

**DIRECT TESTIMONY
OF
JO ANNE LONTZ**

**WITH REGARD TO
PENNSYLVANIA AMERICAN WATER
NORTHEAST WASTEWATER OPERATIONS
REVENUES AND RATE DESIGN**

DOCKET NO. R-2010-2166214

DATE: April 23, 2010

1 PENNSYLVANIA AMERICAN WATER
2 NORTHEAST WASTEWATER OPERATIONS

3 DIRECT TESTIMONY OF JO ANNE LONTZ

4 1. Q. What is your name and address?

5 A. My name is Jo Anne Lontz and my business address is 800 West Hershey Park
6 Drive, Hershey, Pennsylvania 17033.

7 2. Q. By whom are you employed and in what capacity?

8 A. I am employed by Pennsylvania American Water (“PAW” or “the Company”) as a
9 Senior Financial Analyst.

10 3. Q. Please state your education and utility experience.

11 A. I am a 1984 graduate of Pennsylvania State University with a Bachelor of Science
12 degree in Business Administration, with a major in accounting. In May of 2003, I
13 was awarded a Masters in Business Administration from Desales University. I
14 have also completed the continuing education program sponsored by the National
15 Association of Regulatory Utility Commissioners (NARUC) and the University of
16 Utah.

17 I have been employed by Pennsylvania American Water or American Water
18 Works Service Company since April 1985. At that time I was hired by the
19 Service Company as a Junior Accountant in the Accounting Department. In April
20 1986, I was promoted to Rate Analyst, and in July 1990 I was promoted to Senior
21 Rate Analyst in the Rates and Revenue Department. In May of 2003 I was

1 promoted to Financial Analyst Intermediate and in April of 2006 I was promoted
2 to Senior Financial Analyst.

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

4 **A.** I prepare and assist in the preparation of supporting data submitted to the
5 Pennsylvania Public Utility Commission (the "Commission") for the rate filings
6 made on behalf of Pennsylvania American. I also assist in preparing responses to
7 data requests and interrogatories from the Commission's Office of Trial Staff, the
8 Office of Consumer Advocate, the Office of Small Business Advocate and other
9 parties. I am also responsible for calculating changes to the State Tax Adjustment
10 Surcharge ("STAS"), preparing quarterly and annual reports to the Commission,
11 maintaining the Company's tariffs and preparing tariff revisions, and assisting in
12 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-2009-2097323, R-2008-2032689, R- 00072229, R-00038304, R-
16 00016339, R-994638, R-973973, R-973944, R-943231, R-932670, R-922428, R-
17 911909, R-901652 and R-891208. I also assisted in the preparation of supporting
18 data for the Western Pennsylvania Water Company's filings at Docket Nos. R-
19 860397 and R-870825 and for the former Pennsylvania-American Water
20 Company's rate filing at Docket No. R-880916.

21 **Revenues**

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

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

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

6 A. The process of developing the Company's revenue claim begins with revenues
7 recorded on the Company's books of account at December 31, 2009, to which
8 various adjustments were made. A summary of the development of pro forma
9 revenues under present and proposed rates is set forth on pages 2 and 3 of Exhibit
10 No. 3-A, which shows operating revenues by customer classification for the
11 twelve months ending December 31, 2009 and December 31, 2010. Page 4 is a
12 summary of the various adjustments made to book operating revenues to arrive at
13 pro forma operating revenues under present rates for the twelve months ending
14 December 31, 2009 and December 31, 2010.

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

18 A. One adjustment was made to the Company's wastewater sales revenues booked
19 during the twelve months ended December 31, 2009, which relates to changes in
20 the number of residential metered and unmetered customers. Three adjustments
21 were made to wastewater revenues booked during the twelve months ended
22 December 31, 2010 which relate to: (1) changes in the number of residential

1 metered and unmetered customers; (2) reclassifying unmetered revenues to
2 metered revenues for Winona Lakes; and (3) eliminating availability charge
3 revenue.

4 **Changes in Number of Residential Customers.** As shown on page 7 of Exhibit
5 3-A, adjustments were made to annualize historic test year revenues based on the
6 number of residential metered and unmetered customers at December 31, 2009.
7 This adjustment annualizes the revenue effect of additions, losses and
8 reclassifications of residential customers during the historic test year. In addition,
9 as shown on page 8 of Exhibit No. 3-A, adjustments were made to increase future
10 test year revenues to reflect a full year's revenue for the projected increases in the
11 number of residential metered and unmetered customers during the twelve months
12 ending December 31, 2010. Detailed calculations for these adjustments appear in
13 response to Question No. FR II.2 of the Company's Standard Filing
14 Requirements.

15 **Reclassifying Revenue.** All customers in the Winona Lakes district are currently
16 billed at a flat rate. The Company is proposing to create a metered rate for these
17 customers and bill them based on their metered water usage after the rate is
18 approved. The adjustment to reflect this proposed change is shown on page 8 of
19 Exhibit No. 3-A. A detailed calculation of the adjustment is provided in the
20 response to Question No. FR II.2 of the Company's Standard Filing
21 Requirements.

1 **Eliminating Availability charge Revenue.** In this rate filing, the Company
2 proposes to eliminate “availability” charges. An adjustment was made to remove
3 all availability charge revenues from the Company’s pro forma present rate
4 revenue, as shown on page 6 of Exhibit No. 3-A. A detailed calculation is
5 provided in the response to Question No. FR II.2 of the Company’s Standard
6 Filing Requirements.

7 **9. Q. Please explain any adjustments made to the Company's Other Operating**
8 **Revenue.**

9 **A.** Adjustments were made to Other Operating Revenue with respect to late payment
10 charges. These adjustments were made to change late payment charge revenue
11 based on: (1) the annualized effect of changes to wastewater sales at December
12 31, 2010; and (2) the annualized effect of the rate increase proposed by this rate
13 filing. These adjustments are shown on page 5 of Exhibit No. 3-A. The late
14 payment charge is 1½% of delinquent billings. Consequently, as the Company’s
15 billed revenue increases due to rate increases, late payment charge revenue
16 increases correspondingly. Therefore, the Company applied a three-year average
17 of late payment charges as a percentage of total wastewater sales to pro forma
18 revenue at present and proposed rates to calculate the corresponding adjustments
19 to late payment charge revenue. Because the Company is claiming a level of late
20 payment charge revenue based upon a percentage of pro forma wastewater sales,
21 any change to wastewater sales revenue under present or proposed rates requires a
22 concomitant adjustment to late payment charge revenue.

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

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

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

7 A. Yes, it does. Page 9 shows the actual number of customers served at December
8 31, 2008 and December 31, 2009 and the projected number of customers to be
9 served at December 31, 2010.

10 Rate Design Proposal

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

13 A. The proposed rates consist of a service charge or customer charge for each
14 classification plus a single volumetric charge applicable to each billing class. As
15 such, the Company is proposing to increase service charges to reflect appropriate
16 levels of cost for each bill classification and to design volumetric charges for each
17 bill classification to move revenues more in-line with the cost of providing
18 service. The Company is also proposing to establish a single set of rates for the
19 Lehman Pike, Winona Lakes and Blue Mountain districts.

20 13. Q. Did you participate in the decision-making process concerning the rates
21 proposed in this case?

22 A. Yes. I consulted with Mr. Nevirauskas and Mr. Herbert on several occasions

1 concerning tariff design policies. During this process, Mr. Herbert was provided
2 the guidance necessary to develop the various rates proposed in this case.

3 **14. Q. What rate design guidelines were provided to Mr. Herbert?**

4 A. Mr. Herbert was requested to design one set of rates that would provide revenues
5 per bill classification for the entire Northeast wastewater operations that are better
6 aligned with the cost of service than those under present rates and that would
7 recover the proposed revenue increase.

8 **15. Q. Does this conclude your testimony at this time?**

9 A. Yes, it does.