounted for the lower risks that utilities may enjoy. OCA M.B. at 53-54. The OCA cost of equity recommendations properly do not include an adjustment for size and business risk of 1.00% or any other amount.

4. <u>The Company's Citation to *Citizens 2019* Does Not Dictate Allowance of a Size Adjustment in This Case.</u>

The Commission has set just and reasonable rates for many utilities without any adjustment to the cost of capital for business risk linked to size. PPL Electric Utilities Corp. requested a 120 basis point adjustment for size related risk. *Pa. PUC v. PPL Elec. Util. Corp*., R-2012-2290597, 89 (Order Dec. 28, 2012) (*PPL Elec*).[19] I&E opposed the utility's request as based upon false assumptions. *Id*. at 91-92. Consistent with the ALJ's recommended denial, the Commission ruled the ROE adjustment unreasonable. *Id*. at 92, 101.

In the 2018 UGI Utilities, Inc. – Electric Division case, the utility proposed a 102 basis point increase to its CAPM. The Commission denied the utility's adjustment noting:

> the record indicates that in advocating for a size adjustment, the technical literature UGI cited to is not specific to the regulated utility industry. Further, UGI has not presented any evidence to support application of a non-utility study regarding a size adjustment for risk to a utility setting. *See* I&E St. 2 at 45-46.

*Pa. PUC v. UGI Util., Inc. – Elec. Div*., R-2017-2640058, 100 (Order Oct. 25, 2018) (*UGI Elec 2018*).[20] In *Aqua 2022*, the utility's proposed CAPM included a 1.02% size adjustment which was opposed by I&E. *Aqua 2022* at 147, 148. The Commission adopted I&E's CAPM result, not Aqua's. *Id.* at 154-55.

The OCA notes that the burden lies with the Company to prove both the concept and that the Company's quantification of the adjustment are supported with substantial evidence. The only case briefed by the Company as support for Mr. D'Ascendis' 100 basis size adjustment for CWC is the *Citizens Electric of Lewisburg* decision discussed by Mr. D'Ascendis. CWC M.B. at 69-70 (citing *Pa. PUC v. Citizens Elec. Co. of Lewisburg*, R-2029-3008212, (Order Apr. 27,

[19] www.puc.pa.gov/pcdocs/1206360.docx

[20] www.puc.pa.gov/pcdocs/1591254.docx

2020) (*Citizens 2019*)).[21] To be clear, CWC's approach in this case mirrors the utility's preferred method of relief in *Citizens 2019*, where first Citizens and now CWC requested 100 basis point adjustments for business risk due to size. Compare *Citizens 2019* at 100-104; CWC M.B. at 60. In *Citizens 2019*, the Commission found some record evidence that weighed in favor of a size adjustment,[22] but the Commission qualified:

> At the same time, however, we echo the ALJs that the Parties have presented offsetting arguments such that there is not substantial evidence to determine whether size is specifically a risk for utilities.

*Id*. at 103. The Commission declined to specify an exact size adjustment for Citizens. *Id*. at 103-104. Citizens' allowed cost of equity of 9.49% was based on the DCF results and consideration that "top of Citizens' range" fell "below the top of the range for both I&E and the OCA." *Citizens 2019* at 97, 100.

To set rates for CWC Columbia and Marietta rate district customers in this proceeding, Company witness D'Ascendis has proposed calculated cost of equity estimates based upon several models, identified a range of common equity cost rates, before adjustment for risks, and then applied the net of the Company's risk adjustments (size and financial) to increase both ends of the range. CWC St. 4 at 4-5. The Company's recommended 11.25% cost of equity rate is based upon that final, adjusted range including the 100 points for size risk. *Id.* The OCA submits that the Company must support each element. The more careful review of *Citizens 2019* makes clear that CWC's proposed upward size adjustment is not a certainty.

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[21] www.puc.pa.gov/pcdocs/1661392.docx

[22] In *Citizens 2019* and two related cases, Commissioner Andrew Place issued a Statement noting "As to a size adjustment to the Return on Equity (ROE), the ALJs' support for the Companies' position is particularly worrisome since the proposed premium adjustment is clearly not supported by the record…." Commissioner Place was perplexed that ALJs expressed an inability to conclude based upon the record "whether size is or is not a risk for utilities" yet the ALJs said "we agree that size does seem to be a risk factor for companies." *Citizens 2019, Statement of Comm'r Andrew G. Place* at 2-3. Copy available at www.puc.pa.gov/pcdocs/1660436.pdf.

## IX. RATE STRUCTURE

### A. Cost of Service

The OCA addressed cost of service on pages 57 to 59 of its Main Brief. As discussed therein, the OCA agrees that the base-extra capacity cost of service methodology is generally acceptable and a reasonable starting point for development of unified rates for the Columbia and Marietta rate districts at the Company's as-filed for increase. OCA St. 3 at 3; OCA St. 3SR at 7. However, the OCA does not agree with the Company's functionalization of certain costs in its cost of service study as being customer-related. OCA St. 3 at 6. This is discussed on pages 62 to 72 of the OCA's Main Brief and below, in Section IX.C (Tariff Structure).

### B. Revenue Allocation

As discussed in the parties' briefs, CWC's customer and consumption charges do not vary by customer class – the same rates and blocks apply to all general metered classes – such that development of volumetric rates implicates the allocation of revenue requirement between the classes. OCA M.B. at 59-60; CWC M.B. at 98; OSBA M.B. at 4-5.

The Company and OSBA made different proposals for the tiered usage rates. OCA M.B. at 60-61. CWC witness Fox's proposal modifies (reduces) the significant differentials that exist between the tiers for the Company's current rates by allocating larger increases to the Tier 2 and 3 rate blocks. CWC M.B. at 105, CWC App. B at 2. OSBA witness Kalcic proposed to assign uniform increases to the classes, with the result that he roughly maintained the current differentials between the tiers. OSBA M.B. at 12-13, OSBA App. A at 1. The OCA supported CWC's proposal to reduce the severity of the consumption block differentials and advanced a number of reasons in support of its position, which are set forth in the OCA's Main Brief and the testimony of its witness Jerome D. Mierzwa. OCA M.B. at 60-62; OCA St. 3SR at 7-8; *see also* CWC M.B. at 105-06.

In its Main Brief, the OSBA focuses on the fact that OCA witness Mierzwa referenced the volumetric block rate differentials of other utilities. OSBA M.B. at 9-10. The OSBA argues that rates in this case should not be set based on other utilities' rate cases that are dissimilar because they involved Act 11 wastewater subsidies. *Id*. at 10. The OSBA is off the mark. The primary reason that Mr. Mierzwa supported the Company's proposed volumetric rate block differentials is that there is no evidence that the existing differentials have any cost justification, which means there is also no cost justification to maintain them, particularly where the existing differentials are significant. OCA M.B. at 61; OCA St. 3SR at 7.

Since a traditional class cost of service study was not provided in the current case, Mr. Mierzwa evaluated the ratios applied by CWC witness Fox to Tier 1 (most residential customers), Tier 2 (most commercial customers), and Tier 3 (most industrials) with the AWWA Manual typical maximum hour factors to evaluate their reasonableness. Tr. 80, ln. 9-23. He also compared the rate differentials of other water utilities that do have class cost of service studies to support their rate design, which showed that CWC's proposed ratios are more in line than the existing ratios that OSBA roughly proposes to maintain. OCA M.B. at 61-62; OCA St. 3SR at 8-9; OCA Sch. JDM-3 at 1-3. The OSBA tried to discredit this comparison on the basis that those utilities water rates include subsidies under Act 11. As Mr. Mierzwa explained during the hearing, however, if the water rates set in the PAWC and York cases did not include Act 11 wastewater subsidies, the volumetric *rates* might be different without the additional revenue requirement but he would not expect the *ratios* between the volumetric rate blocks to be different. Tr. at 85, ln. 11-17, 86, ln. 11-16.

For these reasons and as further discussed in the OCA's Main Brief, the Company's proposed volumetric rate blocks rate ratios should be adopted. The Company's proposed volumetric rates should be adjusted to reflect the OCA's different position on the appropriate customer charge and the resultant need to increase the revenues to be recovered through volumetric rates. OCA M.B. at 60-62.

C. Tariff Structure

The OCA's recommendation for customer charges is set forth in Section IX.C of its Main Brief, on pages 62 to 72. As summarized therein, the OCA, I&E, and OSBA opposed the Company's proposal to increase customer charges by 43.5% for Columbia rate district customers and 80.4% for Marietta rate district customers, and recommend lower customer charges. OCA M.B. at 63-65. In its Main Brief, CWC states its disagreement with the OCA's adjustment to allocate indirect costs, including a larger portion of transmission and distribution expenses, to volumetric charges. CWC M.B. at 102-03. The Company does not address the OCA's alternative recommendation, which addresses the possible inclusion by the Commission of some additional indirect costs as customer-related for purposes of calculating the customer charge. OCA M.B. at 69; OCA St. 3SR at 4-5.

Moreover, the Company does not raise any arguments that have not already been addressed and rebutted in the OCA's Main Brief. Rather than repeat its position in here, the OCA respectfully refers the Presiding Officers and Commission to the extensive discussion of the issues and precedent in its Main Brief, on pages 62 to 72. For the cost-based reasons, including the need for gradualism, that are discussed therein, the OCA's customer charges and proposed scale back should be adopted. The impact of the OCA's proposed revenue allocation and rate design, at the Company and OCA recommended revenue requirements, is attached as Appendix B to the OCA's Main Brief and this Reply Brief.

| | CWC Proposed - Rejoinder Monthly Customer Charge | | | |
|---|---|---|---|---|
| Rate District | Current | Proposed | $ Increase | % Increase |
| Columbia[23] | $10.31 | $14.79 | $4.48 | 43.5% |
| Marietta[24] | $8.20 | $14.79 | $6.59 | 80.4% |

| | OCA Recommended Monthly Customer Charge[25] | | | |
|---|---|---|---|---|
| Rate District | Current | OCA | $ Increase | % Increase |
| Columbia | $10.31 | $12.45 | $2.14 | 20.8% |
| Marietta | $8.20 | $12.45 | $4.25 | 51.8% |

| | OCA Alternative Monthly Customer Charge[26] | | | |
|---|---|---|---|---|
| Rate District | Current | Adjusted | $ Increase | % Increase |
| Columbia | $10.31 | $13.56 | $3.25 | 31.5% |
| Marietta | $8.20 | $13.56 | $5.36 | 65.4% |

## X. MISCELLANEOUS ISSUES

### A. Customer Rates Should Not Be Increased in Response to CWC's Alleged "Customer Discount" and Other Self-Serving Choices.

Through this base rate filing, the Company has repeatedly revised its revenue increase claim related largely to its decision not to increase rates for customers in its EDTMA rate district and its treatment of PENNVEST loan recovery. *See, e.g.*, CWC Exh. GDS 1; CWC St. 2R at 5, 20. CWC further complicates this case by claiming that it is entitled to an increase of $1,294,828 but has only claimed $999,900 by implementing a "BlackBox Customer Discount Adjustment… for the benefit of its customers." CWC M.B. at 5. It is disingenuous to suggest that CWC was

[23] CWC Exh. DF-9RJ at 1.

[24] *Id*.

[25] OCA St. 3SR at 5; OCA Sch. JDM-1 Surrebuttal.

[26] *Id*.

motivated to benefit customers, as opposed to avoiding the more rigorous filing requirements for cases in excess of $1 million, particularly when the Company's other choices so clearly serve to harm customers. CWC chose to use a capital structure with more than 63% equity for ratesetting, even though the average equity ratio of the Company's selected proxy group was roughly 50%. OCA St. 1 at 40. As quantified by I&E, that single decision served to increase revenue requirement by $279,480. I&E St. 1 at 28-29. CWC also chose to increase rates to reflect an 11.25% cost of equity, rather than the 9.13% DCF-indicated cost of equity *calculated by the Company's witness*.[27] CWC M.B. at 62; CWC St. 4 at 22. The impact of inflating the equity rate by 212 basis points is substantial on its own and compounded when applied to an equity-skewed capital structure. Compared to a 50/50 capital structure, those two choices increase the weighted cost of equity by a total of 256 basis points.[28]

Moreover, CWC's choice to file for a $999,900 increase is conveniently $100 less than the $1 million threshold that triggers the need to produce additional data to support the filing required by 52 Pa. Code § 53.53 ("Information to be furnished with proposed general rate increase filings in excess of $1 million"). One notable example of the data required by Section 53.53 is a cost of service study that includes a customer class allocation of costs (52 Pa. Code § 53.53, Exh. D, VIII.1), which OSBA and the OCA agreed would have facilitated review of the volumetric rates issue in this proceeding. Tr. 78-80.

[27] "Based on his DCF analysis, Mr. D'Ascendis concluded that the indicated return on equity ("ROE") was 9.13 percent which is an average of the mean result and the median result for the Utility Proxy Group." CWC M.B. at 62, App. C at 7 (CWC Proposed Finding of Fact 62).

[28] If a 50% equity ratio is used, the Company's decision to inflate cost of equity by 212 basis points (from 9.13% to 11.25%) increases the weighted cost of equity by 106 basis points (2.12% x 50.00% = 1.06% - 106 bp). When the 11.25% equity rate is applied to a 63.34% equity ratio instead of a 50% equity ratio, the weighted cost of equity increases by an additional 150 basis points (11.25% x (63.34% - 50.00%) = 1.5% = 150 bp). *See, e.g.*, App. A, Table I(A).

By way of further example, CWC's initial "customer discount" was 35% based on its claim that it was able to justify (but not asking for) a $1,536,421 rate increase.[29] When the Company identified an error and revised the "justified" amount from $1,536,421 to $1,293,424 in its rebuttal,[30] CWC did not give customers the benefit of that $242,997 correction by reducing its rate increase request below $999,900. Instead CWC chose to reduce its "customer discount."

Further, CWC only proposes that that it will provide a blackbox adjustment to the extent the Company receives *more than* its full, $999,900 rate increase.[31] CWC M.B. at 21, n.61; CWC St. 2R at 4.

The Company's claims regarding its choices to benefit customers should be considered in context of the above, and against all of the evidence in this proceeding that disproves them.

B. <u>The Company's Objections to OCA Recommendations for Exercising Isolation Valves Are at Odds With Its Current Practice.</u>

CWC's discussion in its Main Brief obfuscates the relatively simple difference in the OCA and Company positions. CWC M.B. 87-92. CWC generally agrees with the OCA recommendation for non-critical valves: "the Company will endeavor to exercise the remaining [non-critical] 1,425 valves over the next 5 years, and can agree to report on its efforts." *Id.* at 92; OCA M.B. at 75; OCA St. 4SR at 4. Moreover, CWC says that it is "on par to substantially comply with that recommendation." *Id.* at 91. There is agreement, thus, about the Company

[29] $1,536,421 - $999,900 = $536,521 ÷ $1,536,421 = 34.9%. CWC St. 2R at 4.

[30] In its Main Brief, CWC says it can justify an increase of $1,294,828. In its rebuttal testimony and schedules, CWC witness Shambaugh said its corrections reduced the increase from $1,536,421 to $1,293,424. CWC St. 2R at 4. Whether the $1,294,828 or $1,293,424 amount are used, the "customer discount" decreased; the Company's requested increase from the Commission did not. $1,294,828 - $999,900 = $294,928 ÷ $1,294,828 = 22.8%. $1,293,424 - $999,900 = $293,524 ÷ $1,293,424 = 22.7%. CWC St. 2R at 4.

[31] CWC St. 2R at 4 (stating that the BlackBox Customer Discount Adjustment was modified in response to the Company reducing its "justified" rate increase, to continue capping its requested rate increase at $999,900).

exercising non-critical valves that have not been exercised in the last 10 years[32] and reporting on its efforts.

At that point, CWC will have exercised all of its non-critical valves in the past ten years, will be caught up, and could go forward with the seven- to ten-year exercising cycle that the OCA recommends. OCA M.B. at 75; OCA St. 4SR at 4. The disagreement is that (1) going forward, CWC does not want to agree to a "strict standard of exercising all its non-critical valves on a ten-year cycle without provision of additional funding" and (2) does not agree that frequent exercising of isolation valves is necessary. CWC M.B. at 92, 89-90.

With regard to whether frequent valve exercising is necessary, the OCA agrees that some non-critical valves do not need to be scheduled for regular exercising. *See* OCA M.B. at 73, n.33, 75 ("The requirements for exercising non-critical isolation valves should not apply to in-line isolation valves that cannot be exercised on a regular schedule, non-isolating valves such as at the end of a main extension or cul-de-sac, pressure reducing valves, or check valves"); OCA St. 4SR at 5.

For the majority of non-critical valves, however, the Company's opposition to the need for regular exercising is not consistent with PUC auditors' guidance (seven- to ten-year cycle), American Water Works Association's more stringent standards, or Mr. Fought's forty years' experience reviewing water utilities on behalf of the OCA. OCA M.B. at 72; OCA Exh. TLF-1; OCA St. 4SR at 2-4. Moreover, CWC's position is at odds with its own statements that it already does exercise non-critical valves on a regular basis and has, in fact exercised 1,530 non-critical

[32] To clarify, the OCA did not ask the Company to exercise all 1,425 valves – it asked the Company to commit to exercise a subset of the remaining non-critical valves over the next five years, those that have not been exercised *in the past ten years*. OCA M.B. at 75; OCA St. 4SR at 4. The goal is for the Company to catch up so that, going forward, it can maintain a seven- to ten-year schedule.

valves within the past five years and is on pace to exercise the remaining 1,425 in the next five years. CWC St. 1R at 5; CWC M.B. at 92.

With regard to the Company's second basis of opposition, funding for valve exercising, the OCA has addressed the Company's arguments in its Main Brief. Therein, the OCA explained that Mr. Lewis's cost estimate was not based on Mr. Fought's recommendation to exercise solely a subset of the 1,425 non-critical valves that were not exercised in the past ten years over the next five years. OCA M.B. at 74; OCA St. 4SR at 4. Moreover, as CWC is states that it is already substantially complying with Mr. Fought's recommended schedule as part of its current operation and maintenance activities, those costs should already be reflected in CWC's claim for future test year O&M expenses. OCA M.B. at 74; OCA St. 4SR at 4.

Additional support for the OCA's recommendations regarding non-critical isolation valves is provided on pages 72 to 76 of the OCA's Main Brief. Therein the OCA also discusses the evidence supporting its recommended schedule for isolating fire hydrants, exercising critical isolation valves, continued reporting, and information to be provided with the Company's next base rate filing. *Id.* As summarized there (on pages 75-76), the OCA continues to recommend that the Commission should require CWC to:

1. Exercise valves to isolate fire hydrants from the distribution system annually.

2. Exercise critical isolation valves on a one-to three-year cycle.

3. Within the next five years, exercise all non-critical isolation valves that CWC has no record of exercising within the past ten years (some number smaller than 1,425 valves). Subsequently, exercise all non-critical isolation valves on a seven-to ten-year cycle. The requirements for exercising non-critical isolation valves should not apply to in-line isolation valves that cannot be exercised on a regular schedule, non-isolating valves such as at the end of a main extension or cul-de-sac, pressure reducing valves, or check valves.

4. Continue to file reports on its valve exercising activities consistent with the settlement of the 2017 base rate proceeding (see, supra, footnote 31).

5. In its next base rate case filing, include a report on the number of critical valves and non-critical valves that were not exercised during the five-year period ending the most recent calendar year prior to the rate case filing.

C. <u>CWC Should Maintain Complaint Logs with Additional Detail and in a Sortable Format Because It Is Consistent with the Purpose of Keeping Records of Complaints.</u>

The OCA continues to recommend that CWC should be required to:

1. Record additional detail in its complaint log regarding (1) the character of the complaint, including but not limited to whether a water quality complaint is due to sediment, cloudiness, discoloration, which would indicate what may be the possible cause and (2) whether or not the action taken by the Company resolved the customer's complaint.

2. Make the complaint log available in Excel.

OCA St. 4 at 7-8; OCA St. 4SR at 7. These recommendations are reasonable, consistent with the purpose of keeping complaint logs, and impose no undue burden on the Company. Section 65.3 of the Commission's regulations was issued under the Commission's powers to supervise and regulate public utilities, keep itself informed, investigate, and enforce compliance with Public Utility Code requirements to ensure that, inter alia, rates are just and reasonable, service and facilities are adequate, efficient, safe, and reasonable. 52 Pa. Code § 65.3; 66 Pa. C.S. §§ 501, 504, 506, 1301, 1501, 1504. In the OCA's Main Brief, the OCA has already addressed, and thoroughly rebutted the objections raised in the Company's Main Brief, which are consistent with its witnesses' rebuttal testimony. OCA M.B. at 76-78; OCA St. 4SR at 7; CWC M.B. at 93; CWC St. 1R at 9. The OCA's recommendations should be adopted.

XI. CONCLUSION

For the reasons set forth in its Main and Reply Briefs, the OCA respectfully requests the Commission to deny the water rate increase requested by Columbia Water Company and approve a smaller increase of $657,819 based on the record evidence including the OCA testimonies and the I&E Main Brief and testimonies.

Respectfully Submitted,

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Dated: September 21, 2023

# Appendix A
# Rate Case Tables

| | A | B | C | D | E | F |
|---|---|---|---|---|---|---|
| 1 | | | TABLE I | | | |
| 2 | | | Columbia Water Company | | | |
| 3 | | | R-2023-3040258 | | | |
| 4 | | | INCOME SUMMARY | | | |
| 5 | | | ($000) | | | |
| 6 | | | | | | |
| 7 | | Pro Forma | | | | |
| 8 | | Present Rates | Recommended Adjustments | Adjusted | Revenue Adjustment | Total Allowable Revenues |
| 9 | | (1) | | Present Rates | | |
| 10 | | $ | $ | $ | $ | $ |
| 11 | | | | | | |
| 12 | Operating Revenues | 7,244.926 | 0.000 | 7,244.926 | 657.819 | 7,902.745 |
| 13 | Deductions: | | | | | |
| 14 | O & M Expense | 4,079.604 | (206.842) | 3,872.762 | 0.000 | 3,872.762 |
| 15 | Depreciation | 1,174.375 | 0.000 | 1,174.375 | 0.000 | 1,174.375 |
| 16 | | | | | | |
| 17 | Taxes: | | | | | |
| 18 | State | 58.409 | 12.653 | 71.063 | 55.849 | 126.911 |
| 19 | Federal | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 20 | Other | 240.832 | (2.249) | 238.584 | 0.000 | 238.584 |
| 21 | | | | | | |
| 22 | Total Expenses | 5,553.220 | (196.437) | 5,356.783 | 55.849 | 5,412.632 |
| 23 | PennVest Revenues | 1,308.122 | | 1,308.122 | | 1,308.122 |
| 24 | Net Inc. Available for Return | 383.584 | 196.437 | 580.021 | 601.970 | 1,181.991 |
| 25 | Rate Base | 18,750.106 | (25.501) | 18,724.605 | | 18,724.605 |
| 26 | | | | | | |
| 27 | Recommended Rate of Return | 2.05% | | | | 6.31% |
| 28 | | | | | | |
| 29 | | | | | | |
| 30 | (1) Rebuttal Testimony of Gary D. Shambaugh, Exhibit GDS No. 1-R. | | | | | |
| 31 | | | | | | |

TABLE I(A)
Columbia Water Company
R-2023-3040258
RATE OF RETURN

| | Structure | Cost | After-Tax Weighted Cost | Effective Tax Rate Complement | Pre-Tax Weighted Cost Rate |
|---|---|---|---|---|---|
| Long-term Debt | 49.40% | 3.15% | 1.56% | | 1.56% |
| Short-term Debt | 0.00% | 0.00% | 0.00% | | |
| Total Cost of Debt | | | 1.56% | | |
| Preferred Stock | 0.00% | 0.00% | 0.00% | 0.915100 | 0.00% |
| Common Equity | 50.60% | 9.40% | 4.76% | 0.915100 | 5.20% |
| | 100.00% | | 6.31% | | 6.76% |
| Pre-Tax Interest Coverage | 4.34 | | | | |
| After-Tax Interest Coverage | 4.06 | | | | |

TABLE I(B)
Columbia Water Company
R-2023-3040258
REVENUE FACTOR

| | |
|---|---|
| 100% | 1.00000000 |
| Less: | |
| Uncollectible Accounts Factor | 0.00000000 |
| PUC, OCA, OSBA Assessment Factors | 0.00000000 |
| Gross Receipts Tax | 0.00000000 |
| Other Tax Factors | 0.00000000 |
| | 1.00000000 |
| State Income Tax Rate | 0.08490000 |
| Effective State Income Tax Rate | 0.08490000 |
| Factor After Local and State Taxes | 0.91510000 |
| Federal Income Tax Rate | 0.00000000 |
| Effective Federal Income Tax Rate | 0.00000000 |
| Revenue Factor (100% - Effective Tax Rates) | 0.91510000 |

TABLE II
Columbia Water Company
R-2023-3040258
SUMMARY OF ADJUSTMENTS
($000)

| Recommended Adjustments | Exhibit Reference | Rate Base Effect | Revenue Effect | Expense Effect | Depreciation Effect | Effect Upon Taxes-Other | State Tax Effect | Federal Tax Effect |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| RATE BASE: | | | | | | | | |
| CWC: | Surrebuttal Schedule JLR-4 | (25.501) | | | | | | |
| Int. & Div. (Table IV) | | 0.000 | | | | | | |
| Taxes (Table V) | | 0.000 | | | | | | |
| O & M (Table VI) | | 0.000 | | | | | | |
| REVENUES: | | | | | | | | |
| | | | 0.000 | | | | 0.000 | 0.000 |
| EXPENSES: | | | | | | | | |
| Adjustment to Revise Normalization Period of Rate Case Expense | Surrebuttal Schedule JLR-6 | | | (52.311) | | | 4.441 | 0.000 |
| Adjustment to Materials and Supplies | Surrebuttal Schedule JLR-7 | | | (59.017) | | | 5.011 | 0.000 |
| Adjustment to Materials and Supplies Going-Level Adjustment | Surrebuttal Schedule JLR-8 | | | (14.400) | | | 1.223 | 0.000 |
| Adjustment to Other - Maintenance Expense | Surrebuttal Schedule JLR-9 | | | (28.660) | | | 2.433 | 0.000 |
| Adjustment to Company Proposed Going-Level Adjustment for Office Expenses | Surrebuttal Schedule JLR-10 | | | (3.466) | | | 0.294 | 0.000 |
| Adjustment to Regulatory Assessments Adjustment | | | | 0.000 | | (2.249) | 0.191 | 0.000 |
| Adjustment to Remove EDTMA Expenses | Surrebuttal Schedule JLR-15 | | | (48.987) | | | 4.159 | 0.000 |
| Adjustment to State Income Tax | Surrebuttal Schedule JLR-16 | | | 0.000 | | | (3.249) | 0.000 |
| | | | | 0.000 | | | 0.000 | 0.000 |
| | | | | 0.000 | | | 0.000 | 0.000 |
| | | | | 0.000 | | | 0.000 | 0.000 |
| | | | | 0.000 | | | 0.000 | 0.000 |
| Interest Synchronization | Table III | | | | | | (1.850) | 0.000 |
| TOTAL Adjustments | | (25.501) | 0.000 | (206.842) | 0.000 | (2.249) | 12.653 | 0.000 |
| Company Rate Base | | 18,750.106 | | | | | | |
| Recommended Rate Base | | 18,724.605 | | | | | | |

TABLE III
Columbia Water Company
R-2023-3040258
INTEREST SYNCHRONIZATION
($000)

| A | B |
|---|---|
| | Amount |
| | $ |
| Company Rate Base Claim | 18,750.106 |
| Rate Base Adjustments | (25.501) |
| Rate Base | 18,724.605 |
| Weighted Cost of Debt | 0.016 |
| Interest Expense | 291.374 |
| PENNVEST Interest Expense (1) | 419.382 |
| Total Interest Expense per OCA | 710.756 |
| Company Claim (2) | 688.965 |
| Total Adjustment | (21.791) |
| Company Adjustment | 0.000 |
| Net Interest Adjustment | (21.791) |
| State Income Tax Rate | 0.085 |
| State Income Tax Adjustment | (1.850) |
| Net Interest Adjustment | (21.791) |
| State Income Tax Adjustment | (1.850) |
| Net Adjustment for F.I.T. | (19.941) |
| Federal Income Tax Rate | 0.000 |
| Federal Income Tax Adjustment | 0.000 |

(1) Exhibit GDS No. 5-R, Pg. 1 of 2, Line 37.
(2) Rebuttal Testimony of Gary D. Shambaugh, Exhibit GDS

TABLE IV
Columbia Water Company
R-2023-3040258
CASH WORKING CAPITAL Adjustment
($000)

| | | |
|---|---|---|
| Company Operation and Maintenance Expense (1) | | 4079.604 |
| Less: Purchased Water Expense (1) | 0.000 | |
| Bad Debt (1) | | 11.800 |
| Company Total | | 4067.804 |
| OCA O&M Expense Adjustments (Table II) | | -206.842 |
| Total with OCA Adjustments | | 3860.962 |
| Company Adjusted Cash Working Capital = Based on 45 days | | 501.510 |
| OCA Adjusted Cash Working Capital = Based on 45 days | | 476.009 |
| Cash Working Capital - 12 Months Ended 12/31/2023 (1) | | 501.510 |
| Company Net Change | | 0.000 |
| OCA Net Change | | -25.501 |
| OCA Adjustment to Cash Working Capital | | -25.501 |

(1) Rebuttal Testimony of Gary D. Shambaugh, Exhibit GDS No. 1-R.

# Appendix B
# Class Rate Impact Analysis

COLUMBIA WATER COMPANY
RATE IMPACT ANALYSIS BY CLASS AT PRESENT AND PROPOSED RATES

**Company Revenue Requirements Claim and OCA Primary Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 3,646,845 | $ 4,098,038 | $ 451,193 | 12.4% |
| Commercial | $ 749,170 | $ 887,157 | $ 137,987 | 18.4% |
| Industrial | $ 213,402 | $ 303,797 | $ 90,395 | 42.4% |
| Public Authority | $ 67,105 | $ 75,579 | $ 8,474 | 12.6% |
| Private Fire | $ 89,947 | $ 90,907 | $ 960 | 1.1% |
| Public Fire | $ 248,424 | $ 250,856 | $ 2,432 | 1.0% |
| TOTAL | $ 5,014,893 | $ 5,706,334 | $ 691,441 | 13.8% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 612,005 | $ 802,135 | $ 190,130 | 31.1% |
| Commercial | $ 61,746 | $ 89,243 | $ 27,497 | 44.5% |
| Industrial | $ 117,657 | $ 192,149 | $ 74,492 | 63.3% |
| Public Authority | $ 14,389 | $ 21,864 | $ 7,475 | 51.9% |
| Private Fire | $ 30,937 | $ 33,436 | $ 2,499 | 8.1% |
| Public Fire | $ 40,284 | $ 44,776 | $ 4,492 | 11.1% |
| TOTAL | $ 877,018 | $ 1,183,603 | $ 306,585 | 35.0% |
| Consolidated Division Total | $ 5,891,911 | $ 6,889,937 | $ 998,026 | 16.9% |

**OCA Recommended Revenue Requirement and OCA Primary Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 3,646,845 | $ 3,883,032 | $ 236,187 | 6.5% |
| Commercial | $ 749,170 | $ 840,337 | $ 91,167 | 12.2% |
| Industrial | $ 213,402 | $ 287,910 | $ 74,508 | 34.9% |
| Public Authority | $ 67,105 | $ 71,595 | $ 4,490 | 6.7% |
| Private Fire | $ 89,947 | $ 90,907 | $ 960 | 1.1% |
| Public Fire | $ 248,424 | $ 250,856 | $ 2,432 | 1.0% |
| TOTAL | $ 5,014,893 | $ 5,424,637 | $ 409,744 | 8.2% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 612,005 | $ 759,984 | $ 147,979 | 24.2% |
| Commercial | $ 61,746 | $ 84,544 | $ 22,798 | 36.9% |
| Industrial | $ 117,657 | $ 182,130 | $ 64,473 | 54.8% |
| Public Authority | $ 14,389 | $ 20,716 | $ 6,327 | 44.0% |
| Private Fire | $ 30,937 | $ 33,436 | $ 2,499 | 8.1% |
| Public Fire | $ 40,284 | $ 44,776 | $ 4,492 | 11.1% |
| TOTAL | $ 877,018 | $ 1,125,586 | $ 248,568 | 28.3% |
| Consolidated Division Total | $ 5,891,911 | $ 6,550,223 | $ 658,312 | 11.2% |

COLUMBIA WATER COMPANY
RATE IMPACT ANALYSIS BY CLASS AT PRESENT AND PROPOSED RATES

**Company Revenue Requirements Claim and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 3,646,845 | $ 4,123,825 | $ 476,980 | 13.1% |
| Commercial | $ 749,170 | $ 879,701 | $ 130,531 | 17.4% |
| Industrial | $ 213,402 | $ 297,299 | $ 83,897 | 39.3% |
| Public Authority | $ 67,105 | $ 76,354 | $ 9,249 | 13.8% |
| Private Fire | $ 89,947 | $ 90,907 | $ 960 | 1.1% |
| Public Fire | $ 248,424 | $ 250,856 | $ 2,432 | 1.0% |
| TOTAL | $ 5,014,893 | $ 5,718,942 | $ 704,049 | 14.0% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 612,005 | $ 798,604 | $ 186,599 | 30.5% |
| Commercial | $ 61,746 | $ 89,387 | $ 27,641 | 44.8% |
| Industrial | $ 117,657 | $ 186,539 | $ 68,882 | 58.5% |
| Public Authority | $ 14,389 | $ 21,685 | $ 7,296 | 50.7% |
| Private Fire | $ 30,937 | $ 33,436 | $ 2,499 | 8.1% |
| Public Fire | $ 40,284 | $ 44,776 | $ 4,492 | 11.1% |
| TOTAL | $ 877,018 | $ 1,174,427 | $ 297,409 | 33.9% |
| Consolidated Division Total | $ 5,891,911 | $ 6,893,369 | $ 1,001,458 | 17.0% |

**OCA Recommended Revenue Requirement and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 3,646,845 | $ 3,907,077 | $ 260,232 | 7.1% |
| Commercial | $ 749,170 | $ 832,213 | $ 83,043 | 11.1% |
| Industrial | $ 213,402 | $ 280,773 | $ 67,371 | 31.6% |
| Public Authority | $ 67,105 | $ 72,450 | $ 5,345 | 8.0% |
| Private Fire | $ 89,947 | $ 90,907 | $ 960 | 1.1% |
| Public Fire | $ 248,424 | $ 250,856 | $ 2,432 | 1.0% |
| TOTAL | $ 5,014,893 | $ 5,434,276 | $ 419,383 | 8.4% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 612,005 | $ 755,690 | $ 143,685 | 23.5% |
| Commercial | $ 61,746 | $ 84,673 | $ 22,927 | 37.1% |
| Industrial | $ 117,657 | $ 175,960 | $ 58,303 | 49.6% |
| Public Authority | $ 14,389 | $ 20,519 | $ 6,130 | 42.6% |
| Private Fire | $ 30,937 | $ 33,436 | $ 2,499 | 8.1% |
| Public Fire | $ 40,284 | $ 44,776 | $ 4,492 | 11.1% |
| TOTAL | $ 877,018 | $ 1,115,054 | $ 238,036 | 27.1% |
| Consolidated Division Total | $ 5,891,911 | $ 6,549,330 | $ 657,419 | 11.2% |

COLUMBIA WATER COMPANY
PRESENT AND PROPOSED MONTHLY CUSTOMER CHARGES AND % OF INCREASE FROM EXISTING RATES

**Company Revenue Requirements Claim and OCA Primary Customer Charge Recommendation**

Columbia Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 10.31 | $ 12.45 | $ 2.14 | 20.8% |
| 3/4" | $ 15.49 | $ 17.80 | $ 2.31 | 14.9% |
| 1" | $ 25.82 | $ 28.51 | $ 2.69 | 10.4% |
| 1-1/2" | $ 51.64 | $ 55.28 | $ 3.64 | 7.0% |
| 2" | $ 82.62 | $ 87.41 | $ 4.79 | 5.8% |
| 3" | $ 154.89 | $ 173.08 | $ 18.19 | 11.7% |
| 4" | $ 258.15 | $ 269.46 | $ 11.31 | 4.4% |
| 6" | $ 516.32 | $ 537.19 | $ 20.87 | 4.0% |
| 8" | $ 826.10 | $ 858.46 | $ 32.36 | 3.9% |

Marietta Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 8.20 | $ 12.45 | $ 4.25 | 51.8% |
| 3/4" | $ 12.30 | $ 17.80 | $ 5.50 | 44.7% |
| 1" | $ 20.50 | $ 28.51 | $ 8.01 | 39.1% |
| 1-1/2" | $ 41.00 | $ 55.28 | $ 14.28 | 34.8% |
| 2" | $ 65.60 | $ 87.41 | $ 21.81 | 33.2% |
| 3" | $ 123.00 | $ 173.08 | $ 50.08 | 40.7% |
| 4" | $ 205.00 | $ 269.46 | $ 64.46 | 31.4% |
| 6" | $ 410.00 | $ 537.19 | $ 127.19 | 31.0% |
| 8" | $ 738.00 | $ 858.46 | $ 120.46 | 16.3% |

**OCA Recommended Revenue Requirement and OCA Primary Customer Charge Recommendation**

Columbia Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 10.31 | $ 11.80 | $ 1.49 | 14.5% |
| 3/4" | $ 15.49 | $ 16.87 | $ 1.38 | 8.9% |
| 1" | $ 25.82 | $ 27.02 | $ 1.20 | 4.6% |
| 1-1/2" | $ 51.64 | $ 52.38 | $ 0.74 | 1.4% |
| 2" | $ 82.62 | $ 82.83 | $ 0.21 | 0.3% |
| 3" | $ 154.89 | $ 164.01 | $ 9.12 | 5.9% |
| 4" | $ 258.15 | $ 255.34 | $ (2.81) | -1.1% |
| 6" | $ 516.32 | $ 509.04 | $ (7.28) | -1.4% |
| 8" | $ 826.10 | $ 813.48 | $ (12.62) | -1.5% |

Marietta Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 8.20 | $ 11.80 | $ 3.60 | 43.9% |
| 3/4" | $ 12.30 | $ 16.87 | $ 4.57 | 37.2% |
| 1" | $ 20.50 | $ 27.02 | $ 6.52 | 31.8% |
| 1-1/2" | $ 41.00 | $ 52.38 | $ 11.38 | 27.8% |
| 2" | $ 65.60 | $ 82.83 | $ 17.23 | 26.3% |
| 3" | $ 123.00 | $ 164.01 | $ 41.01 | 33.3% |
| 4" | $ 205.00 | $ 255.34 | $ 50.34 | 24.6% |
| 6" | $ 410.00 | $ 509.04 | $ 99.04 | 24.2% |
| 8" | $ 738.00 | $ 813.48 | $ 75.48 | 10.2% |

COLUMBIA WATER COMPANY
PRESENT AND PROPOSED MONTHLY CUSTOMER CHARGES AND % OF INCREASE FROM EXISTING RATES

**Company Revenue Requirements Claim and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 10.31 | $ 13.56 | $ 3.25 | 31.5% |
| 3/4" | $ 15.49 | $ 19.20 | $ 3.71 | 24.0% |
| 1" | $ 25.82 | $ 30.48 | $ 4.66 | 18.0% |
| 1-1/2" | $ 51.64 | $ 58.66 | $ 7.02 | 13.6% |
| 2" | $ 82.62 | $ 92.49 | $ 9.87 | 11.9% |
| 3" | $ 154.89 | $ 182.68 | $ 27.79 | 17.9% |
| 4" | $ 258.15 | $ 284.15 | $ 26.00 | 10.1% |
| 6" | $ 516.32 | $ 566.02 | $ 49.70 | 9.6% |
| 8" | $ 826.10 | $ 904.26 | $ 78.16 | 9.5% |

Marietta Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 8.20 | $ 13.56 | $ 5.36 | 65.4% |
| 3/4" | $ 12.30 | $ 19.20 | $ 6.90 | 56.1% |
| 1" | $ 20.50 | $ 30.48 | $ 9.98 | 48.7% |
| 1-1/2" | $ 41.00 | $ 58.66 | $ 17.66 | 43.1% |
| 2" | $ 65.60 | $ 92.49 | $ 26.89 | 41.0% |
| 3" | $ 123.00 | $ 182.68 | $ 59.68 | 48.5% |
| 4" | $ 205.00 | $ 284.15 | $ 79.15 | 38.6% |
| 6" | $ 410.00 | $ 566.02 | $ 156.02 | 38.1% |
| 8" | $ 738.00 | $ 904.26 | $ 166.26 | 22.5% |

**OCA Recommended Revenue Requirement and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 10.31 | $ 12.96 | $ 2.65 | 25.7% |
| 3/4" | $ 15.49 | $ 18.35 | $ 2.86 | 18.5% |
| 1" | $ 25.82 | $ 29.12 | $ 3.30 | 12.8% |
| 1-1/2" | $ 51.64 | $ 56.05 | $ 4.41 | 8.5% |
| 2" | $ 82.62 | $ 88.37 | $ 5.75 | 7.0% |
| 3" | $ 154.89 | $ 174.55 | $ 19.66 | 12.7% |
| 4" | $ 258.15 | $ 271.51 | $ 13.36 | 5.2% |
| 6" | $ 516.32 | $ 540.83 | $ 24.51 | 4.7% |
| 8" | $ 826.10 | $ 864.02 | $ 37.92 | 4.6% |

Marietta Division

| Meter Size | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| 5/8" | $ 8.20 | $ 12.96 | $ 4.76 | 58.0% |
| 3/4" | $ 12.30 | $ 18.35 | $ 6.05 | 49.2% |
| 1" | $ 20.50 | $ 29.12 | $ 8.62 | 42.0% |
| 1-1/2" | $ 41.00 | $ 56.05 | $ 15.05 | 36.7% |
| 2" | $ 65.60 | $ 88.37 | $ 22.77 | 34.7% |
| 3" | $ 123.00 | $ 174.55 | $ 51.55 | 41.9% |
| 4" | $ 205.00 | $ 271.51 | $ 66.51 | 32.4% |
| 6" | $ 410.00 | $ 540.83 | $ 130.83 | 31.9% |
| 8" | $ 738.00 | $ 864.02 | $ 126.02 | 17.1% |

COLUMBIA WATER COMPANY
PRESENT AND PROPOSED RATES FOR THE AVERAGE CUSTOMER BILL BY CLASS ($ AND % INCREASE)

**Company Revenue Requirements Claim and OCA Primary Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 37.67 | $ 42.09 | $ 4.42 | 11.7% |
| Commercial | $ 149.07 | $ 172.37 | $ 23.30 | 15.6% |
| Industrial | $ 598.10 | $ 780.91 | $ 182.81 | 30.6% |
| Public Authority | $ 21.83 | $ 24.93 | $ 3.10 | 14.2% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 32.57 | $ 42.09 | $ 9.52 | 29.2% |
| Commercial | $ 100.87 | $ 172.37 | $ 71.50 | 70.9% |
| Industrial | $ 544.42 | $ 780.91 | $ 236.49 | 43.4% |
| Public Authority | $ 20.38 | $ 24.93 | $ 4.55 | 22.3% |

**OCA Recommended Revenue Requirement and OCA Primary Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 37.67 | $ 39.24 | $ 1.57 | 4.2% |
| Commercial | $ 149.07 | $ 160.06 | $ 10.99 | 7.4% |
| Industrial | $ 598.10 | $ 729.09 | $ 130.99 | 21.9% |
| Public Authority | $ 21.83 | $ 23.35 | $ 1.52 | 7.0% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 32.57 | $ 39.24 | $ 6.67 | 20.5% |
| Commercial | $ 100.87 | $ 160.06 | $ 59.19 | 58.7% |
| Industrial | $ 544.42 | $ 729.09 | $ 184.67 | 33.9% |
| Public Authority | $ 20.38 | $ 23.35 | $ 2.97 | 14.6% |

COLUMBIA WATER COMPANY
PRESENT AND PROPOSED RATES FOR THE AVERAGE CUSTOMER BILL BY CLASS ($ AND % INCREASE)

**Company Revenue Requirements Claim and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 37.67 | $ 42.21 | $ 4.54 | 12.1% |
| Commercial | $ 149.07 | $ 169.52 | $ 20.45 | 13.7% |
| Industrial | $ 598.10 | $ 778.90 | $ 180.80 | 30.2% |
| Public Authority | $ 21.83 | $ 25.62 | $ 3.79 | 17.4% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 32.57 | $ 42.21 | $ 9.64 | 29.6% |
| Commercial | $ 100.87 | $ 169.52 | $ 68.65 | 68.1% |
| Industrial | $ 544.42 | $ 778.90 | $ 234.48 | 43.1% |
| Public Authority | $ 20.38 | $ 25.62 | $ 5.24 | 25.7% |

**OCA Recommended Revenue Requirement and OCA Alternate Customer Charge Recommendation**

Columbia Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 37.67 | $ 39.88 | $ 2.21 | 5.9% |
| Commercial | $ 149.07 | $ 163.27 | $ 14.20 | 9.5% |
| Industrial | $ 598.10 | $ 740.09 | $ 141.99 | 23.7% |
| Public Authority | $ 21.83 | $ 23.62 | $ 1.79 | 8.2% |

Marietta Division

| Class | Present Rates | Proposed Rates | Increase | Percent |
|---|---|---|---|---|
| Residential | $ 32.57 | $ 39.88 | $ 7.31 | 22.4% |
| Commercial | $ 100.87 | $ 163.27 | $ 62.40 | 61.9% |
| Industrial | $ 544.42 | $ 740.09 | $ 195.67 | 35.9% |
| Public Authority | $ 20.38 | $ 23.62 | $ 3.24 | 15.9% |