

**DIRECT TESTIMONY
OF
JO ANNE LONTZ**

**WITH REGARD TO
PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS
REVENUES AND RATE DESIGN**

DOCKET NO. R-2008-2032689

DATE: April 28, 2008

1 1990 I was promoted to Senior Rate Analyst in the Rates and Revenue Department.
2 In May of 2003 I was promoted to Financial Analyst Intermediate and in April of
3 2006 I was promoted to Senior Financial Analyst.

4 **4. Q. What are your duties as a Senior Financial Analyst?**

5 A. I prepare and assist in the preparation of supporting data submitted to the
6 Pennsylvania Public Utility Commission (the "Commission") for the rate filings made
7 on behalf of Pennsylvania-American. I also assist in preparing responses to data
8 requests and interrogatories from the Commission's Office of Trial Staff, the Office of
9 Consumer Advocate and other parties. I am also responsible for calculating changes
10 to the State Tax Adjustment Surcharge ("STAS"), preparing quarterly and annual
11 reports to the Commission, maintaining the Company's tariffs and preparing tariff
12 revisions, and assisting in the budgeting function.

13 **5. Q. Have you testified previously in proceedings before the Commission?**

14 A. Yes, I provided testimony in support of Pennsylvania-American's rate filings at
15 Docket Nos. R- 00072229, R-00038304, R-00016339, R-994638, R-973973, R-
16 973944, R-943231, R-932670, R-922428, R-911909, R-901652 and R-891208. I also
17 assisted in the preparation of supporting data for the Western Pennsylvania Water
18 Company's filings at Docket Nos. R-860397 and R-870825 and for the former
19 Pennsylvania-American Water Company's rate filing at Docket No. R-880916.

1 II. REVENUES

2 6. Q. Please refer to PAWC Exhibit No. 3-A and explain your area of responsibility
3 with respect to that exhibit.

4 A. I am sponsoring the Company's revenue claim.

5 7. Q. Please explain the development of pro forma revenues as set forth in Exhibit No.
6 3-A.

7 A. The process of developing the Company's revenue claim begins with revenues
8 recorded on the Company's books of account for the twelve months ended December
9 31, 2007, to which various adjustments were made. A summary of the development
10 of pro forma revenues under present and proposed rates is set forth on page 2 of
11 Exhibit No. 3-A, which shows operating revenues by customer classification for the
12 twelve months ending December 31, 2007 and December 31, 2008. Page 3 is a
13 summary of the various adjustments made to book operating revenues to arrive at pro
14 forma operating revenues under present rates for the future test year ending December
15 31, 2008.

16 8. Q. Please explain the various adjustments to the Company's book revenues from
17 wastewater sales that were made to develop pro forma wastewater sales revenues
18 under present and proposed rates.

19 A. In total, three adjustments were made to the Company's wastewater sales revenues
20 booked during the twelve months ended December 31, 2007, which relate to: (1)

1 changes in the number of residential customers, (2) a reclassification of wastewater
2 sales and (3) changes affecting specific customers.

3
4 **Changes in Number of Residential Customers.** As shown on page 8 of Exhibit No.
5 3-A, adjustments were made to annualize historic test year revenues based on the
6 number of residential customers at December 31, 2007. This adjustment annualizes
7 the revenue effect of additions, losses and reclassifications of metered and unmetered
8 residential customers during the historic test year. In addition, as shown on page 9 of
9 Exhibit No. 3-A, an adjustment was made to increase future test year revenues to
10 reflect a full year's revenue for the projected increases in the number of residential
11 customers during the twelve months ending December 31, 2008. Detailed
12 calculations for these adjustments appear in response to Question No. FR II.2 of the
13 Company's Standard Filing Requirements. As explained below, specific customer
14 adjustments were also made for changes affecting customers other than those in the
15 residential and commercial classes.

16
17 **Reclassification of Revenue.** As shown on page 6 of Exhibit No. 3-A, an
18 adjustment was made to reclassify revenues. In particular, Sadsbury Township's
19 revenues were recorded under the municipal bill class for the twelve months ended
20 December 31, 2007; they should have been recorded under the sale for resale bill
21 class.

1 9. Q. Please explain the adjustments made to reflect changes in consumption by
2 specific customers.

3 A. Adjustments to pro forma revenues were made to reflect changes in revenue for two
4 individual customers as shown on page 7 of Exhibit No. 3-A. Each of these
5 adjustments is required to reflect the changed circumstances specific to each
6 customer. Detailed calculations for these adjustments appear in response to Question
7 No. FR II.2 of the Company's Standard Filing Requirements.

- 8 (1). In the last quarter of 2007, Mittal Steel experienced a large leak. An
9 adjustment was made to remove the additional revenue billed due to the
10 leak.
- 11 (2). In October of 2007, the Company began billing an infiltration fee for Caln
12 Township. Caln Township is interconnected with the Coatesville
13 Wastewater System at various points at the eastern end of the sewer
14 system in an area known as McGargee Heights. Since there is not a single
15 point where the Company can install a meter to monitor the flow, the
16 Company bases this portion of Caln Township's bill on the water usage in
17 McGargee. According to the contract with Caln Township, the Company
18 may then add a 10% water infiltration fee to cover any rain or surface
19 water that the water meters would not account for. From the time of
20 acquisition, until 2007, Pennsylvania American Water did not bill Caln
21 Township for this fee. An adjustment was made to annualize the
22 infiltration fees billed to Caln Township.

23 10. Q. Please explain the adjustments made to the Company's Other Operating
24 Revenue.

25 A. Adjustments were made to Other Operating Revenue with respect to: (1) the late
26 payment charge; and (2) capacity and inspection fees. Each adjustment is explained
27 below.

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Adjustments were made to change late payment charge revenue based on: (1) the annualized effect of changes to wastewater sales at December 31, 2008; and (2) the annualized effect of the rate increase proposed by this rate filing. These adjustments are shown on page 4 of Exhibit No. 3-A. The late payment charge is 1½% of delinquent billings. Consequently, as the Company's billed revenue increases due to rate increases, late payment charge revenue increases correspondingly. Therefore, the Company applied a three-year average of late payment charges as a percentage of total wastewater sales to pro forma revenue at present and proposed rates to calculate the corresponding adjustments to late payment charge revenue. Because the Company is claiming a level of late payment charge revenue based upon a percentage of pro forma wastewater sales, any change to wastewater sales revenue under present or proposed rates requires a concomitant adjustment to late payment charge revenue.

The Company receives a capacity and inspection fee for new connections on an EDU (equivalent dwelling unit) basis. The Company is proposing, in this case, that all capacity and inspection fees be recorded as customer contributions and deducted from rate base. An adjustment was made to remove the associated revenue from present rates, as shown on page 5 of Exhibit No. 3-A.

11. Q. Were the pro forma revenues under present and proposed rates, as reflected in Exhibit No. 3-A, verified by applying present rates and proposed rates to an analysis of customers' bills.

1 A. Yes, pro forma revenues were verified by a bill analysis.

2 12. Q. Does Exhibit No. 3-A set forth the number of customers served by the Company
3 by customer class?

4 A. Yes, it does. Page 10 shows the actual number of customers served at December 31,
5 2006 and December 31, 2007 and the projected number of customers to be served at
6 December 31, 2008.

7 III. RATE DESIGN PROPOSAL

8 13. Q. How is the Company proposing to recover its cost of service in this proceeding?

9 A. The proposed rates consist of a service or customer charge for each classification plus
10 a single volumetric charge applicable to each bill class. As such, the Company is
11 proposing to increase service charges to reflect appropriate levels of cost per bill
12 classification, and also to design volumetric charges for each bill classification to
13 move revenues more in-line with the cost of providing service.

14 14. Q. Did you participate in the decision-making process concerning the rates proposed
15 in this case?

16 A. Yes. I consulted with Mr. Klick and Mr. Herbert on several occasions concerning
17 tariff design policies. During this process, Mr. Herbert was provided the guidance
18 necessary to develop the various rates proposed in this case including the increase to
19 capacity fees.

1 15. Q. What rate design guidelines were provided to Mr. Herbert?

2 A. Mr. Herbert was requested to design rates that would provide revenues per bill
3 classification under proposed rates that are better aligned with the cost of service than
4 those revenues produced under present rates.

5 A. Does this conclude your testimony at this time?

6 A. Yes, it does.