

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKET NO. R-2024-3045192

AND

DOCKET NO. R-2024-3045193

PREPARED DIRECT TESTIMONY

OF

JAMES CAGLE

REGARDING

TAXES (TAX CUT & JOBS ACT, CONSOLIDATED INCOME TAX ADJUSTMENT),  
RATEMAKING TREATMENT OF CUSTOMER ASSISTANCE PROGRAM COSTS, AND  
COMPLIANCE WITH THE REQUIREMENTS OF THE VEOLIA/SUEZ MERGER

VEOLIA WATER PENNSYLVANIA, INC.

February 2024

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REGARDING TAXES (TAX CUT & JOBS ACT)

1 **Q. What is your name and business address?**

2 A. I am James C. Cagle. My business address is 461 From Road, Paramus, NJ  
3 07652.

4

5 **Q. By whom and in what capacity are you employed?**

6 A. I am the Vice President, Rates and Regulatory Affairs for Veolia Water  
7 M&S (Paramus), Inc. ("VWM&S").

8

9 **Q. What are your job responsibilities?**

10 A. I am primarily responsible for the oversight of rate case filings for Veolia Water  
11 Pennsylvania, Inc. ("VWPA" or the "Company"). I am also responsible for  
12 oversight of certain rate related compliance and reporting requirements as  
13 prescribed by the various regulatory commissions having jurisdiction over the  
14 Veolia companies.

15

16 **Q. Please outline your educational and professional qualifications.**

17 A. I received a Bachelor of Accountancy degree from the University of Oklahoma in  
18 1987 and am a Certified Public Accountant licensed in the State of Texas. I was  
19 initially employed by United Water M&S as Director, Regulatory Business in  
20 October of 2007 and have held my current position since March 2010.  
21 Previous to that, I was employed by Atmos Energy Corporation, a natural gas  
22 utility operating in twelve states, as Manager, Rates and Revenue Requirements. I

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1 have testified before the Pennsylvania Public Utility Commission and several  
2 other state commissions on various regulatory issues.

3

4 **Purpose and Outline**

5 **Q. What is the purpose of your testimony in this proceeding?**

6 A. The purpose of my testimony in this case is to present support for the following:

- 7 • Adjustments related to the amounts amortized since the last case of  
8 the protected regulatory liability balance created by the Tax Cuts and  
9 Jobs Act (“TCJA”) as it relates to the current amortization and the  
10 calculation of the amounts utilizing the Average Rate Assumption  
11 Method (“ARAM”).
- 12 • The appropriate level of amortization of the protected portion of the  
13 liability balance created by the TCJA .
- 14 • The applicability of a Consolidated Income Tax adjustment as related to this  
15 filing.
- 16 • Ratemaking treatment of the costs of the proposed Customer  
17 Assistance Program (“CAP”).
- 18 • Description of the Company’s compliance with the requirements of  
19 the Veolia/SUEZ merger, Dockets A-2021-3026515, A-2021-  
20 3026522, and A-2021-3026523<sup>1</sup>.

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<sup>1</sup> Joint Application of Veolia Environnement S.A., Veolia North America, Inc., SUEZ S.A., SUEZ Water Pennsylvania Inc. and SUEZ Water Bethel Inc. for all approvals pursuant to Sections 1102(a)(3), (4), and 1103 of the Pennsylvania Public Utility Code, and as otherwise required under the Pennsylvania Public

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1 **Q. Please summarize how the TCJA was addressed in the Company's previous**  
2 **rate case filing (Docket No. R-2018-3000834).**

3 A. In the Company's previous rate case filing, the amount of the TCJA regulatory  
4 liability was determined to be \$10,065,841 to be amortized over a 38 year period  
5 or \$264,891 annually. This amortization amount was based upon a straight line  
6 amortization pending further analyses of the Company's utilization of the ARAM.  
7 The Company has recorded the amortization as required since rates became  
8 effective in that proceeding.

9  
10 As required for inclusion in the current case, a calculation has been made of the  
11 difference between the amortization above and the cumulative amount which was  
12 eligible to be returned to ratepayers based on the ARAM. This difference is  
13 calculated to be \$530,793 which the Company proposes to return to customers via  
14 the Federal Tax Adjustment Credit ("FTAC") tariff mechanism during the 12 months  
15 after rates are effective from this rate case filing.

16  
17 As required, tax savings resulting from TCJA prior to the effective date of new rates  
18 pursuant to the Settlement in the last case was returned to customers through the  
19 FTAC for a period of 12 months after rates went into effect from the last case and  
20 there was a balance remaining to be returned to customers. The remaining  
21 balance has been calculated and included by Mr. Herbert as a component of

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Utility Code for the change in control of SUEZ Water Pennsylvania Inc and SUEZ Water Bethel Inc. (Order entered December 2, 2021).

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1 Adjustment 22.1 as shown in his Workpaper GRH-2-1. The remaining balance,  
2 including interest, is calculated to be \$1,248,742 as of September 30, 2024 and  
3 the Company is proposing to amortize this balance over a three-year period.  
4

5 **Q. Is the Company proposing to change the amortization amount of the**  
6 **protected Excess Deferred Income Taxes (“EDIT”) as a result of the ARAM?**

7 A. Yes. The amortization period for the amount of the regulatory liability which arose  
8 from normalized amounts is considered “protected” and, per the Internal Revenue  
9 Code, shall be amortized no faster than over the period in which Accumulated  
10 Deferred Income Taxes (“ADIT”) would have otherwise reversed. Reflective of the  
11 estimated amount of reversal based upon the ARAM, the Company is proposing  
12 to reduce the level of EDIT at \$300,000 per year. This is somewhat less than the  
13 projected amounts for 2024 and 2025 of around \$333,000. However, the actual  
14 level of reversal based on the ARAM will not be known until after the tax returns  
15 are filed for the calculation periods and the Company believes it is prudent to be  
16 conservative in its reversals based upon projections so as not to inadvertently  
17 reverse too much during a future period. As was provided for in the last case, a  
18 similar true-up mechanism as earlier described could be utilized in the next rate  
19 case filing, or any difference could be considered in future reversing amounts.

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1 **Q. Please describe the consolidated tax adjustment calculation provided as a**  
2 **requirement of MFR IV-14 (CONFIDENTIAL) and the rate making treatment of**  
3 **such an adjustment in this case.**

4 A. A consolidated tax adjustment is no longer required to be made for ratemaking  
5 purposes as a result of Pennsylvania's Act 40. But, as I understand the Act, if there  
6 is an applicable difference relating to the ratemaking methodologies utilized prior  
7 to Act 40 becoming effective and current methodologies, the difference would be  
8 used such that fifty percent would support reliability or infrastructure related to  
9 capital investment and fifty percent for general corporate purposes. The  
10 calculation indicates there is a differential amounting to approximately \$1.7M. As  
11 described in Mr. Finnicum's testimony, the Company is making capital investments  
12 approximating \$85.7 million through the end of the fully projected future test year  
13 ("FPFTY"). It is clear that many times the level of this calculated differential is  
14 being invested. As a result, the Company has included no related amounts in its  
15 revenue requirement computations.

16  
17 **Q. Please summarize the costs related to the Company's Customer Assistance**  
18 **Program ("CAP").**

19 A. The proposed CAP is fully described in the testimony of Company witness Jordan  
20 and includes several components of costs. These are cost associated with the bill  
21 discounts and arrearage forgiveness, costs associated with the repair portion of  
22 the program, and administrative and other costs. At the present time, the levels of

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1 such costs are unknown and will likely not be fully known until the program is rolled-  
2 out to customers; the cost of the program will depend primarily upon program  
3 eligibility at the different levels of bill discount, and customer participation. As a  
4 result, the Company is proposing to include an estimated or “target” amount of  
5 costs for the program of \$1 million to cover the above costs once the program is  
6 implemented. The Company anticipates that, while successful, it will take some  
7 time to reach all eligible customers.

8  
9 **Q. As the costs are uncertain at this time, please describe the Company’s**  
10 **proposed rate making treatment.**

11 A. The Company proposes ratemaking treatment that would track the difference  
12 between the overall costs of the program and the proposed target amount as a  
13 regulatory asset or liability, to be addressed in the Company’s next rate case filing.  
14 After such experience with the program is gained, adjustments to the level of costs  
15 included in base rates would be adjusted to reflect the costs of the program more  
16 accurately in that future case. Additionally, the Veolia shareholder contribution  
17 commitment of \$300,000 to support the low-income program would be included in  
18 the reconciliation as a direct offset of the overall program costs.

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1 **Q. Please describe the Company's compliance with the requirements of the**  
2 **Veolia/SUEZ merger ( the "Transaction")**

3 A. There were numerous requirements described in the Order adopting the  
4 Recommended Decision and Joint Stipulation in those Dockets further described  
5 as follows:

6

7 **Operational Stability (I Terms of the Stipulation 1, a through c)**

8 No changes in employment levels or compensation have been impacted by the  
9 Transaction. Compensation and benefits are at least as favorable in the aggregate  
10 as previous to the Transaction and changes in management have been filled with  
11 qualified applicants. The collective bargaining agreements have been honored in  
12 full, and the administrative office remains in Harrisburg, PA.

13

14 **Rate Stability (I Terms of the Stipulation 2, a through n)**

15 As related to this section, this rate case is filed well after 12 months post  
16 consummation of the Transaction (January 18, 2023) and no transaction or  
17 transition costs directly associated with the Transaction are included in this filing for  
18 recovery from customers. ADIT or EDIT have not changed nor has there been an  
19 impact to the Company's books and records as a result of the Transaction.

20

21 The Company has complied with the remaining requirements in the Rate Stability  
22 section of the Joint Stipulation including those related to debt, cost of capital, capital



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1 structure and dividends. No goodwill has been recorded which would impact the  
2 Company.

3  
4 **Low income Programming (I Terms of the Stipulation 3, a. through d.) and**  
5 **Customer Service Policies (1 Terms of the Stipulation 4, a)**

6 As described in Ms. Jordan's testimony, a Low Income Advisory Committee  
7 ("LIAC") has been established whose input assisted in the development of the  
8 proposed CAP which includes the components required in the joint settlement  
9 agreement. In addition, the requirements related to Customer Service Policies were  
10 provided to the LIAC.

11  
12 **Arrearage/COVID-19 Relief (I Terms of the Stipulation 5, a through d)**

13 As proposed by VWPA, its shareholders contributed an amount equal to 30% of  
14 residential and commercial arrears that were more than 60 days overdue, as of the  
15 date of a Commission Order approving the Transaction, through bill credits. Other  
16 terms of this section were fulfilled.

17  
18 **Affiliate Interest Agreements (1 Terms of the Stipulation 6, a through c)**

19 No changes have been made to the affiliate interest agreement with Veolia Water  
20 M&S (Paramus), Inc. or other affiliate agreements. As a result, no further approval  
21 of affiliate interest agreements have been sought.

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1 **Service Quality and Capital Plans. (1 Terms of the Stipulation 7, a through e)**

2 As related to the Company's capital plan, the capital plans existing prior to the  
3 Transaction are in place and are adequate to maintain water quality, pressure, and  
4 quality of service standards. VWPA's Long-Term Infrastructure Improvement Plan  
5 remains in place. The evaluation of any utilization of Actiflo and Hubgrade are  
6 ongoing.

7

8 **Community Benefits (1 Terms of the Stipulation 8, a through c)**

9 Community benefits are discussed in the testimony of Mr. Finnicum.

10

11 **Records (1 Terms of the Stipulation 9, a and b)**

12 Information provided to the Commission has included English language copies  
13 where needed and, VWPA will provide any translation into English as required.

14

15 **Ring-Fencing (1 Terms of the Stipulation 10, a through d)**

16 Ring-fencing measures and reporting requirements described in this section of the  
17 Joint Stipulation remain in place and no changes have been made to those  
18 measures which would require notification. Additionally, the reporting  
19 requirements related to the common equity ratio have not been triggered and the  
20 long-term debt financial covenants remain in place.

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1 **Q. Does this conclude your direct testimony?**

2 A. Yes, it does. However, I reserve the right to supplement my testimony as additional  
3 issues and facts arise during the course of the proceeding.