

BUREAU OF TECHNICAL UTILITY SERVICES DATA REQUESTS

TO PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Data Request 1

Data Requests A-2 through A-13 refer to information provided in the Application's Appendix A-5.

A-11. Please explain why HRG's "MACM UVE Model – Final" Excel file, sheet "Sch L-Income Cash Flow" discounts cash flows by an estimated inflation rate. Also, please justify the calculated rate of inflation/discount rate.

Response: Over the twenty year discounting period the system is expected to generate approximately \$265 million net of O&M costs, variable treatment costs, capital projects or debt service on capital projects, renewals and replacements and estimated taxes. Schedule L is designed to discount the value of those annual cash flows to a lump sum payment which if invested at the discount rate would produce an equivalent income stream. The 2.5% discount rate reflects the investment yield on a 20 year Treasury bond.

Responsible Witness: Adrienne M. Vicari, P.E.

Title: Practice Area Leader

Date: July 14, 2017