

**DIRECT TESTIMONY
OF
JO ANNE LONTZ**

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

DOCKET NO. R-2010-2166212

DATE: April 23, 2010

1 PENNSYLVANIA AMERICAN WATER
2 COATESVILLE 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. In total, two adjustments were made to the Company's wastewater sales revenues
19 booked during the twelve months ended December 31, 2009, which relate to: (1)
20 changes in the numbers of residential and commercial customers, and (2) changes
21 affecting specific customers.

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

12 **9. Q. Please explain the adjustments made to reflect changes in usage and/or**
13 **revenue for specific customers.**

14 **A.** Two adjustments to pro forma revenues were made to reflect changes affecting
15 specific customers as shown on page 6 of Exhibit No. 3-A. Detailed calculations
16 for these adjustments appear in response to Question No. FR II.2 of the
17 Company's Standard Filing Requirements.

18 (1) **Valley Road Customers.** As shown on page 6 of Exhibit No. 3-A, an
19 adjustment was made for customers living on the 700 block of Valley Road. Per
20 the terms of the settlement of the Company's last Coatesville wastewater rate case
21 at Docket No. R-2008-2032689, if new rates were approved before the Company
22 completed and placed in service an "air jumper", thirteen customers located on the

1 700 block of Valley Road would not receive the rate increase. The purpose of the
2 air jumper, which was placed in service in December 2008, was to eliminate an
3 odor problem, which it did. The Company continued to charge customers the
4 lower rate through the summer of 2009, until it was certain the odor problem
5 would not occur during the hot summer months. This adjustment annualizes the
6 revenues of these customers at the higher rate.

7 (2) **A. Duie Pyle Inc.** In December of 2008, this customer experienced a leak on
8 its water service line. The revenue associated with the leak was booked in
9 January 2009. Also in January of 2009, this customer was given a credit
10 adjustment for part of the revenue associated with the leak. As shown on page 6
11 of Exhibit 3-A, an adjustment was made to remove the remaining effect on
12 revenue of the leak.

13 **10. Q. Please explain any adjustments made to the Company's Other Operating**
14 **Revenue.**

15 **A.** Adjustments were made to Other Operating Revenue with respect to late payment
16 charges. These adjustments were made to change late payment charge revenue
17 based on: (1) the annualized effect of changes to wastewater sales at December
18 31, 2010; and (2) the annualized effect of the rate increase proposed by this rate
19 filing. These adjustments are shown on page 5 of Exhibit 3-A. The late payment
20 charge is 1½% of delinquent billings. Consequently, as the Company's billed
21 revenue increases due to rate increases, late payment charge revenue increases
22 correspondingly. Therefore, the Company applied a three-year average of late

1 payment charges as a percentage of total wastewater sales to pro forma revenue at
2 present and proposed rates to calculate the corresponding adjustments to late
3 payment charge revenue. Because the Company is claiming a level of late
4 payment charge revenue based upon a percentage of pro forma wastewater sales,
5 any change to wastewater sales revenue under present or proposed rates requires a
6 concomitant adjustment to late payment charge revenue.

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

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

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

13 A. Yes, it does. Page 9 shows the actual number of customers served at December
14 31, 2008 and December 31, 2009 and the projected number of customers to be
15 served at December 31, 2010.

16 Rate Design Proposal

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

19 A. The proposed rates consist of a service or customer charge for each classification
20 plus a single volumetric charge applicable to each billing class. As such, the
21 Company is proposing to increase service charges to reflect appropriate levels of

1 cost for each bill classification and to design volumetric charges for each bill
2 classification to move revenues more in-line with the cost of providing service.

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

5 A. Yes. I consulted with Mr. Nevirauskas and Mr. Herbert on several occasions
6 concerning tariff design policies. During this process, Mr. Herbert was provided
7 the guidance necessary to develop the various rates proposed in this case.

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

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

12 **16. Q. Does this conclude your testimony at this time?**

13 A. Yes, it does.