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November 2, 2023

Via Electronic Filing

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

Re: Columbia Water Company; 2023 General Base Rate Increase Filing; Docket No. R-2023-3040258; **COLUMBIA WATER COMPANY'S EXCEPTIONS**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are Columbia Water Company's Exceptions to the October 23, 2023 Recommended Decision of Administrative Law Judge Mary D. Long and Administrative Law Judge Charece Collins in the above-referenced matter.

A word copy of these Exceptions and word copies of the Company's Main Brief and Reply Brief are being provided to the Office of Special Assistants under separate cover.

If you have any questions concerning this filing, please contact me.

Very truly yours,

/s/ Whitney E. Snyder

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WES/das
Enclosure

cc: Kathryn G. Sophy (ksophy@pa.gov)
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Per certificate of service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS OF COLUMBIA WATER COMPANY

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Dated: November 2, 2023

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Bureau of Technical Utility Services Report to the Commission Regarding Quarterly Earnings of Pennsylvania Utilities for the Year ended June 30, 2023,
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I. INTRODUCTION AND SUMMARY OF EXCEPTIONS

Columbia Water Company ("Columbia Water" or "Company") files these Exceptions to the October 23, 2023 Recommended Decision ("RD") of Administrative Law Judges Mary D. Long and Charece Z. Collins.

In this proceeding, Columbia Water requests that the Pennsylvania Public Utility Commission ("Commission") approve Supplement No. 121 to Tariff Water – Pa. P.U.C. 7, which proposes an increase in total annual operating revenues for water service of approximately $999,900, or 14.2%, based upon a Future Test Year ("FTY") ending December 31, 2023.

The substantial and compelling evidence in this proceeding supports a total increase of $1,294,828, but the Company voluntarily capped the requested increase to $999,900 by implementing a "BlackBox Customer Discount Adjustment," which reduced its revenue requirement by approximately $294,928, or by 23%, for the benefit of its customers. As the RD correctly found, "[t]he Company has demonstrated that it has offered excellent quality of service in this proceeding."[1] The Company's requested revenue increase of $999,900 thus mitigates the impacts of the rate increase to its customers while recognizing the Company's duty to continue to provide safe, efficient, adequate, and reasonable service to its customers and the Company's right to earn a fair return on its plant in service. To the extent granting Exceptions herein may result in an increase greater than $999,900, the Company stands by its commitment to mitigating impacts on customers and is not seeking to increase rates by more than $999,900. The Company strongly believes that an increase of $999,900 is necessary to continue to provide excellent quality of service.

[1] RD at 85.

The RD recommends that the Commission grant Columbia Water a revenue increase of approximately $944,893, including a 7.20% overall rate of return, based, in part, upon a 9.55% return on common equity.[2] Columbia Water excepts to the RD's determination of the return on common equity.

Setting an adequate return on equity for a utility is key to ensuring appropriate infrastructure investment. As Commissioner Yanora stated in October 2023:

> I have concerns that the low water [Distribution System Improvement Charge ("DSIC")] ROE at 9.65% poses a threat to the ability of water companies to attract low-cost capital to meet previously approved expectations for safe and reliable service.
>
> Inflation and rising interest rates make this an inopportune time to withhold investment incentives. Upward external pressure on debt costs is incongruous with setting low equity returns. To do so will force companies to choose between the expense and time of a rate case or forgoing needed infrastructure replacement. We are also creating an unsupportive regulatory environment which will further increase the cost of long-term debt for years to come. Ratepayers will directly pay for the long-term debt interest rates of water utilities.[3]

Here, the RD has likewise recommended a low return on equity, creating the same risks and harms for Columbia Water that Commissioner Yanora foresees for the water utility industry as a whole, but with even greater impact because this return on equity applies to all of Columbia Water's rate base, not just its DSIC-eligible plant investment. The statutory requirement to apply return on equity as determined in a utility's base rate case to its DSIC[4] compounds the impacts of

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[2] RD at 63.

[3] *Bureau of Technical Utility Services Report to the Commission Regarding Quarterly Earnings of Pennsylvania Utilities for the Year ended June 30, 2023*, Docket No. M-2023-3042679, Statement of Commissioner Ralph V. Yanora (issued October 19, 2023).

[4] 66 Pa. C.S. § 1357(b)(2) ("The cost of equity shall be the equity return rate approved in the utility's most recent fully litigated base rate proceeding . . . .").

a low return on equity even further, making it harder for Columbia Water to timely recover through the DSIC for infrastructure improvements.

The RD arrived at its cost of common equity results by taking the mean of Columbia Water and the Office of Consumer Advocate's ("OCA") discounted cash flow ("DCF")[5] and Capital Asset Pricing Model ("CAPM")[6] results, refusing to consider Empirical CAPM ("ECAPM")[7] results, and rejecting Columbia Water's size as a factor meriting upward adjustment to the Company's return on common equity.[8] Substantial, compelling evidence demonstrates Columbia Water's recommended return on equity, offered by Mr. Dylan W. D'Ascendis, is the most reasonable and reliable result.[9]

The Commission has already recognized that multiple methodologies of calculating return on equity are necessary for responsible ratemaking.[10] The Commission utilizes the CAPM as a check on the DCF to make upward adjustments to the cost of common equity set quarterly for DSIC surcharge purposes, most recently finding an average DCF of 8.0 and a CAPM of 10.42 to order a 9.65% return on equity for water companies.[11] Here,[12] Mr. D'Ascendis averaged results

[5] The DCF model seeks to explain the value of an asset as the present value of future cash flows, discounted at the appropriate rate. CWC St. 4 at 20:3-6.

[6] The CAPM analysis determines a "risk-free" interest rate based on U.S. Treasury obligations and an equity risk premium that is proportional to the beta measure of systematic risk of a stock, which are summed to produce the cost rate of equity. CWC St. 4 at 36:13 – 37:1.

[7] Numerous tests of the CAPM have measured the extent to which security returns and beta are related as predicted by the CAPM, confirming its validity. The empirical ECAPM reflects the reality that while the results of these tests support the notion that beta is related to security returns, the empirical Security Market Line ("SML") described by the CAPM formula is not as steeply sloped as the predicted SML. CWC St. 4 at 37:9-14.

[8] RD at 59-64.

[9] Columbia Water MB at 48-83.

[10] RD at 59-60 (quoting *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-2021-3027385 at 154 (Opinion and Order entered May 16, 2022) ("*Aqua*")

[11] *Bureau of Technical Utility Services Report to the Commission Regarding Quarterly Earnings of Pennsylvania Utilities for the Year ended June 30, 2023*, Docket No. M-2023-3042679, Report at 27 (issued October 19, 2023).

[12] The DSIC return on equity is determined by the Commission on a quarterly basis and is set per industry. As such, it is not company specific and the results not a determinant as to the reasonableness of a Company-specific return on equity recommendation. However, the Commission's methodology is informative.

of the DCF (9.13%),[13] CAPM/ECAPM (11.76%), and Risk Premium Model ("RPM") (12.05%) to obtain an indicated range of common equity cost rates (10.09% - 11.09%). Mr. D'Ascendis then made an upward adjustment of 1.00% to reflect the business risk of the Company's size and a downward adjustment of 0.11% to reflect the lessened financial risk relative to the proxy group based on the Company's capital structure to reach his Company-specific indicated range of common equity cost rates (10.98% - 11.98%). Based on this methodology, Mr. D'Ascendis recommended a cost of equity for Columbia Water at the lower end of the indicated range of 11.25%.[14]

Mr. D'Ascendis' methodology is consistent with consideration of multiple methodologies, including the DCF and CAPM that the Commission has utilized time and again. Moreover, the Commission has consistently considered smaller company size as a business risk factor and allowed upward adjustments to the cost of equity, including for Columbia Water.[15] Based on Mr. D'Ascendis' expert testimony and analysis, the Commission should approve an 11.25% cost of equity for Columbia Water Company.

The Commission should also consider Columbia Water's "excellent quality of service"[16] in setting return on equity, particularly if the Commission supports Columbia Water's continued provision of excellent service. The excellent quality of service merits upward adjustment[17] to the return on equity here pursuant to 66 Pa. C.S. § 523:

> (a) Considerations.--***The commission shall consider,*** in addition to all other relevant evidence of record, the efficiency, effectiveness and ***adequacy of service of each utility when determining just and***

[13] OCA Witness Garrett calculated a 9.4% DCF.

[14] Columbia Water MB at 59-60 (citing CWC St. 4 at 4:7-5:3, 55:16-19).

[15] *Pa. Pub. Util. Comm'n v. Columbia Water Company*, Docket Nos. R-2013-2360798, *et al.*, 2014 WL 316891 (Opinion and Order entered Jan. 23, 2014); *see also, e.g. Pa. Pub. Util. Comm'n v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, 2020 WL 2487407, at *63 (Opinion and Order entered Apr. 27, 2020) ("*Citizens 2019*").

[16] RD at 85.

[17] Columbia Water is not seeking a management efficiency adjustment or proposing any specific adjustment.

> ***reasonable rates under this title***. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.[18]

Here, the evidence of record supports the RD's finding of excellent quality of service[19] and this is a factor the Commission should consider when deciding the return on equity in this proceeding.

Regarding expenses, the RD adopts a series of flawed adjustments the OCA proposed[20] and erroneously normalizes some expenses over five years, which is premised on an incorrect finding that Columbia Water will not file a base rate case for another five years.[21] These adjustments are confiscatory and fail to give appropriate weight to substantial record evidence.[22] Columbia Water incurred the expenses at issue on behalf of customers, no party has contested that these are recoverable expenses, and the Commission should allow Columbia Water to recoup these expenses in its rates such that the Company has a fair opportunity to collect these revenues from ratepayers prior to its next rate proceeding. The Commission should set a normalization period of three-years (or 36-months) for any expenses that are normalized.

The RD also erroneously adopts the OCA's duplicative and unreasonable allocations of expenses to the East Donegal Township Municipal Authority ("EDTMA").[23] Columbia Water is not seeking a rate increase for EDTMA customers consistent with the terms of the Commission-

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[18] 66 Pa. C.S. § 523 (emphasis added).

[19] *E.g.*, RD at 85 ("The Company has demonstrated that it has offered excellent quality of service in this proceeding. The Company provided OCA with its customer complaint log, access to its facilities for a site visit, and confirmed that it has not had any formal consumer complaints since its last base rate proceeding. Moreover, no customer testified or complained at the Public Input Hearings and the Company has reasonably addressed the concern of a consumer in this proceeding.").

[20] RD at 26-33.

[21] RD at 22-25.

[22] Columbia Water MB at 17-28.

[23] RD at 34-38.

approved EDTMA acquisition agreement.[24] Thus, Columbia Water removed all EDTMA revenues, capital assets, and expenses from this rate filing.[25] Simply put, ignoring the removal of EDTMA by the Company from the rate increase request, the OCA seeks both improperly and unfairly to push portions of the increase from the remainder of Columbia Water's system to EDTMA. The Commission should not adopt these incorrect and inappropriate adjustments. In contrast to OCA's approach, the Company's allocations are based on the Company's first-hand knowledge of Columbia Water's operations and reflect the actual costs spent operating the EDTMA Rate District.[26] Conversely, the OCA's allocations are based on grossly unreasonable, if not fictional, allocation factors that do not represent the actual costs to provide service to the EDTMA Rate District.[27] The Commission should adopt Columbia Water's proposed allocation of EDTMA revenues, capital assets, and expenses and reject OCA's patently incorrect adjustments.

Finally, based on adoption of the flawed OCA adjustments to expenses discussed above, the RD recommends a negative adjustment to cash working capital of $15,285.[28] The RD correctly recognized that no party has disputed the calculation for cash working capital, but that the results are dependent upon recognizing adjustments to expense claims. Accordingly, the Commission should make upward adjustments to cash working capital consistent with overturning the erroneous adjustments to expenses.

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[24] *Application of Columbia Water Company for approval of the right to: (1) acquire, by sale, substantially all the water system assets of East Donegal Township Municipal Authority; and (2) offer, render, furnish or supply water service to the public in additional portions of East Donegal Township, Lancaster County, Pennsylvania*, Docket No. A-2021-3027134 (Order entered Feb. 3, 2022) (approving Application); Application at Appendix 1, 14(a) ("Buyer shall not raise rates for customers of Seller as of the date of Closing for a period of three (3) years from the date of Closing except as necessary due to natural disaster, terroristic damage or acts of war.").

[25] Columbia Water MB at 22-25 (citing CWC St. 2-R, 2-RJ; Exhibit GDS No. 1 at 2-27 (Revised)).

[26] *Id.* (citing CWC St. 2-R, 2-RJ; Exhibit GDS No. 1 at 2-27 (Revised)).

[27] Columbia Water MB at 24.

[28] RD at 19-20.

For these reasons and as further detailed below, the Commission should modify the RD as described herein.

II. EXCEPTIONS

Exception 1. The RD fails to consider and apply significant amounts of the Company's evidence and methodologies that prove return on equity should be increased substantially. Exception to RD at 44-63.

In considering cost of equity methodologies, the Commission has recognized that "[s]ole reliance on one methodology without checking the validity of the results of that methodology with other cost of equity analyses does not always lend itself to responsible ratemaking."[29]

As Company witness D'Ascendis explains, the use of more than one method to calculate the ROE is appropriate because "reasonable investors use a variety of tools and do not rely exclusively on a single source of information or single model."[30] Moreover, each model focuses on "different aspects of return requirements and provide different insights to investors' views of risk and return."[31] Ultimately, "the use of multiple generally accepted common equity cost rate models also adds reliability and accuracy when arriving at a recommended common equity cost rate."[32]

To determine the most reasonable common equity cost rate for the Company, Mr. D'Ascendis first determined the barometer group of companies based on their comparable risk to the Company ("Utility Proxy Group").[33] The RD correctly adopted Mr. D'Ascendis' Utility Proxy Group.[34]

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[29] *Pa. Pub. Util. Comm'n v. PPL Electric Utilities Corp.,* Docket Nos. R-2012-2290597, *et al.,* 2012 WL 6758304 (Opinion and Order entered Dec. 28, 2012) ("*PPL 2012*"), *available at https://www.puc.pa.gov/pcdocs/1339803.docx).*

[30] CWC St. 4 at 19:11-12.

[31] CWC St. 4 at 19:13-14.

[32] CWC St. 4 at 19:21-23.

[33] Columbia Water MB at 61-62.

[34] RD at 49-51.

Next, Mr. D'Ascendis calculated the indicated cost of equity using three separate, well-established cost of equity methods: (1) the DCF methodology, (2) the Risk Premium approach, and (3) the CAPM. Mr. D'Ascendis then applies these same three models to a group of non-regulated companies of comparable risk as a comparison to the broader market ("Non-Utility Proxy Group"). The results of those methods are set forth below:[35]

Table 2: Summary of Common Equity Cost Rate

Discounted Cash Flow Model	9.13%
Risk Premium Model	12.05%
Capital Asset Pricing Model	11.76%
Market Models Applied to Comparable Risk, Non-Price Regulated Companies	11.59%
Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk	10.09% - 11.09%
Business Risk Adjustment	1.00%
Financial Risk Adjustment	-0.11%
Indicated Range of Common Equity Cost Rates after Adjustment	10.98% – 11.98%
Recommended Cost of Common Equity	11.25%

As seen above, the indicated range of common equity cost rates applicable to the utility proxy group was then adjusted upward by 1.00%, and downward by 0.11% to reflect the Company's greater business risk, and lesser financial risk, respectively, relative to the utility proxy group.[36] These adjustments result in a Company-specific range of common equity cost rates

[35] CWC St. 4 at 4:7-8.
[36] CWC St. 4 at 4:12 – 5:2.

between 10.98% and 11.98%.[37] Based upon this, Mr. D'Ascendis concluded that the base cost of equity should be 11.25%, which is consistent with the *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 592 (1944) and *Bluefield Waterworks & Improvement Company v. Public Service Commission*, 262 U.S. 679 (1923) standard of a just and reasonable return.[38]

The RD recognized that utilizing multiple methods of determining cost of equity is necessary.[39] The RD appropriately found that Mr. D'Ascendis' DCF and CAPM results should inform the cost of equity set for the Company.[40] However, the RD erred when it: refused to consider the ECAPM; found that the result of the risk premium used in Mr. D'Ascendis' CAPM and ECAPM analysis was overstated; utilized OCA's flawed CAPM result; and neglected to make an adjustment for Columbia Water's size as compared to the barometer group.[41] The Commission should adopt Mr. D'Ascendis' return on equity recommendation explained above as the most reasonable result. In the following sections Columbia Water will address each reason the RD's common equity recommendation is flawed.

a. The ECAPM is an appropriate model to analyze appropriate return on equity and should not be ignored.

The RD does "not find the ECAPM results to be appropriate" but fails to explain why.[42] Contrary to the RD's finding, the ECAPM is a necessary measure because the standard CAPM underestimates the return required from low-beta securities, such as those of the Utility Proxy Group used here.[43] As discussed in Mr. D'Ascendis' Direct Testimony, numerous tests of the CAPM have confirmed the validity of the ECAPM because the actual Security Market Line

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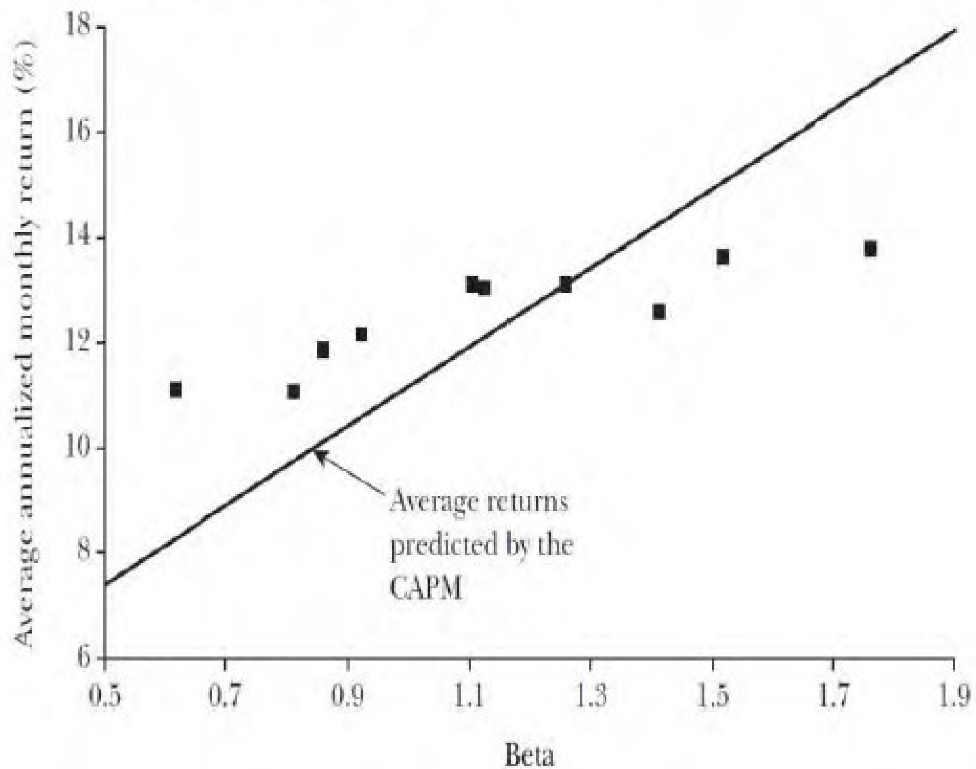
[37] CWC St. 4 at 5:2-3.
[38] CWC St. 4 at 55:16-19.
[39] RD at 59-60.
[40] RD at 63.
[41] RD at 59-64.
[42] RD at 63.
[43] CWC St. 4 at 37:9-14.

("SML") described by the traditional CAPM is not as steeply sloped as the predicted SML.[44] As shown in the chart below, low-beta stocks' average returns were routinely underestimated by the traditional CAPM:[45]



The academic research on the CAPM validates the use of the ECAPM.[46] Nevertheless, Mr. D'Ascendis applied both the traditional CAPM and the ECAPM to the companies in the Utility Proxy Group and averaged his results to make a conservative estimate.

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44 CWC St. 4 at 37:9-16.
45 CWC St. 4 at 38:1.
46 CWC St. 4 at 39:22-23.

b. Mr. D'Ascendis' ECAPM and CAPM results do not overstate the equity risk premium and are reliable; OCA's CAPM results are inaccurate and unreliable.

The RD concludes that because there is a "sizeable gap" between the Company's and OCA's equity risk premium, neither result should be determinative.[47] However, just because there is a difference between two results does not mean neither can be relied upon. Contrary to the RD's finding that the Company "overstates equity risk," Mr. D'Ascendis' equity risk premium used in his CAPM and ECAPM analysis of 10.0% is not overstated; it is reliable and appropriate as demonstrated below.

Mr. D'Ascendis used the average of six market risk premiums for an average total market equity risk premium of 10.00% for use in his CAPM analyses. These market risk premiums consist of the following methodologies and results:

- Deducting the long-term income return on U.S. Government Securities of 5.02% from the SBBI - 2022 monthly historical total market return of 12.37%, which results in an historical market equity risk premium of 7.35%.
- Performing a linear OLD regression to the monthly annualized historical returns on the S&P 500 relative to historical yields on long-term U.S. Government Securities from SBBI – 2022, which yielded a market equity risk premium of 8.77%.
- Forecasting using the PRPM relative to the yields on long-term U.S. Treasury securities from January 1926 through January 2023, which results in in a PRPM market equity risk premium of 10.93%.

47 RD at 63.

- Deducting the forecasted risk-free rate of 3.85% from the Value Line Summary and Index projected total annual market return of 15.15%, which results in a forecasted total market equity risk premium of 11.30%.
- Using Value Line data, subtracting the projected risk-free rate of 3.85% from the projected total return of the S&P 500 of 16.07%, which results in a S&P 500 projected market equity risk premium of 12.22%.
- Using Bloomberg data, subtracting the projected risk-free rate of 3.85% from the projected total return of the S&P 500 of 13.28%, which results in a S&P 500 projected market equity risk premium of 9.43%.[48]

Mr. D'Ascendis' market risk premium ("MRP") of 10.00% falls within the 54th percentile of historical MRPs.[49] Mr. D'Ascendis' equity premium result is based on reliable sources and falls within a range that shows it is a reasonable result as compared to historical experience.

The RD did not discuss specific reasons why it found Mr. D'Ascendis' risk premium to be overstated other than because it was substantially different from OCA's risk premium of 5.5%.[50] The RD erred by making an apples to oranges comparison. Mr. Garrett's risk premium cannot be compared to Mr. D'Ascendis' risk premium because Mr. Garrett relies on unpredictable and unreasonable forecasts and non-transparent data.[51] Moreover, some of Mr. Garrett's cited sources contradict his own approach to forecasting market risk premiums.[52]

The RD recognized that OCA's CAPM is an outlier.[53] The outlier nature of OCA's CAPM should have led the RD to exclude OCA's CAPM from informing the reasonableness of the MRP

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48 CWC St. 4 at 40:11-

49 CWC St. 4-R at 60:4-6.

50 RD at 59-64.

51 CWC St. 4-R at 48:22 – 49:9.

52 CWC St. 4-R at 49:18 – 50:38.

53 RD at 63.

or the overall return on equity. The Commission's most recent Report on the Quarterly Earnings of Jurisdictional Utilities provides a CAPM of 10.42%, which is much more comparable with Mr. D'Ascendis' 11.76%, as opposed to OCA witness Garrett's 8.2%. The Commission should not consider OCA's CAPM in deciding return on equity nor the appropriate MRP for use in the CAPM.

c. The Risk Premium Model is an appropriate model to analyze return on equity, should not be ignored, and is not overstated.

The RD concludes that "it appears equity risk is overstated by the Company" without providing specific reasoning as to why.[54] Contrary to the RD's finding that the Company "overstates equity risk," Mr. D'Ascendis' equity risk premium is reliable and appropriate.

Risk premium analysis is based upon the fundamental principle that an equity investor ina given company has a greater investment risk than a bond holder in the same company.[55] Company witness D'Ascendis relies on the Predictive Risk Premium Model ("PRPM"). The PRPM is not based on an estimate of investor behavior, but rather on the evaluation of the results of that behavior (*i.e.*, the variance of historical equity risk premiums).[56] The inputs to the model are the historical returns on the common shares of each company in the Utility Proxy Group minus the historical monthly yield on long term U.S. Treasury securities through January 2023.[57] Mr. D'Ascendis then added the forecasted 30-year U.S. Treasury Bond yield of 3.85% to each company's PRPM-derived equity risk premium to arrive at an indicated cost of common equity.[58] The 30-year Treasury yield is a consensus forecast derived from the *Blue Chip Financial Forecasts ("Blue Chip")*.[59] Mr. D'Ascendis used the 30-year Treasury yield because its term is consistent with the long-term cost of capital to public utilities, the long-term investment horizon inherent in

[54] RD at 63.
[55] CWC St. 4 at 23:5-11.
[56] CWC St. 4 at 24:12-14.
[57] CWC St. 4 at 24:15-17.
[58] CWC St. 4 at 25:3-5.
[59] CWC St. 4 at 25:5-7.

utilities' common stocks, and the long-term life of the jurisdictional rate base to which the allowed fair rate of return (*i.e.*, cost of capital) will be applied.[60] Mr. D'Ascendis relied on the average of the mean and median results of the PRPM as applied to the Utility Proxy Group to calculate a cost of common equity rate of 12.52%.[61]

In addition to the PRPM, Mr. D'Ascendis also utilized the total market approach RPM, which adds a prospective public utility bond yield to an average of: (1) an equity risk premium that is derived from a beta-adjusted total market equity risk premium and (2) an equity risk premium based on the S&P Utilities Index.[62] Using the total market approach, Mr. D'Ascendis calculated a common equity cost rate of 11.57% for the Utility Proxy Group.[63]

Based on these two models, Mr. D'Ascendis derived an overall common equity cost rate of 12.05%, which gives equal weight to the PRPM (12.52%) and the adjusted market approach results (11.57%).[64]

It is unclear why the RD believes the PRPM is overstated. The criticisms offered by the other parties in this proceeding did not allege the PRPM is overstated, but instead alleged it was inappropriate for other reasons including that Mr. D'Ascendis (1) inappropriately relied upon statistical software to perform his PRPM; (2) the PRPM does not solve the problem of the RPM because it is still an indirect measure of the cost of equity and it uses historic data that may not represent the current or future economic conditions; (3) that the PRPM is not commonly used; and (4) that the PRPM uses proprietary software.[65] These arguments hold no persuasive value. As Mr. D'Ascendis explained, the traditional RPM utilizes a predicted equity risk premium, which is

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60 CWC St. 4 at 25:16-20.
61 CWC St. 4 at 26:7-9.
62 CWC St. 4 at 26:12-15.
63 CWC St. 4 at 35:11-13.
64 CWC St. 4 at 36:4-6.
65 I&E Main Brief at 28.

generated by the prediction of volatility or risk.[66] However, the PRPM, which was published in the *Journal of Regulatory Economics* and *The Electricity Journal*, was developed from the work of Robert F. Engle who found that volatility in prices and returns cluster over time and, therefore, can be highly predictable such that historic prices and returns can be used to predict future levels of risk and risk premiums.[67] Using historic returns from the Utility Proxy Group to determine the appropriate risk premium is appropriate for those reasons. Moreover, Mr. D'Ascendis' indicated ROE from his RPM analysis is based on average of his PRPM and his Total Market Approach Risk Premium Model to ensure a balanced result.[68] Thus, Mr. D'Ascendis reasonably weights multiple models to determine the appropriate indicated ROE.

d. Columbia Water's size merits an upward adjustment to return on equity.

The RD incorrectly rejected Mr. D'Ascendis' size adjustment to return on equity, solely stating:

> We offer no adjustment to the ROE based on size or financial risk. While it is acknowledged that Company may face an increased business risk due to its small size, we find this risk is mitigated by the use of the actual capital structure excluding the PENNVEST debt. Further, we do not see the need to adjust for financial risk as we determined the capital structure to be appropriate.[69]

The RD's reasoning is flawed because it again makes an apples to oranges comparison when discussing risk. In short, the amount of leverage in a given capital structure is a financial risk while size is a business risk.[70] Business risk and financial risk are mutually exclusive.[71] For example, utilizing a hypothetical capital structure would create significant financial risk for the

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[66] CWC St. 4 at 24:11-12.
[67] CWC St. 4 at 24:3-14.
[68] CWC St. 4 at 36:4-6.
[69] RD at 64.
[70] CWC St. 4 at 8:15-12:10, 47:1-55:8.
[71] *Id.*

Company because investors would not be adequately compensated and may choose not to invest in the Company, putting the Company at financial risk.[72] The RD wisely chose not to *create* that ***financial*** risk for Columbia Water by appropriately utilizing the Company's actual capital structure, but utilizing actual capital structure does not mitigate the ***business*** risk associated with company size.[73]

As the Commission has stated, one way to reflect that business risk is to award the utility a cost of common equity which is one standard deviation above the average of the mean and median proxy group ROE from the Company's DCF analysis.[74] As Mr. D'Ascendis testified, the standard deviation of the median and mean results of his DCF analysis is 2.47%.[75] Mr. D'Ascendis also compared the Company's size to that of the Utility Proxy Group finding that the Proxy Group had a market capitalization 97.1 times greater than the Company.[76] Mr. D'Ascendis determined that the size premium spread between the two warranted an upward adjustment of 3.91%.[77]

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[72] CWC St. 4-RJ at 8:5-10 ("[M]aintaining an equity ratio higher than what is approved by a regulatory commission would cause equity investors to receive a debt return on a part of their investment, leading those 8 investors to require a higher equity return. Because equity investors would not receive debt returns for an equity investment, those investors would discontinue their investment in that company."); CWC St. 1-RJ at 3:22-4:9 ("If the Commission decides to utilize a hypothetical capital structure, that signals to the Company that it should seek to align its actual capital structure with the hypothetical capital structure used, i.e., take on more debt and less equity. Adoption of a hypothetical capital structure signals to the Company to manage to (i,e., attempt to achieve) that capital structure by decreasing equity because if we do not, equity investors essentially receive a debt return on part of their investment, and this will ultimately cause investors to require a higher equity return to justify their investment in the Company. But the Company in this scenario would not be able to provide the required higher equity return at the rates OCA proposes. Not meeting investor equity requirements signals a reasonable, prudent investor to walk away from additional investment in the Company and potentially withdraw investment from the Company all together.").

[73] CWC St. 4 at 47:8-16 ("Size affects business risk because smaller companies generally are less able to cope with significant events that affect sales, revenues, and earnings. For example, smaller companies face more risk exposure to business cycles and economic conditions, both nationally and locally. Additionally, the loss of revenues from a few larger customers would have a greater effect on a small company than on a bigger company with a larger, more diverse, customer base. As further evidence illustrates that smaller firms are riskier, investors generally demand greater returns from smaller firms to compensate for less marketability and liquidity of their securities.").

[74] *Citizens 2019*, Docket No. R-2019-3008212, 2020 WL 2487407, at *63 (Opinion and Order entered Apr. 27, 2020).

[75] CWC St. 4 at 50:24-26.

[76] CWC St. 4 at 49:10-12.

[77] CWC St. 4 at 50:1-5.

Nevertheless, Witness D'Ascendis adopted a conservative upward adjustment of 1.00% to reflect the relative business risk of the Company.[78]

The Commission has previously recognized that size should be considered when determining an authorized ROE and has approved upward adjustments for smaller companies on this basis:

> Based upon the evidence of record, we agree with the recommendation of the ALJs that the Company be awarded a DCF cost of common equity which is one standard deviation above the average of the mean and median proxy group ROE from the Company's DCF analysis. In so doing, we recognize that the Company's size is a factor in assessing its ability to attract capital. Accordingly, we shall reject Citizens' Exception No. 10, [the Bureau of Investigation and Enforcement's ("I&E")] Exception No. 4, and the OCA's Exception No. 7, consistent with the following discussion.
>
> We are not convinced by the arguments of I&E and the OCA that the ALJs erred in awarding a size adjustment to Citizens'. Rather, we are of the same opinion as the ALJs that the Company's witness Mr. D'Ascendis offered persuasive record evidence that there is a general inverse relationship between size and risk, such that smaller companies like Citizens' face greater risk.[79]

Thus, the Commission approved an upward adjustment to Citizens Electric Company of Lewisburg, PA due to smaller company size. This upward adjustment was based on Mr. D'Ascendis' testimony in the Citizens proceeding.[80] The Commission has also approved upward adjustments due to smaller company size for Wellsboro Electric Co. ("Wellsboro Electric") and Valley Energy, Inc.[81] In fact, the Commission has previously held that Columbia Water's smaller

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78 CWC St. 4 at 50:27 – 51:2.

79 *Citizens 2019*, Docket No. R-2019-3008212, 2020 WL 2487407, at *63 (Opinion and Order entered Apr. 27, 2020).

80 *Id.*

81 *Pa. Pub. Util. Comm'n et al v. Wellsboro Electric Co.*, Docket No. R-2019-3008208 (Opinion and Order entered Apr. 29, 2020) ("We are not convinced by the arguments of I&E and the OCA that the ALJs erred in awarding a size adjustment to Wellsboro. Rather, we are of the same opinion as the ALJs that Wellsboro's witness Mr. D'Ascendis offered persuasive record evidence that there is a general inverse relationship between size and risk, such

size merits a greater return on equity: "the small size of the Company, its management effectiveness, and the results of ROE models other than DCF are all reasons to set a higher ROE."[82] Thus, the Commission should, consistent with past practice with Columbia Water and other small utilities, approve an upward adjustment of 1.00% to return on equity to reflect the relative business risk of the Company.

e. Columbia Water's Excellent Quality of Service Merits Upward Adjustment of return on equity

The Commission should also consider Columbia Water's "excellent quality of service" in setting return on equity. Excellent quality of service cannot continue without adequate rates. The excellent quality of service merits upward adjustment[83] to the return on equity here pursuant to 66 Pa. C.S. § 523:

> (a) Considerations.--***The commission shall consider,*** in addition to all other relevant evidence of record, the efficiency, effectiveness and ***adequacy of service of each utility when determining just and reasonable rates under this title***. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's

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that smaller companies like Wellsboro face greater risk. In this regard, Mr. D'Ascendis testified that smaller companies face greater business risk because they have fewer resources to enable them to handle significant events that affect their sales, revenues, and earnings. Therefore, the loss of revenues from a few larger customers would have a greater effect on a smaller company than on a bigger company that has a larger and more diverse customer base. Wellsboro St. 2 at 41-42. Accordingly, we find it intuitive that, because smaller firms are riskier, investors will generally demand greater returns to compensate for greater assumed risk. Further, because the record evidence demonstrates that Wellsboro is significantly smaller in size when compared to the EDCs in its proxy group, we find that this weighs in favor of awarding the Company a size adjustment.") ("*Wellsboro*"); *Pa. Pub. Util. Comm'n et al v. Valley Energy Inc.*, Docket No. R-2019-3008209 (Order entered Apr. 27, 2020) ("Valley's witness Mr. D'Ascendis offered persuasive record evidence that there is a general inverse relationship between size and risk, such that smaller companies like Valley face greater risk. In this regard, Mr. D'Ascendis testified that smaller companies face greater business risk because they have fewer resources to enable them to handle significant events that affect their sales, revenues, and earnings. Therefore, the loss of revenues from a few larger customers would have a greater effect on a small company than on a bigger company that has a larger and more diverse customer base. Valley St. 2 at 41-42. Accordingly, we find it intuitive that, because smaller firms are riskier, investors will generally demand greater returns to compensate for greater assumed risk. Further, because the record evidence demonstrates that Valley is significantly smaller in size when compared to the NGDCs in its proxy group, we find that this weighs in favor of awarding the Company a size adjustment.").

[82] *Pa. Pub. Util. Comm'n v. Columbia Water Company*, Docket Nos. R-2013-2360798, *et al.*, 2014 WL 316891 (Opinion and Order entered Jan. 23, 2014).

[83] Columbia Water is not seeking a management efficiency adjustment or proposing any specific adjustment.

> claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.[84]

Here, the evidence of record supports the RD's finding of excellent quality of service, and this is a factor the Commission should consider when deciding the return on equity in this proceeding.

Exception 2. Rate Case Expense Should be Normalized Over Three Years, Not Five. Exception to RD at 22-26.

Columbia Water claimed rate case expense of approximately $390,330.[85] The Company also provided a current level spend of rate case expense through August 21, 2023, indicating the Company is on pace to expend the full amount of projected rate case expenses.[86] The Company further proposed to normalize the cost for rate-making purposes over a 36 month period (*i.e.*, three years), because the Company projects a three year interval between this proceeding and the Company's next base rate case.[87]

The RD inappropriately based the normalization period solely on the Company's historic time interval between rate proceedings. Filing history is not the only factor the Commission considers when normalizing rate case expense.[88] While history can provide guidance on anticipated future conditions, it cannot and should not be the sole basis for determining revenue requirements as this would defeat the purpose of using a FTY in setting rates. Ratemaking is prospective in nature, and the goal of ratemaking is to reasonably reflect future conditions when new rates are in effect.[89] To state the obvious and as demonstrated in the record, current economic

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[84] 66 Pa. C.S. § 523 (emphasis added).
[85] Exhibit GDS No. 1 at 1-16 (Revised).
[86] Exhibit GDS No. 1-RJ (CONFIDENTIAL).
[87] CWC St. 2-R at 17:7-8.
[88] *Butler Township Water Co. v. Pa. Pub. Util. Comm'n*, 473 A.2d 219, 222-23 (Pa. Cmwlth. 1984) (affirming that while historic practice was informative it need not be the exclusive factor relied upon by the Commission)
[89] *Columba Gas v. Pa. PUC*, 613 A.2d 74, 76 (Pa. Cmwlth. 1992), *aff'd*, 636 A.2d 627 (Pa. 1994).

conditions, interest rates, and inflation are not the same business environment as historic conditions, placing greater pressure on utilities to raise rates at more frequent intervals.[90] Columbia Water's historic rate case filing intervals do not reflect current economic conditions.

As further support for relying solely on historic filing intervals, the RD inaccurately describes the Commission's decision in a Wellsboro Electric rate proceeding, stating:

> Similarly, in 2019, Wellsboro Electric Company filed a base rate case requesting a normalization of its rate case expense over a period of three years due to its intent to file a base rate case within that time frame. The Commission found that there was substantial evidence that warranted a deviation from the traditional practice of relying on historical filing frequency. In that case, Wellsboro had not filed a base rate case; thereby demonstrating there was no actual need to deviate from historic practices and that projections related to when a base rate case will be filed are largely inaccurate.[91]

In fact, in the 2019 *Wellsboro* proceeding, the Commission ***agreed that future projections must be taken into account*** and granted a three-year normalization period, stating:

> Contrary to the claims of I&E and the OCA, substantial evidence exists to support deviation from the Commission's common practice of setting a normalization period for rate case expense based only on historic filing frequency. We note that this practice of relying on historic filing frequency is not an absolute and each case should be decided on the basis of evidence of historic filing frequency and future expectations.[92]

The substantial evidence Wellsboro Electric presented that the Commission accepted as indicative of a three-year normalization period included:

> (1) Company witness Gorman explained that the Company's continued expenses related to reliability enhancing projects such as capital replacements, combined with limited prospects for load growth, lead to a reasonable expectation of a 36-month period between rate cases; and (2) Company witness Farnsworth clarified that the Company will suffer revenue loss due to implementation of Combined Heat and Power (CHP) and solar projects at a heightened

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90 CWC St. No 2-R at 18:5-9.

91 RD at 25 (citing and discussing *Wellsboro* at 70-73 (footnotes omitted).

92 *Wellsboro* at 72-73.

> pace. The Company will need to file a rate case to begin earning a return on capital investments and to reflect the ever-increasing right-of-way maintenance costs in rates.[93]

Thus, future needs must be considered when setting rate case expense normalization periods particularly where, as here, the Company has not merely alleged it will file another base rate case in three years, but instead, just like in *Wellsboro*, has provided concrete evidence that it must file another base rate increase in three years. Specifically, Mr. Shambaugh testified:

- The Company will need to address the costs and revenues associated with its EDTMA system once the agreement to maintain the rates of the EDTMA division expires. This agreement will expire in less than three years.[94]
- The Company projects significant levels of investment as set forth in the Company's Long-Term Infrastructure Improvement Plan. Specifically, the Company anticipates spending approximately $840,000 over the next three years to replace aging infrastructure.[95]
- The Company is also seeking Commission approval of its Lead Service Line Replacement ("LSLR") Program which was filed with the Commission on July 21, 2023. When approved by the Commission, the Company will increase spending over the next three years to replace lead service lines.
- Costs to operate have steadily increased over the past few years as a result of economic inflation. Contrary to Ms. Rogers' assumptions, even if economic inflation slows down, price increases will persist for years to come.[96]

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93 *Id.* at 71-72.

94 The stay-out related to EDTMA customer rates expires March 31, 2025.

95 *Petition of Columbia Water Company for Approval of its Second Long-Term Infrastructure Improvement Plan*, Docket No. P-2022-3034702 (Opinion and Order entered Dec. 8, 2022), at 11.

96 CWC St. No 2-R at 18:5-9.

The RD incorrectly weighed this evidence. The RD found, based on supposition, that a rate increase for EDTMA customers would likely not be required.[97] To the contrary, as Mr. Shambaugh testified, "the Company will ***need*** to address costs and revenues associated with the EDTMA system" in the next three years.[98] This concrete evidence cannot be overcome by "suggestions" as the RD reasoned.[99] Suggestions are not substantial evidence.[100] The evidence here shows that a rate increase for EDTMA customers will be necessary in the next three years, supporting a three-year normalization period for rate case expense.

The RD also erroneously rejected Columbia Water's evidence that it has committed to this Commission to spend over $1 million over the next three years in infrastructure improvement and lead service line replacement. The RD incorrectly reasoned that since Columbia Water has a DSIC, that means the Company will not need to seek a rate increase.[101] While the DSIC is certainly a mechanism to assist with recovery of and on infrastructure improvements, the DSIC is capped at 5% of customer of the amount billed to customers. This limitation inhibits the DSIC from serving as a replacement for a rate case, particularly when considering infrastructure spends of over $1 million in the next three years for a utility the size of Columbia Water. Moreover, the low return on equity the RD recommends means the Company will not be able to recover as much revenue through its DSIC as it would at a higher return on equity,[102] meaning a rate case is even more

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[97] RD at 26 ("Yet, as OCA observes, the evidence in the EDTMA acquisition proceeding suggests there may be no need for a base rate filing in the near term.") (emphasis added).

[98] CWC St. 2-R at 17:11-13.

[99] RD at 26 ("Yet, as OCA observes, the evidence in the EDTMA acquisition proceeding ***suggests*** there may be no need for a base rate filing in the near term.") (emphasis added).

[100] *Vertis Group, Inc. v. Duquesne Light Co.*, Docket No. C-00003643, 2003 WL 1605744 (Order entered Feb. 24, 2003), *aff'd*, 840 A.2d 390 (Pa. Cmwlth. 2003), *appeal denied*, 859 A.2d 770 (Pa. 2004) (speculation based on mere possibilities is not competent evidence).

[101] RD at 26.

[102] In calculating the DSIC, the Company will be statutorily required to utilize the cost of equity set in this proceeding. 66 Pa. C.S. § 1357(b)(2) ("The cost of equity shall be the equity return rate approved in the utility's most recent fully litigated base rate proceeding").

likely. The RD further errs when it fails to address the Company's evidence that its costs will continue to increase further necessitating a rate case in three years.[103]

Just like the *Wellsboro* proceeding, the Company has presented substantial evidence that it will require a rate case approximately three years from when rates go into effect for this proceeding. The Commission should allow a three-year normalization period for rate case expenses and apply this three-year normalization period for any other normalized expenses.

Exception 3. <u>Materials and Supplies Expense Associated with Roadway Repair Should Not be Normalized, or, in the alternative, should be normalized over Three Years, Not Five. Exception to RD at 30-31 and FOF 17.</u>

The Company's claim for materials and supplies totaling $432,400 was based on the Company's 2022 per books amount of $377,390 with a going-level adjustment of $55,010 to reflect known and measurable increasing costs to the Company during a period of rampant inflation and supply chain shortages.[104]

The RD erroneously found that $18,000 of the going-level adjustment was associated with a roadway repair that is not a "normal annual expense."[105] Based on this finding the RD normalized this expense over five years. This expense should not have been normalized, or in the alternative, should be normalized over three years, not five.

The OCA and the RD have mischaracterized and conflated one discovery response to conclude that main breaks resulting in significant roadway repair are not an annual expense.[106] In this discovery response, Columbia Water acknowledged that the degree of expense incurred was not the usual roadway repair; but that does not mean that it is not an annually recurring expense

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103 RD at 23-26.
104 *Id*.
105 RD at 31.
106 RD at 30-31 (citing and quoting Columbia Water Exh. DTL-1R (Columbia Water reply to I&E-RE-14-D).

that will continue into the future at more significant costs. As Company witness Shambaugh testified:

> [T]he recommendation to normalize the $18,000 cost to repair a roadway should be rejected. Although the project itself may have been a one-time occurrence, the Company undertakes projects that are similar in scope and effort from year to year. Normalizing these costs would be inappropriate and at odds with the purpose of materials and supplies expense, which reflects various one-time projects and costs the Company undertakes on a yearly basis to maintain adequate, efficient, safe, and reasonable service. To assume the Company will not have future main breaks and, therefore, no road repair expense, is not realistic.[107]

Thus, the record shows that the Company undertakes such restoration projects each and every year. There is nothing "usual" about main repairs and associated roadway repairs except that these events occur annually for utilities located beneath public roadways. For example, the Company also provided evidence of undertaking a similarly-scoped restoration project this year costing the Company $29,000 ($11,000 *more* than the $18,000 roadway repair discussed in the RD) that is not reflected in the Company's claim for materials and supplies expense.[108] This demonstrates roadway repair costs recur annually and represent a normal level of expense that does not need to be normalized, as stated by Mr. Lewis:

> I continue to stand by my rebuttal testimony that a roadway repair of this nature is not a one-time event and will recur in the future. We have maintenance and repair work that routinely results in roadway repairs. While many roadway repairs only require a patch; it is not unusual for the Company to experience roadway repairs of a greater magnitude on an annual basis. The cost comparison I presented in my Rebuttal testimony shows that the estimate in the going level adjustment including for roadway repair is a conservative estimate. Thus, I also continue to believe the going level adjustment the Company proposed for materials and supplies expense is very conservative.[109]

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[107] CWC St. 2-R at 16:1-8.
[108] CWC St. 1-R at 2:9-11.
[109] CWC St. 1-RJ at 3:10-17.

Company witness Lewis is the President and General Manager of the Company and is eminently familiar with the Company's yearly projects. The Company is seeking recovery of prudently incurred expenses necessary to provide safe, reasonable, and adequate service and thus, the Commission should allow the going-level adjustment Columbia Water proposed.

If the roadway repair expense is normalized, which it should not be, then a three-year normalization period is much more appropriate so as to give Columbia Water a fair chance at recovering this prudently incurred expense. For the same reasons discussed at length in Exception 2, a three-year normalization period should be ordered for this expense if this expense is normalized.

Exception 4. Office Expenses Associated with Billing Software should be normalized over three years, not five. Exception to RD at 32-33.

No party contested that the costs of updating billing software are recoverable in rates or that these costs should be normalized. However, the RD chose a five-year normalization period based on the same reasoning used in setting the normalization period for rate case expense.[110] Thus, for the same reasons discussed in Exception 2 above, a three-year normalization period should be ordered for this expense.

Exception 5. Columbia Water Appropriately Allocated EDTMA Expenses. Exception to RD at 34-38.

Columbia Water removed expenses attributable to the EDTMA Rate District from its rate increase claims in this proceeding. The expenses that were removed from the Company's per books amounts were identified in Supporting Schedule No. 10 of Exhibit GDS No. 1 and reduced the Company's claim for O&M Expense by approximately $153,369.[111] Among the expenses removed were wages and salaries of three employees, utilities, chemical expense, lease fees,

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[110] RD at 33.
[111] CWC St. 2 at 10:20-22.

engineering costs, and insurance costs.[112] Additionally, the Company removed FTY increases that were directly related to the EDTMA Rate District, which included additional deductions to salaries and wages related to salary increases for employees that perform work for the EDTMA Rate District, incremental rental property expense, fees associated with electronic payments, and water testing costs.[113] Removal of the FTY expenses associated with the EDTMA Rate District further reduced the Company's claim for O&M Expense by an additional $19,621.[114]

Since acquisition of EDTMA, the Company has been able to separately track and identify all specific expenses associated with the EDTMA Rate District, including expenses that increased in the FTY because of providing service to the EDTMA Rate District.[115] Those costs have been removed from the Company's rate case filing.[116]

Moreover, the Company has demonstrated that the EDTMA system is being run by the same part-time operators that ran the system prior to the Company's acquisition of EDTMA. Their salaries, future wage increases, and employment taxes were all also removed from the Company's rate filing. Further, monitoring of the EDTMA system is automated with level controls to obviate the need for full-time oversight of the system.[117] Put simply, the costs identified and removed by the Company represent the costs to the Company to operate the EDTMA Rate District and have been appropriately removed.

The RD erroneously adopted OCA's flawed and confiscatory position that further allocates costs to EDTMA through ***duplicative*** allocations which do not represent – and overstate - the real cost to operate the EDTMA Rate District. For instance, the RD adopts OCA's proposal to allocate

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[112] Exhibit GDS No. 1, Supporting Schedule No. 10.
[113] CWC St. 2 at 10:24 – 11:12.
[114] Exhibit GDS No. 1 at 1-15 (Revised).
[115] CWC St. 2-R at 11:6-12; *see also* Exhibit GDS No. 1 at 2-27 (Revised).
[116] Exhibit GDS No. 1-R at 1-5.
[117] CWC St. 2-R at 11:13 – 12:2.

Company expenses to the EDTMA Rate District for which the Company had already identified and made an adjustment to remove expenses attributable to the EDTMA Rate District. This includes insurance-related expenses, mailing expense, and management fees (bank charges).[118] The RD thus inappropriately removes these costs a second time.

The RD's cost allocation of EDTMA related costs unreasonably penalizes the Company for its acquisition of EDTMA by duplicating adjustments already made by the Company and over-allocating reasonable and prudently incurred costs to operate its Columbia and Marietta Rate Districts to the EDTMA Rate District using crude allocation factors that do not represent the costs to serve the EDTMA Rate District. Rather, the Company has identified and provided evidence of the direct costs charged to the EDTMA Rate District and removed those costs from the Company's filing. Thus, the Commission should not adopt the RD's confiscatory adjustment.

Exception 6. Upward adjustments to cash working capital should be made consistent with overturning erroneous downward adjustments to expenses. Exception to RD at 19-20.

Cash working capital is the capital requirement arising from the difference between (1) the lag in the receipt of revenue for rendering service and (2) the lag in the payment of cash expenses incurred to provide that service. The Company's claim for cash working capital was calculated based on the 45-day, or 12.5 percent-of-operating expense method.[119] The Commission has approved the 45-day method as a reasonable, cost-effective way to calculate cash working capital for smaller utilities.[120] Based on certain adjustments to the Company's claimed operating expenses

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[118] CWC St. 2-RJ at 4:15 – 5:8.

[119] CWC St. 2 at 13:7-12.

[120] CWC St. 2 at 13:7-10; s*ee also Luckie v. Clean Treatment Sewage Co*., Docket No. R-911918, 1992 WL 12789838 (Opinion and Order entered Jan. 23, 1992); *Pa. Pub. Util. Comm'n v. Bloomsburg Water Co*., Docket No. R-870854, 1988 WL 1664393 (Opinion and Order entered Jul. 21, 1988).

made during the course of this proceeding, the Company's revised cash working capital claim is $501,510, which the Commission should approve.[121]

As the RD acknowledges, the OCA and I&E do not dispute the Company's method of calculating cash working capital, but the OCA and I&E both recommend downward adjustments to the Company's claim because of their respective adjustments to the Company's claimed operating expenses.[122] The RD likewise made a downward adjustment of Columbia Water's claim for cash working capital based on adjustments to the Company's claimed level of operating expense,[123] which the Commission should not adopt.

As explained at length in Exceptions 3-5, the RD erroneously made downward adjustments to Columbia Water's expenses. To provide Columbia Water with its legal right to collect expenses from customers through rates, Columbia Water's requested expense amounts for Materials and Supplies, Office Expense, and EDTMA Expenses must be upwardly adjusted to match the Company's claims. This upward adjustment likewise requires an upward adjustment to cash working capital. Thus, while Columbia Water is not disputing the methodology used by the RD, it is disputing the basis for the RD's cash working capital adjustment. When the Commission approves expenses in the amount Columbia Water claimed for rate recovery greater than the RD, cash working capital must be adjusted accordingly.

III. <u>CONCLUSION</u>

WHEREFORE, for the reasons stated above, Columbia Water Company respectfully requests that the Commission grant these Exceptions and approve the rate increase and other

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[121] Exhibit GDS No. 1-R at 1-9.

[122] *See* OCA St. 1 at 6:1-14; *see also* I&E St. 1 at 17:3-17.

[123] RD at 20.

proposals contained in Supplement No. 121 to Tariff Water – Pa.P.U.C. No. 7, consistent with the modifications herein.

Respectfully submitted,

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Dated: November 2, 2023

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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Dated this 2nd day of November, 2023