COMMONWEALTH OF PENNSYLVANIA

November 10, 2021

The Honorable Mary D. Long
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 2020
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. / Docket Nos. R-2021-3027385, R-2021-3027386

Dear Judge Long:

Enclosed please find the Direct Testimony and Exhibits of Brian Kalcic, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures
cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
	:	
AQUA PENNSYLVANIA, INC.	:	
AQUA PENNSYLVANIA WASTEWATER, INC.	:	

Direct Testimony and Exhibits of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Revenue Allocation
Act 11 Revenue Requirement
Rider and Adjustment Clause Proposals

Date Served: November 10, 2021

Date Submitted for the Record: _____

I. QUALIFICATIONS AND OVERVIEW

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Office of Small Business Advocate ("OSBA"), which is representing the small business customers served by Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. (collectively "Aqua" or the "Company").

Q. What is the subject of your testimony?

A. I have been asked by the OSBA to evaluate the propriety of the Company's class revenue allocation proposals for water and wastewater service, and to sponsor changes to such proposals, where appropriate. In doing so, I will also examine the propriety of Aqua's proposed Act 11 revenue requirement.

Finally, I will address the Company's proposed: a) Universal Service Rider ("USR"); b) Energy Cost Adjustment Mechanism ("ECAM"); and c) Purchased Water Adjustment ("PWA") clause.

Q. Do you have any preliminary comments?

Yes. I wish to note at the outset that certain of my recommendations and/or schedules reflect the Company's full rate request in this proceeding. Any such reference is intended for comparison purposes only and should not be construed as a recommendation by the OSBA that the Commission grant Aqua's request in whole or in part.

Q. Please summarize your recommendations.

A. Based on my analysis of the Company's filing and discovery responses, I recommend that the Commission:

- Reject the Company's class revenue allocation for water service since it is not cost based;
- Adopt the OSBA's recommended class revenue allocation and associated scale back proposal for water service;
- Adopt the OSBA's recommended adjustments to the Company's proposed wastewater service increases, which increase wastewater revenues in select operating areas;

- Adopt the OSBA's recommended Act 11 revenue requirement of $18.6 million, and its recommended allocation to water service classes;
- Reject the Company's proposed ECAM; and
- Reject the Company's proposed PWA clause.

The specific details associated with my recommendations are discussed below.

Q. How is the remainder of your testimony organized?

A. Section I of my testimony discusses the Company's proposed revenue allocation for water service, and presents the OSBA's recommended changes to that proposal. Section II discusses Aqua's proposed wastewater service increases and its Act 11 proposal, and presents the OSBA's recommendations with regard to both. Finally, in Section III, I briefly comment on the Company's proposed USR, and evaluate the Aqua's proposed ECAM and PWA clause.

I. WATER SERVICE

Q. Mr. Kalcic, how does Aqua propose to recover its requested increase in water revenues this case?

A. Schedule BK-1W provides a summary of the Company's proposed class revenue allocation for water service. The proposed system average increase in total water revenues is 16.9% (see line 11). The Company's proposed increases to individual customer classes (see lines 1-7) range from a low of 15.9% (Other Water Utilities) to a high of 20.6% (Public Fire).

Q. How did the Company determine the level of the increase to its contract customers of 4.2%, shown on line 9 of Schedule BK-1W?

A. At present, the Company serves a number of industrial, public and sales for resale customers via special contracts, which reflect various negotiated rates for water service. Such contracts also govern the rate increase (if any) applicable to a given contract customer from year-to-year, over the term of the agreement.

At this time, the Company's projects that contract customers will be subject to contract-based increases amounting to $303,705 or 4.2% (on average), which is reflected on line 9 of Schedule BK-1W.

Q. Do the class water increases shown in column 2 of Schedule BK-1W reflect the recovery of a portion of Aqua's claimed wastewater revenue requirement?

A. Yes. As discussed later in my testimony, Aqua proposes to recover $20.8 million of its claimed wastewater revenue requirement from water service customers under Act 11.

Q. What is the Company's revenue allocation proposal exclusive of its proposed reallocation of Act 11 revenues?

A. Schedule BK-2W shows the Company's proposed revenue allocation for water service exclusive of Act 11 revenues. The adjusted system average increase in total water revenues is 12.8% (line 11), and individual customer class increases range from a low of 12.4% (Residential) to a high of 20.6% (Public Fire).

Q. Upon what rate structure guidelines did Aqua rely to arrive at the proposed revenue allocation for water service shown in Schedule BK-2W?

A. On page 11 of AP Statement No. 5, Ms. Heppenstall states that the Company's proposed water rate structure generally considers class cost-of-service considerations, gradualism, the understandability and ease of application of the tariff structure, community and social influences, and value of service (e.g., competitive service) concerns.

However, Ms. Heppenstall also discusses several specific rate design guidelines or directives that were conveyed to her by Company management: 1) maintain separate rate divisions for those areas with year-round usage and those areas with seasonal usage; 2) maintain a low-use block for the residential class at

2,000 gallons per month (in each division), and a sixth block for the industrial class for usage over 10 million gallons per month; 3) continue movement of those areas with year-round usage toward the Main Division rates; 4) increase existing Main Division private fire service line rates by 17.5% and private hydrant charges by 20.6%, while moving the remaining divisions toward the Main Division rates; and 5) increase the existing Public Fire hydrant rate to the 25% cost of service level.

Q. Does Ms. Heppenstall indicate that the Company's proposed rate design for water service customers complies with all of the above guidelines?

A. Yes, she does.

Q. With respect to class cost-of-service considerations, have you examined whether Aqua's proposed class revenue allocation, exclusive of Act 11 considerations, is successful in moving all rate classes closer to cost?

A. Yes, by examining changes in the levels of water revenue subsidies, by customer class, at present and Company proposed rates.

Q. Why is information about class subsidies relevant here?

A. By definition, if a class is not paying exactly its full cost of service, it is either: a) receiving a subsidy (i.e., paying too little); or b) providing a subsidy (i.e., paying too much). In order to determine whether or not a class is moving toward cost of service, one must ascertain whether the class's present subsidy is growing or

shrinking at proposed rates. If its present subsidy is growing at proposed rates, the class is moving in the wrong direction (i.e., away from cost of service). Conversely, if its present subsidy is shrinking at proposed rates, the class is moving closer to cost of service.

In short, the proper yardstick for measuring the degree of movement toward cost of service is the change in the absolute level of class subsidies at present and proposed rates.

Q. Has the Commission recently indicated its agreement with your position that the proper metric for measuring the degree of movement toward cost of service is the change in the absolute level of class subsidies at present and proposed rates?

A. Yes. On page 36 of its Opinion and Order in the City of Bethlehem – Water Department base rate proceeding at Docket No. R-2020-3020256, entered on April 15, 2021, the Commission stated: "As noted by the OSBA, the proper yardstick for measuring the degree of movement toward cost of service is the change in the absolute level of class subsidies at present and proposed rates."

Q. Have you calculated the class subsidies associated with Aqua's present and proposed water rates, using the Company's cost-of-service study for its water operations ("WCOSS")?

A. Yes, in Schedule BK-3W.

1

2 **Q. Please discuss Schedule BK-3W.**

3 A. The subsidies reported on page 1 of Schedule BK-3W are derived by subtracting
4 each class's cost-of-service based revenue requirement, *exclusive of the*
5 *unrecovered cost of wastewater service*, as measured by the Company's WCOSS,
6 from that class's total revenue contribution (again, net of any proposed
7 contributions toward wastewater service), at present and Company proposed rates.[1]
8 These calculations provide a dollar measure of the difference between actual class
9 water revenues and those revenue levels that, if attained, would produce equalized
10 class rates of return at present and Company proposed rates.

11 As previously discussed, classes that exhibit a reduction in the (absolute)
12 magnitude of their respective subsidies are moving closer to cost of service.
13 Conversely, those classes that exhibit an increase in the (absolute) magnitude of
14 their respective subsidies are moving away from cost of service.

15

16 **Q. What do the class subsidy results shown on page 1 of Schedule BK-3W**
17 **indicate?**

18 A. Page 1 of Schedule BK-3W indicates that only the Commercial, Industrial and
19 Public Fire classes would exhibit movement toward cost of service under the
20 Company's proposed revenue allocation. Conversely, the Residential, Public, Other

[1] These subsidy calculations are shown in detail on page 2 of Schedule BK-3W.

Water Utilities and Private Fire classes would move further from cost of service under Aqua's proposal.

Q. Are you in agreement with the Company's proposed revenue allocation for water service, exclusive of Act 11 considerations?

A. No, since Aqua's revenue allocation proposal fails to move all customer classes closer to their respective cost-based revenue levels.

Q. How should Aqua's requested water revenue increase, exclusive of any recovery of the Company's claimed wastewater revenue requirement, be allocated to customer classes?

A. Schedule BK-4W shows the OSBA's recommended allocation of Aqua's (pre-Act 11) requested increase in water revenues of $65.3 million, which may be compared to the Company's proposal shown in Schedule BK-2W. Under the OSBA's proposal, class increases range from 0.0% (Other Water Utilities) to 20.6% (Public Fire).

Q. Please explain how you determined your recommended class increases.

A. My recommended revenue allocation was derived via three steps. First, I assigned each customer class its cost based increase, as determined by the Company's filed WCOSS.

1 Second, I adjusted the increases from Step 1 such that no class would
2 receive either (i) an increase greater than 1.50 times the system average, or (ii) a
3 rate decrease. These conditions necessitate assigning an increase to the small Other
4 Water Utilities class of 0.0%, in lieu of an otherwise applicable cost-based decrease
5 of approximately $12,000. In addition, Step 2 sets the overall Private Fire increase
6 at $0.329 million or 2.0%, in lieu of an otherwise applicable cost based decrease of
7 $0.085 million.[2] On net, Step 2 produces a revenue surplus of approximately
8 $0.424 million that must be credited to Aqua's remaining classes.
9 Third, I assigned the $0.424 million surplus identified in Step 2 to the
10 Residential and Industrial classes (i.e., those classes targeted with above system
11 average increases, excluding Public Fire) in proportion to their respective total cost
12 of service at proposed rates.
13
14 **Q. Have you calculated the class revenue subsidies that would result from the**
15 **OSBA's recommended water revenue allocation?**
16 A. Yes, in Schedule BK-5W.
17

[2] The OSBA's proposal would leave Private Fire Protection rates in Rate Zone 1 unchanged, while retaining the Company's proposed Private Fire increases in all other rate zones – up to the level of *existing* Rate Zone 1 rates – in order to facilitate rate consolidation. This results in an aggregate Private Fire increase of $0.329 million.

Q. How do your recommended revenue subsidies shown on page 1 of Schedule BK-5W compare to the Company's proposed subsidies shown on page 1 of Schedule BK-3W?

A. Unlike the Company's proposal, the OSBA's recommended revenue allocation would move *all* rate classes *to* or *toward* their respective cost-based revenue levels and, in doing so, would eliminate the vast majority of the class subsidies that exist under Aqua's present water rates.

Q. Have you prepared a schedule that shows the OSBA's recommended revenue allocation inclusive of Aqua's proposal to recover $20.8 million of its claimed wastewater revenue requirement from water service customers under Act 11?

A. Yes. Schedule BK-6W adds back the Company's proposed assignment of $20.8 million of Act 11 revenue responsibility, by customer class, in column 3. The resulting class increases shown in columns 4 and 5 may be compared to the corresponding class increases under Aqua's proposal, shown in Schedule BK-1W.

Q. Do you have a scale back recommendation in the event that the Commission grants the Company a water revenue increase, exclusive of Act 11, that is less than the $65.3 million total shown on line 11 of Schedule BK-4W?

A. Yes. In that event, I would recommend that the class increases shown in column 2 of Schedule BK-4W, excluding Public Fire Protection and Contract Sales, be scaled back proportionately.

1

2 **Q. Should the Act 11 revenues assigned to water classes also be subject to scale**

3 **back at the conclusion of this proceeding?**

4 A. Yes. However, the amount of any such scale back will be dependent upon (i) the

5 level of the Company's awarded wastewater revenue requirement and (ii) the

6 overall level of wastewater rates. My wastewater related scale back

7 recommendations are discussed in the next section of my testimony.

8

II. WASTEWATER SERVICE

Q. Mr. Kalcic, how does Aqua propose to adjust its wastewater service revenues in this proceeding?

A. Schedule BK-1WW shows the Company's proposed increases to wastewater revenues, by customer class. In aggregate, Aqua is proposing to increase existing wastewater revenues by $11.6 million, or 31.2%.

Q. How do the Company's proposed wastewater increases vary, by wastewater division?

A. Schedule BK-2WW shows Aqua's proposed wastewater increases, by wastewater division. The Company's proposed increases to individual divisions range from a low of 18.5% (Base Operations) to a high of 74.8% (Limerick Operations).

Q. How much of its total claimed wastewater revenue requirement does Aqua propose to recover from its water service customers?

A. As shown in Aqua Exhibit No. 5-B, Part I, Schedule A, column 3, the Company proposes to recover $20.839 million of its claimed wastewater revenue requirement from water service customers. The $20.839 million represents the difference between the Company's: 1) total claimed wastewater revenue requirement of $69.465 million; and b) total proposed wastewater revenues of $48.626 million.

Q. How did Aqua determine that $20.839 million of its claimed wastewater revenue requirement should be recovered from water service customers in this case?

A. In response to OSBA-I-7(a), Aqua states that it chose to keep its overall wastewater increase under 40% based on its historical experience with bringing water systems gradually up to Main Division rates over multiple cases. In such cases, Aqua's individual rate area increases generally did not exceed 40%.

Q. Does the OSBA oppose a shift of Aqua's claimed wastewater revenue requirement to water customers?

A. No. Counsel advises that Act 11 permits the recovery of a portion of the Company's wastewater revenue requirement from water customers in a given rate proceeding, in order to mitigate the rate increases that wastewater service customers might otherwise experience.

At the same time, Counsel further advises that Act 11 does not authorize a *permanent* shift in revenue responsibility from wastewater to water customers. In other words, Act 11 does not supersede the cost-of-service principles established by the Commonwealth Court's decision in *Lloyd*.[3]

Q. How do the Company's Act 11 revenue credits vary, by operating division?

[3] The Commonwealth Court has unambiguously decided that cost of service should be the "polestar" criterion for rate-setting. In *Lloyd v. Pa. PUC*, the Court held that other rate-making concerns could not trump cost of providing service. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006).

A. Schedule BK-3WW shows the distribution of Aqua's proposed Act 11 revenue credits, by operating division. Such credits average 30.0% of the Company's total wastewater revenue requirement (line 7), with individual credits ranging from 5.0% (Cheltenham, line 4) to 37.4% (Base, line 1).

Q. Is the OSBA in agreement with the Company's proposed wastewater increases, and associated Act 11 revenue credits?

A. No. The OSBA disagrees with Aqua's proposed increases to its Base and New Garden Divisions. First, in the OSBA's view, it is inappropriate to limit the overall increase to the Base Division, which includes Rate Zone 1 (or Main Division), to 18.5%, or just 1.09 times the Company's proposed system average increase in water revenues (of 16.9%).[4] Rather, given the magnitude of the under-recovery of Aqua's claimed wastewater revenue requirement, one should expect wastewater customers to receive materially greater increases than water customers in Aqua rate proceedings – at least for the foreseeable future. As such, the OSBA proposes to assign the Base Division an overall increase of $4.64 million or 24.8%, which is 1.5 times the OSBA's overall recommended increase in water revenues.[5]

Second, I am informed by Counsel that the Company entered into a settlement in the remand portion of Aqua's acquisition of the New Garden Township Sewer Authority (at Docket No. A-2016-2580061) that impacts New

[4] See Schedule BK-2WW at line 1, and Schedule BK-1W at line 11.

[5] See Schedule BK-7W, which is discussed below.

Garden proposed rates in this proceeding. More specifically, I am advised that the settlement on remand required Aqua (1) to propose to set its New Garden division rates equal to its Zone 1 wastewater rates, unless the resulting increase would be more than two times the system-average increase in wastewater rates, in which case (2) Aqua would propose to cap the New Garden division increase at two times the system average increase in wastewater rates. As shown in Schedule BK-2WW, the Company's proposed increase to New Garden is 37.0% or only 1.2 times the system-average increase in wastewater rates of 31.2%. Consistent with the settlement on remand, the OSBA proposes to assign New Garden customers a uniform increase equal to 2.0 times the system average, or 74.6%.[6]

Q. What are the OSBA's recommended increases in wastewater revenues, by wastewater division?

A. Schedule BK-4WW shows the OSBA's recommended increases, by wastewater division. As shown on line 10 of Schedule BK-4WW, the OSBA's overall wastewater increase is $13.8 million, or 37.3%, which remains below the Company's overall target increase of 40.0%.

Q. How do the OSBA's additional wastewater increases affect the Act 11 revenue credits received by each operating division?

[6] See Schedule BK-4WW.

A. Schedule BK-5WW shows the distribution of Act 11 revenue credits under the OSBA's proposal. Since the OSBA's overall recommended wastewater increase is $2.259 million greater than proposed by the Company, the Company's proposed Act 11 revenue requirement is reduced by the same amount. The OSBA's overall recommended Act 11 revenue requirement is therefore $18.580 million, or 26.7% of the Company's claimed wastewater revenue requirement (see line 7 of Schedule BK-5WW).

Q. Have you prepared a summary of the OSBA's recommended wastewater increases, by customer class?

A. Yes, in Schedule BK-6WW. To arrive at the increases shown in Schedule BK-6WW, I assigned a uniform increase of 41.2% to all existing Rate Zone 1 charges, and a uniform increase of 74.6% to all existing New Garden rates.

Q. Is the OSBA in agreement with the Company's proposed method of allocating its Act 11 revenue requirement to its water service classes?

A. Yes, it is. Since the purpose of Act 11 is to mitigate class increases to wastewater customers, the temporary subsides afforded to specific wastewater classes should recovered from the utility's corresponding water service classes. In other words, the subsidy provided to residential wastewater customers should be recovered from residential water customers, and the subsidy provided to non-residential wastewater customers should be recovered from non-residential water customers.

As confirmed in Aqua's response to OSBA-II-4, the Company's allocation of its proposed Act 11 wastewater revenue requirement to individual water service classes reflects the difference between (i) a given wastewater class's total cost of service, as measured by the Company's applicable wastewater cost-of-service study, and (ii) the proposed level of wastewater revenues recovered from that class, summed across all of Aqua's wastewater operations. As such, Aqua's Act 11 allocation methodology properly recovers wastewater subsidies from water customers on a revenue neutral basis, by customer class.

Q. How should the OSBA's recommended Act 11 revenue requirement of $18.580 million be allocated to water service classes?

A. The OSBA's recommended allocation is shown in Table 1 below.

Table 1

Summary of OSBA's Proposal to Allocate $18.580 million of
Aqua's Claimed Wastewater Revenue Requirement
to Water Customers
($000)

Class	*Total WW Cost of Service*	*OSBA Recommended WW Revenues*	*OSBA Act 11 Allocation*
	(1)	(2)	(3)=(2)-(1)
Residential	$51,267.1	$36,116.2	$15,150.9
Commercial	16,062.8	12,707.1	3,355.7

Industrial	5.2	4.8	0.4
Public Authority	349.2	276.0	73.2
Total Sales	$67,684.3	$49,104.1	$18,580.2

Source: Aqua Exhibit No. 5-B, Part I, and Schedule BK-6WW.

Q. Have you updated the OSBA's recommended water service revenue allocation shown in Schedule BK-4W to reflect the OSBA's recommended Act 11 allocation shown in Table 1?

A. Yes. The OSBA's proposed revenue allocation for water service, inclusive of an Act 11 revenue requirement of $18.580 million, is shown in Schedule BK-7W.

Q. Do you have a recommendation for modifying your recommended Act 11 allocation proposal in the event the Commission awards the Company a wastewater revenue requirement that is less than its requested revenue requirement of $69.5 million in this proceeding?

A. Yes. In that event I would recommend that the Commission direct the Company (i) to leave the OSBA's proposed wastewater class increases unchanged, and (ii) to reduce the Act 11 revenue allocation shown in column 3 of Schedule BK-7W by scaling back the class revenue requirements shown in column 1 of Table 1 proportionately.

III. PROPOSED UNIVERSAL SERVICE RIDER & ADJUSTMENT CLAUSES

A. Universal Service Rider ("USR")

Q. Please provide a brief description of Aqua's proposed USR.

A. The USR is intended to recover the costs associated with the Company's universal service or customer assistance program ("CAP") proposals. The USR would apply to all residential water service customers except those receiving CAP benefits. The USR would adjust residential customers' bills by adding a charge or credit to reflect increases or decreases, respectively, in the Company's expected Baseline Cost of operating its CAP programs. Costs and revenues would be tracked and reconciled each year, with over- or under-collections, as applicable, included in an "E" factor.

Q. Do you have any comment on the Company's proposed USR?

A. Yes. I am advised by Counsel that the OSBA takes no position on either the scope of Aqua's CAP proposals, or the mechanism used to recover CAP program costs, as long as all such costs are recovered solely within the residential class.

B. Energy Cost Adjustment Mechanism ("ECAM")

Q. Please provide a brief description of the Company's proposed ECAM.

A. The ECAM is intended to capture changes in (i) the actual energy costs incurred by the Company and (ii) the energy costs included in base rates, as established in

1 Aqua's most recent base rate case. Any difference in such energy costs would be
2 tracked over a twelve-month calculation period, with the difference recovered from
3 or refunded to customers (as appropriate) via a volumetric surcharge or surcredit
4 over the following twelve-month period.[7]
5
6 **Q. Why does the Company believe that the proposed ECAM is necessary and/or**
7 **appropriate?**
8 A. In Aqua's view, the ECAM would ensure that the Company is protected from
9 uncontrollable increases in energy costs, and that it recovers only the actual energy
10 costs incurred to provide water service, no more or no less. In addition, the
11 Company claims that the ECAM would permit customers to "benefit from any and
12 all of the Company's efforts to control costs as well as having the assurance that, if
13 energy prices fall from current levels, they benefit from those market driven
14 reductions."[8]
15
16 **Q. Do you agree that the proposed ECAM is appropriate?**
17 A. No.
18
19 **Q. Why not?**

[7] Subsequent collection/refund periods would include any difference between the actual versus intended amounts to be refunded/collected in previous periods.

[8] See Aqua Statement No. 4, at page 5.

A. If the ECAM were to be approved, the Company would have no incentive to control its energy usage or costs, since any cost increases would be automatically passed along to customers. As a result, I would expect that the only way ratepayers could benefit from the ECAM would be if energy prices were to decline between base rate proceedings.

In addition, since the ECAM would make the Company whole for all energy cost increases between base rate proceedings, counsel advises that the ECAM would constitute single-issue ratemaking.

Q. Would the ECAM lower the Company's business risk?

A. Yes, since Aqua's earnings would be insulated from changes in energy costs between base rate proceedings.

Q. Has Aqua offered a reduction in its requested ROE in exchange for the lower business risk that the ECAM would provide?

A. No, it has not.

Q. Should the Company's proposed ECAM be approved?

A. No. As filed, the proposed ECAM is biased in favor of shareholders. I recommend that the Commission reject the Company's proposed ECAM in its entirety.

C. <u>Purchased Water Adjustment ("PWA") Clause</u>

Q. Mr. Kalcic, how would the Company's proposed PWA clause operate?

A. Aqua states that the PWA clause would adjust customers' bills by adding a charge or credit to reflect increases or decreases, respectively, in the Company's annual purchased water costs incurred from non-affiliated suppliers, compared to the annual level of "Baseline Costs" approved in Aqua's most recent base rate proceeding. Any PWA surcharge would be capped at 3% of the amount billed to customers under the Company's otherwise applicable rates and charges, and the proposed PWA clause would be subject to audit and an annual reconciliation process.

Q. Why does the Company believe that the PWA clause is appropriate?

A. Aqua states that it purchases water from many municipalities or municipal authorities that are not regulated by the Commission. Since such suppliers are unregulated, Aqua claims that they can "frequently implement rate increases at times that do not coincide with base rate cases filed by the Company and well before the Company could reasonably expect to file a base rate case to reflect those increases in its rates."[9] Consequently, the Company claims that it often experiences a significant lag between the time it incurs purchased water cost increases and the time Aqua can recover such cost increases in its own rates. The proposed PWA

[9] See Aqua Statement No. 4 at page 4.

clause is intended to reduce the regulatory lag associated with the recovery of Aqua's purchased water costs.

Q. What is Aqua's total purchased water expense claim in this proceeding?

A. $4.15 million.[10]

Q. Does $4.15 million constitute a significant portion of the Company's total claimed cost of service?

A. No. The Company's total claimed cost of service for its water operations (excluding Act 11) is $575.03 million. As such, Aqua's claimed purchased water expense amounts to only 0.7% of its total costs.

Q. Do you agree that the proposed PWA is necessary to insulate Aqua's earnings from swings in purchased water costs?

A. No. Given that purchased water expense constitutes only 0.7% of Aqua's total claimed cost of service, one may expect changes in level of such expense between base rate proceedings would have a *de minimus* impact on overall Company earnings.

Q. Do you agree that the proposed PWA clause is reasonable?

[10] See Aqua Exhibit No. 5-A, Part I, at Schedule D, page 1 of 7.

A. No. If the Commission were to approve the PWA clause, the Company would have no incentive to control its purchased water costs, since any cost increases would be passed along to customers. As in the case of the Company's proposed ECA mechanism, I would expect that only way ratepayers could benefit from the PWA clause would be if purchased water costs were to decline between base rate proceedings.

Moreover, Counsel again advises that since the PWA mechanism would be used to make the Company whole for all purchased water cost increases between base rate proceedings, the PWA clause would constitute single-issue ratemaking.

Q. Should the Company's proposed PWA clause be approved?

A. No, the Commission should reject the PWA clause since it is biased in favor of shareholders.

Q. Does this conclude your direct testimony?

A. Yes.

EXHIBIT BK-1 W

Schedules BK-1W through BK-7W

AQUA PENNSYLVANIA, INC.

Company Proposed Allocation of its
Requested Increase in Water Revenues
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	Proposed Increase Amount	Proposed Increase Percent
		1	2	3
1	Residential	$333,854,297	$58,198,937	17.4%
2	Commercial	$119,491,326	$19,090,527	16.0%
3	Industrial	$16,630,075	$3,075,729	18.5%
4	Public	$8,516,664	$1,362,175	16.0%
5	Other Water Utilities	$12,812	$2,034	15.9%
6	Private Fire Prot.	$16,153,537	$2,822,598	17.5%
7	Public Fire Prot.	$6,438,592	$1,329,034	20.6%
8	Total Sales	$501,097,303	$85,881,034	17.1%
9	Contract Sales	$7,262,995	$303,705	4.2%
10	Other Revenues	$1,318,393	$0	0.0%
11	TOTAL	$509,678,691	$86,184,739	16.9%

Source: Exh. No. 5-A,
Part I, Sch. A

Notes:
* Includes DSIC at 7.5%.

AQUA PENNSYLVANIA, INC.

Company Proposed Allocation of its
Requested Increase in Water Revenues,
Exclusive of Aqua's Allocation of Act 11 Revenues
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	Adj. Proposed Increase Amount	Adj. Proposed Increase Percent
		1	2	3
1	Residential	$333,854,297	$41,392,837	12.4%
2	Commercial	$119,491,326	$15,151,127	12.7%
3	Industrial	$16,630,075	$3,075,201	18.5%
4	Public	$8,516,664	$1,268,777	14.9%
5	Other Water Utilities	$12,812	$2,034	15.9%
6	Private Fire Prot.	$16,153,537	$2,822,598	17.5%
7	Public Fire Prot.	$6,438,592	$1,329,034	20.6%
8	Total Sales	$501,097,303	$65,041,608	13.0%
9	Contract Sales	$7,262,995	$303,705	4.2%
10	Other Revenues	$1,318,393	$0	0.0%
11	TOTAL	$509,678,691	$65,345,313	12.8%

Source: Exh. No. 5-A,
Part I, Sch. A

Notes:
* Includes DSIC at 7.5%.

AQUA PENNSYLVANIA, INC.

Class Revenue Subsidies at
Present and Company Proposed Rates
Basis: Water Service Only
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Subsidy ($000)	Proposed Subsidy ($000)
		1	2
1	Residential	($6,309)	($7,711)
2	Commercial	$4,500	$3,842
3	Industrial	($715)	($27)
4	Public	$769	$975
5	Other Water Utilities	$11	$12
6	Private Fire Prot.	$2,188	$2,907
7	Public Fire Prot.	($444)	$0
8	Total Company	($0)	($2)
	Source:	Sch. BK-3W, pg. 2 of 2	Sch. BK-3W, pg. 2 of 2

Note: A positive subsidy figure indicates that a class is providing a subsidy; a negative figure indicates that it is receiving a subsidy.

AQUA PENNSYLVANIA, INC.

Derivation of Class Revenue Subsidies at
Present and Company Proposed Rates
Basis: Aqua Water Cost-of-Service Study
(Dollars in Thousands)

		Present Rates			Proposed Rates		
Line	Classification	Present Revenue	Cost-of-Service	Revenue Subsidy	Proposed Revenue 1/	Cost-of-Service 1/	Revenue Subsidy
		(1)	(2)	(3) = (1)-(2)	(4)	(5)	(6) = (4)-(5)
1	Residential	$333,854	$340,163	-$6,309	$375,247	$382,959	-$7,711
2	Commercial	$119,491	$114,991	$4,500	$134,642	$130,800	$3,842
3	Industrial	$16,630	$17,345	-$715	$19,705	$19,733	-$27
4	Public	$8,517	$7,748	$769	$9,785	$8,811	$975
5	Other Water Utilities	$13	$2	$11	$15	$3	$12
6	Private Fire Prot.	$16,154	$13,965	$2,188	$18,976	$16,069	$2,907
7	Public Fire Prot.	$6,439	$6,883	-$444	$7,768	$7,768	$0
8	Total Company	$501,097	$501,097	$0	$566,139	$566,141	-$2
	Source:	Exh. No. 5-A, Part I, Sch. A	OSBA-I-1		Exh. No. 5-A, Part I, Sch. A	Exh. No. 5-A, Part I, Sch. A	

Notes:
1. Excludes Act 11 Wastewater Allocation.

AQUA PENNSYLVANIA, INC.

OSBA Recommended Allocation of Aqua's
Requested Increase in Water Revenues,
Exclusive of any Act 11 Wastewater Allocation
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	Recommended Increase Amount	Recommended Increase Percent
		1	2	3
1	Residential	$333,854,297	$48,699,128	14.6%
2	Commercial	$119,491,326	$11,308,636	9.5%
3	Industrial	$16,630,075	$3,081,805	18.5%
4	Public	$8,516,664	$294,206	3.5%
5	Other Water Utilities	$12,812	$0	0.0%
6	Private Fire Prot.	$16,153,537	$328,799	2.0%
7	Public Fire Prot.	$6,438,592	$1,329,034	20.6%
8	Total Sales	$501,097,303	$65,041,608	13.0%
9	Contract Sales	$7,262,995	$303,705	4.2%
10	Other Revenues	$1,318,393	$0	0.0%
11	TOTAL	$509,678,691	$65,345,313	12.8%

Source: Exh. No. 5-A, Part I, Sch. A — Testimony of Mr. Kalcic

Notes:
* Includes DSIC of 7.5%.

AQUA PENNSYLVANIA, INC.

Class Revenue Subsidies at
Present and OSBA Recommended Revenue Levels
Basis: Water Service Only
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Subsidy ($000)	OSBA Proposed Subsidy ($000)
		1	2
1	Residential	($6,309)	($405)
2	Commercial	$4,500	$0
3	Industrial	($715)	($21)
4	Public	$769	$0
5	Other Water Utilities	$11	$10
6	Private Fire Prot.	$2,188	$413
7	Public Fire Prot.	($444)	$0
8	Total Company	($0)	($2)
	Source:	Sch. BK-5W, pg. 2 of 2	Sch. BK-5W, pg. 2 of 2

Note: A positive subsidy figure indicates that a class is providing a subsidy; a negative figure indicates that it is receiving a subsidy.

AQUA PENNSYLVANIA, INC.

Derivation of Class Revenue Subsidies at
Present and OSBA Recommended Revenue Levels
Basis: Aqua Water Cost-of-Service Study
(Dollars in Thousands)

		Present Rates			OSBA Recommended Revenues		
Line	Classification	Present Revenue	Cost-of-Service	Revenue Subsidy	Recomm. Revenue 1/	Cost-of-Service 1/	Revenue Subsidy
		(1)	(2)	(3) = (1)-(2)	(4)	(5)	(6) = (4)-(5)
1	Residential	$333,854	$340,163	-$6,309	$382,553	$382,959	-$405
2	Commercial	$119,491	$114,991	$4,500	$130,800	$130,800	$0
3	Industrial	$16,630	$17,345	-$715	$19,712	$19,733	-$21
4	Public	$8,517	$7,748	$769	$8,811	$8,811	$0
5	Other Water Utilities	$13	$2	$11	$13	$3	$10
6	Private Fire Prot.	$16,154	$13,965	$2,188	$16,482	$16,069	$413
7	Public Fire Prot.	$6,439	$6,883	-$444	$7,768	$7,768	$0
8	Total Company	$501,097	$501,097	$0	$566,139	$566,141	-$2
	Source:	Exh. No. 5-A, Part I, Sch. A	OSBA-I-1		Sch. BK-4W	Exh. No. 5-A, Part I, Sch. A	

Notes:
1. Excludes Wastewater Allocation.

AQUA PENNSYLVANIA, INC.

OSBA Recommended Allocation of Aqua's
Requested Increase in Water Revenues,
Inclusive of Aqua's Proposed Act 11 Revenues
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	OSBA Recomm. Increase	Aqua Proposed Act 11	Total Increase	% Inc.
		1	2	3	4=2+3	5=4/1
1	Residential	$333,854,297	$48,699,128	$16,806,100	$65,505,228	19.6%
2	Commercial	$119,491,326	$11,308,636	$3,939,400	$15,248,036	12.8%
3	Industrial	$16,630,075	$3,081,805	$528	$3,082,333	18.5%
4	Public	$8,516,664	$294,206	$93,398	$387,604	4.6%
5	Other Water Utilities	$12,812	$0	$0	$0	0.0%
6	Private Fire Prot.	$16,153,537	$328,799	$0	$328,799	2.0%
7	Public Fire Prot.	$6,438,592	$1,329,034	$0	$1,329,034	20.6%
8	Total Sales	$501,097,303	$65,041,608	$20,839,426	$85,881,034	17.1%
9	Contract Sales	$7,262,995	$303,705	$0	$303,705	4.2%
10	Other Revenues	$1,318,393	$0	$0	$0	0.0%
11	TOTAL	$509,678,691	$65,345,313	$20,839,426	$86,184,739	16.9%
	Source:	Exh. No. 5-A, Part I, Sch. A	Schedule BK-4W	Exh. No. 5-A, Part I, Sch. A		

Notes:
* Includes DSIC of 7.5%.

AQUA PENNSYLVANIA, INC.

OSBA Recommended Allocation of Aqua's
Requested Increase in Water Revenues,
Inclusive of OSBA's Recommended Act 11 Revenues
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	OSBA Recomm. Increase	OSBA Recomm. Act 11	Total Increase	% Inc.
		1	2	3	4=2+3	5=4/1
1	Residential	$333,854,297	$48,699,128	$15,150,912	$63,850,040	19.1%
2	Commercial	$119,491,326	$11,308,636	$3,355,717	$14,664,353	12.3%
3	Industrial	$16,630,075	$3,081,805	$422	$3,082,227	18.5%
4	Public	$8,516,664	$294,206	$73,152	$367,358	4.3%
5	Other Water Utilities	$12,812	$0	$0	$0	0.0%
6	Private Fire Prot.	$16,153,537	$328,799	$0	$328,799	2.0%
7	Public Fire Prot.	$6,438,592	$1,329,034	$0	$1,329,034	20.6%
8	Total Sales	$501,097,303	$65,041,608	$18,580,204	$83,621,812	16.7%
9	Contract Sales	$7,262,995	$303,705	$0	$303,705	4.2%
10	Other Revenues	$1,318,393	$0	$0	$0	0.0%
11	TOTAL	$509,678,691	$65,345,313	$18,580,204	$83,925,517	16.5%
	Source:	Exh. No. 5-A, Part I, Sch. A	Schedule BK-4W	Sch. BK-6W, col. 3, less OSBA's Add'l WW Class Inc.		

Notes:
* Includes DSIC of 7.5%.

EXHIBIT BK-1 WW

Schedules BK-1WW through BK-6WW

AQUA PENNSYLVANIA WASTEWATER, INC.

Company Proposed Allocation of its
Requested Increase in Wastewater Revenues,
by Customer Class
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	Proposed Increase Amount	Proposed Increase Percent
		1	2	3
1	Residential	$25,848,678	$8,612,297	33.3%
2	Commercial	$9,333,222	$2,790,157	29.9%
3	Industrial	$3,530	$1,129	32.0%
4	Public Authority	$204,412	$51,355	25.1%
5	Total Sales	$35,389,842	$11,454,938	32.4%
6	Contract / Third P.	$1,592,785	$108,659	6.8%
7	Other Revenues	$76,434	$0	0.0%
8	TOTAL	$37,059,061	$11,563,597	31.2%

Source: Exh. No. 5-B, Part II

Notes:
* Includes DSIC Revenues.

AQUA PENNSYLVANIA WASTEWATER, INC.

Company Proposed Increase in Wastewater Revenues,
by Wastewater Division
(Future Test Period Ending March 31, 2023)

Line	Division	Present Revenue*	Proposed Increase Amount	Proposed Increase Percent
		1	2	3
1	Base	$18,675,524	$3,454,398	18.5%
2	Limerick	$3,969,764	$2,968,877	74.8%
3	East Bradford	$998,191	$358,379	35.9%
4	Cheltenham	$7,238,362	$2,541,306	35.1%
5	East Norriton	$2,916,336	$1,157,851	39.7%
6	New Garden	$2,871,698	$1,063,739	37.0%
7	Total Sales	$36,669,875	$11,544,550	31.5%
8	Contract	$312,754	$19,047	6.1%
9	Other Revenues	$76,434	$0	0.0%
10	TOTAL	$37,059,063	$11,563,597	31.2%

Source: Exh. No. 5-B, Part I

Notes:
* Includes DSIC Revenues.

AQUA PENNSYLVANIA WASTEWATER, INC.

Company Proposed Act 11 Revenue Credits,
by Wastewater Division
(Future Test Period Ending March 31, 2023)

Line	Division	Total Claimed Rev. Requirement	Proposed Act 11 Credit	% of Total Rev. Req.
		1	2	3 = 2 / 1
1	Base	$35,938,023	$13,451,997	37.4%
2	Limerick	$9,925,668	$2,977,700	30.0%
3	East Bradford	$1,831,445	$457,861	25.0%
4	Cheltenham	$10,316,073	$515,804	5.0%
5	East Norriton	$5,830,936	$1,749,281	30.0%
6	New Garden	$5,622,603	$1,686,782	30.0%
7	Total WW	$69,464,748	$20,839,425	30.0%

Source: Exh. No. 5-B,
Part I

AQUA PENNSYLVANIA WASTEWATER, INC.

OSBA Recommended Increases in Wastewater Revenues,
by Wastewater Division
(Future Test Period Ending March 31, 2023)

Line	Division	Present Revenue*	Recomm. Increase Amount	Recomm. Increase Percent
		1	2	3
1	Base	$18,675,524	$4,635,137	24.8%
2	Limerick	$3,969,764	$2,968,877	74.8%
3	East Bradford	$998,191	$358,379	35.9%
4	Cheltenham	$7,238,362	$2,541,306	35.1%
5	East Norriton	$2,916,336	$1,157,851	39.7%
6	New Garden	$2,871,698	$2,142,222	74.6%
7	Total Sales	$36,669,875	$13,803,772	37.6%
8	Contract	$312,754	$19,047	6.1%
9	Other Revenues	$76,434	$0	0.0%
10	TOTAL	$37,059,063	$13,822,819	37.3%

Source: Exh. No. 5-B, Part I — Testimony of Mr. Kalcic

Notes:
* Includes DSIC Revenues.

AQUA PENNSYLVANIA WASTEWATER, INC.

OSBA Recommended Act 11 Revenue Credits,
by Wastewater Division
(Future Test Period Ending March 31, 2023)

Line	Division	Total Claimed Rev. Requirement	OSBA Recomm. Act 11 Credit	% of Total Rev. Req.
		1	2	3 = 2 / 1
1	Base	$35,938,023	$12,271,258	34.1%
2	Limerick	$9,925,668	$2,977,700	30.0%
3	East Bradford	$1,831,445	$457,861	25.0%
4	Cheltenham	$10,316,073	$515,804	5.0%
5	East Norriton	$5,830,936	$1,749,281	30.0%
6	New Garden	$5,622,603	$608,299	10.8%
7	Total WW	$69,464,748	$18,580,203	26.7%

Source: Exh. No. 5-B, Part I — Testimony of Mr. Kalcic

AQUA PENNSYLVANIA WASTEWATER, INC.

OSBA Recommended Increases in Wastewater Revenues,
by Customer Class
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Revenue*	Recomm. Increase Amount	Recomm. Increase Percent
		1	2	3
1	Residential	$25,848,678	$10,267,485	39.7%
2	Commercial	$9,333,222	$3,373,840	36.1%
3	Industrial	$3,530	$1,235	35.0%
4	Public Authority	$204,412	$71,601	35.0%
5	Total Sales	$35,389,842	$13,714,160	38.8%
6	Contract / Third P.	$1,592,785	$108,659	6.8%
7	Other Revenues	$76,434	$0	0.0%
8	TOTAL	$37,059,061	$13,822,819	37.3%

Source: Exh. No. 5-B, Part II; Testimony of Mr. Kalcic

Notes:
* Includes DSIC Revenues.

REFERENCED INTERROGATORY RESPONSES

OSBA-I-1
OSBA-I-7(a)
OSBA-II-4

Witness: Erin M. Feeney
Date: 10/6/2021

AQUA PENNSYLVANIA, INC. &
AQUA PENNSYLVANIA WASTEWATER INC.

OFFICE OF SMALL BUSINESS ADVOCATE

DATA REQUEST SET I

DOCKET NO. R-2021-3027385 & R-2021-3027386

OSBA-I-1: Please provide a copy of all water cost-of-service study workpapers including, but not limited to, the complete water cost-of-service study utilized to produce the class rates of return under present rates shown in Schedule B of Exhibit No. 5-A, Part I.

RESPONSE:

Please refer to "OSBA-I-1 - Attachment 1" and the attachments provided in response to I&E-RS-2-D-Water and I&E-RS-3-D-Water.

AQUA PENNSYLVANIA, INC.

DEVELOPMENT OF RATE OF RETURN BY CUSTOMER CLASSIFICATION
UNDER PRESENT RATES

ITEM	COST OF SERVICE	RESIDENTIAL	COMMERCIAL	INDUSTRIAL	PUBLIC	OTHER WATER UTILITIES	FIRE PROTECTION	
							PRIVATE	PUBLIC
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. REVENUES FROM SALES	501,097,303	333,854,297	119,491,326	16,630,075	8,516,664	12,812	16,153,537	6,438,592
2. OTHER REVENUES	8,581,387	5,823,535	1,971,625	297,465	132,840	43	239,549	116,329
3. TOTAL OPERATING REVENUES	509,678,691	339,677,833	121,462,951	16,927,540	8,649,504	12,855	16,393,086	6,554,921
4. LESS: OPERATING EXPENSES (INCLUDES REALLOCATION OF FIRE; No ACT 11)	250,939,367	188,088,427	54,528,268	8,090,568	3,699,537	1,575	5,784,582	-9,253,591
5. RETURN AND INCOME TAXES	258,739,324	151,589,405	66,934,684	8,836,972	4,949,967	11,279	10,608,504	15,808,513
6. LESS: TAXABLE EXCLUSIONS (FACTOR 18)	70,371,594	42,944,899	16,980,806	2,597,908	1,137,205	211	2,290,173	4,420,392
7. TAXABLE INCOME	188,367,729	108,644,507	49,953,877	6,239,064	3,812,762	11,068	8,318,330	11,388,121
8. LESS: INCOME TAXES (TAX. INC.)	12,978,397	7,485,526	3,441,785	429,867	262,696	763	573,127	784,633
9. NET RETURN (Line 5 - Line 8)	245,760,927	144,103,879	63,492,898	8,407,106	4,687,271	10,517	10,035,377	15,023,879
10. ORIGINAL COSTS MEASURE OF VALUE	3,818,296,020	2,330,151,169	921,362,821	140,960,451	61,701,793	10,361	124,263,807	239,845,625
11. RATE OF RETURN, PERCENT	6.44	6.18	6.89	5.96	7.60	101.50	8.08	6.26
12. RELATIVE RATE OF RETURN	1.00	0.96	1.07	0.93	1.18	15.77	1.25	0.97

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
OPERATION AND MAINTENANCE EXPENSES									
	Source of Supply								
	----Operation----								
601.1	Operation Labor								
	Treatment Plants & Wells	2	301,370	184,327	93,567	15,807	6,250	0	696
	Booster Stations	3	17,033	9,714	4,919	831	329	0	454
620.1	Materials and Supplies								
	Treatment Plants & Wells	2	51,270	31,358	15,918	2,689	1,063	0	118
	Booster Stations	3	2,898	1,653	837	141	56	0	77
636.1	Contract Services Other	2	81,529	49,866	25,313	4,276	1,691	0	188
641.1	Building Rental								
	Treatment Plants & Wells	2	451,922	276,409	140,309	23,703	9,372	0	1,043
	Booster Stations	3	25,542	14,567	7,377	1,246	493	0	681
	Total Operation		931,564	567,893	288,239	48,693	19,253	1	3,259
	----Maintenance----								
601.2	Maintenance Labor								
	Treatment Plants & Wells	2	200,681	122,743	62,306	10,526	4,162	0	463
	Booster Stations	3	74,602	42,545	21,545	3,640	1,439	0	1,989
620.2	Materials and Supplies								
	Treatment Plants & Wells	2	2,990	1,829	928	157	62	0	7
	Booster Stations	3	1,112	634	321	54	21	0	30
631.2	Contractor Services - Engineer								
	Treatment Plants & Wells	2	5,375	3,288	1,669	282	111	0	12
	Booster Stations	3	1,998	1,140	577	97	39	0	53
636.2	Contractor Services - other	2	218,902	133,887	67,963	11,481	4,540	0	505
675.2	Miscellaneous								
	Treatment Plants & Wells	2	42	25	13	2	1	0	0
	Booster Stations	3	15	9	4	1	0	0	0
	Total Maintenance		505,718	306,099	155,327	26,240	10,375	1	3,061
	----Miscellaneous----								
610.1	Water Purchased for Resale	1	4,148,780	2,493,624	1,301,053	239,833	86,904	4	13,413
615.1	Power Purchased	1	6,428,515	3,863,859	2,015,976	371,620	134,658	6	20,783
616.1	Power Purchased	1	218,458	131,304	68,508	12,629	4,576	0	706
	Total Miscellaneous		10,795,753	6,488,787	3,385,537	624,081	226,139	11	34,903
	Total Source of Supply Expenses		12,233,035	7,362,779	3,829,103	699,014	255,767	12	41,222

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Water Treatment Expenses								
	----Operation----								
601.3	Operating Labor	2	6,699,126	4,097,387	2,079,891	351,362	138,926	7	15,468
615.3	Purchased Power	1	134,425	80,796	42,155	7,771	2,816	0	435
616.3	Purchased Power	1	3,349	2,013	1,050	194	70	0	11
618.3	Chemicals	1	5,731,075	3,444,663	1,797,259	331,302	120,049	6	18,529
620.3	Materials and Supplies	2	458,951	280,708	142,492	24,072	9,518	0	1,060
631.3	Contractor Services	2	-	-	-	-	-	-	-
635.3	Contractor Services - testing	2	298,283	182,439	92,608	15,645	6,186	0	689
636.3	Contractor Services - other	2	713,947	436,672	221,661	37,446	14,806	1	1,649
642.3	Equipment Rental	2	7,183	4,393	2,230	377	149	0	17
650.3	Transportation	2	-	-	-	-	-	-	-
675.3	Miscellaneous	2	41,744	25,532	12,960	2,189	866	0	96
	Total Operation		14,088,083	8,554,602	4,392,307	770,357	293,385	14	37,952
	----Maintenance----								
601.4	Maintenance Labor	2	180,766	110,562	56,123	9,481	3,749	0	417
620.4	Materials and Supplies	2	68,215	41,722	21,179	3,578	1,415	0	158
631.4	Contractor Services - Eng	2	-	-	-	-	-	-	-
635.4	Contractor Services - Testing	2	3,225	1,973	1,001	169	67	0	7
636.4	Contractor Services - Other	2	1,533,921	938,192	476,240	80,453	31,810	2	3,542
642.4	Equipment Rental	2	2,250	1,376	698	118	47	0	5
650.4	Transportation	2	-	-	-	-	-	-	-
675.4	Miscellaneous	2	7,668	4,690	2,381	402	159	0	18
	Total Maintenance		1,796,045	1,098,515	557,622	94,201	37,246	2	4,147
	Total Water Treament Expenses		15,884,128	9,653,117	4,949,929	864,558	330,632	16	42,099

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Transmission & Distribution Expenses								
	----Operation----								
601.5	Operating Labor								
	Supervision & Engineering	12	551,956	418,022	74,749	8,466	5,532	13	16,878
	Maps & Records	12	1,059,881	802,698	143,534	16,258	10,623	25	32,409
	Storage Facilities	5	720,218	434,157	202,285	30,380	13,511	-	14,584
	12 inch and Over Mains	3	175,336	99,993	50,636	8,554	3,382	0	4,676
	Under 12 inch Mains	4	948,231	537,310	249,814	37,520	16,686	-	38,659
	Hydrants	6	242,169	-	-	-	-	-	23,369
	Removing and Resetting Meters	7	3,629,384	3,190,011	304,516	17,552	26,146	138	91,021
	Miscellaneous Meter Expense	7	169,045	148,580	14,183	818	1,218	6	4,239
	Services on Customer's Premises	8	366,397	323,967	25,074	1,056	1,709	5	14,587
6502.2	Operating Labor	12	636,819	482,293	86,241	9,768	6,383	15	19,473
615.5	Purchased Power	1	1,144,897	688,141	359,039	66,184	23,982	1	3,701
615.6	Purchased Power	1	2,649	1,592	831	153	55	0	9
620.5	Materials and Supplies	12	1,182,671	895,692	160,163	18,141	11,854	28	36,164
631.5	Contractor Services - Eng	12	-	-	-	-	-	-	-
636.5	Contractor Services - Other	12	553,058	418,857	74,898	8,483	5,543	13	16,911
641.5	Property Rental	12	33,271	25,197	4,506	510	333	1	1,017
642.5	Property & Equipment Rental	12	-	-	-	-	-	-	-
650.5	Transportation	12	969,694	734,395	131,321	14,874	9,719	23	29,651
675.5	Miscellaneous	12	305	231	41	5	3	0	9
	Total Operation		12,385,980	9,201,133	1,881,831	238,722	136,681	270	347,359
	----Maintenance----								
601.6	Maintenance Labor								
	Supervision & Engineering	13	155,409	91,444	27,034	3,781	1,822	1	7,071
	Structures & Improvements	5	38,912	23,457	10,929	1,641	730	-	788
	12 inch and Over Mains	3	178,325	101,697	51,500	8,700	3,440	0	4,756
	Under 12 inch Mains	4	1,056,584	598,707	278,360	41,807	18,593	-	43,077
	Services	8	551,925	488,009	37,770	1,590	2,574	7	21,974
	Meters	7	115,303	101,345	9,674	558	831	4	2,892
	Hydrants	6	290,764	-	-	-	-	-	28,059
620.6	Materials and Supplies	13	390,778	229,937	67,977	9,507	4,582	2	17,780
631.6	Contractor Services - Eng	13	-	-	-	-	-	-	-
636.6	Contractor Services - Other	13	4,182,317	2,460,904	727,531	101,747	49,038	21	190,291
641.6	Equipment Rental	13	-	-	-	-	-	-	-
650.6	Transportation	13	-	-	-	-	-	-	-
675.6	Miscellaneous	13	6,086	3,581	1,059	148	71	0	277
	Total Maintenance		6,966,402	4,099,080	1,211,834	169,479	81,681	35	316,964
	Total Transmission and Distribution Expenses		19,352,382	13,300,213	3,093,666	408,201	218,362	306	664,323

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Customer Accounting and Collecting Expenses								
601.7	Labor	11	703,820	652,797	37,314	1,291	2,033	4	10,183
616.7	Purchased Power	11	2,448	2,271	130	4	7	0	35
620.7	Materials and Supplies	9	174	161	9	0	1	0	3
636.7	Contractor Services - Billing	9	6,367,839	5,905,693	337,566	11,679	18,397	32	92,124
636.7	Contractor Services - Meter Reading	10	2,773,240	2,572,920	147,068	5,089	8,015	14	40,134
650.7	Transportation	9	-	-	-	-	-	-	-
670.7	Bad Debt Expense	9	2,574,635	2,387,781	136,484	4,722	7,438	13	37,247
675.7	Miscellaneous	9	-	-	-	-	-	-	-
	Total Customer Accounting and Collecting Expenses		12,422,156	11,521,624	658,570	22,785	35,890	62	179,726
	Administrative and General Expenses								
601.8	Labor	14	14,894,959	11,019,738	2,458,473	341,541	165,498	134	307,879
603.8	Officers Labor	14	3,599,430	2,662,966	594,100	82,535	39,993	32	74,400
604.8	Employee Health Plans	16	17,954,696	12,785,108	3,334,151	480,665	227,342	180	373,099
615.8	Purchased Power	14	241,594	178,738	39,876	5,540	2,684	2	4,994
616.8	Purchased Power	14	88,400	65,401	14,591	2,027	982	1	1,827
6208	Materials and Supplies	14	99,108	73,323	16,358	2,273	1,101	1	2,049
631.8	Contractor Services - Engineering	14	156,010	115,421	25,750	3,577	1,733	1	3,225
632.8	Contractor Services - Accounting	14	727,117	537,943	120,014	16,673	8,079	7	15,030
633.8	Contractor Services - Legal	14	644,475	476,802	106,373	14,778	7,161	6	13,321
634.9	Contractor Services - Mgmt Fee	14	18,159,655	13,435,057	2,997,324	416,401	201,772	163	375,360
636.8	Contractor Services - Other	14	1,706,821	1,262,757	281,718	39,137	18,964	15	35,280
641.8	Rent - Building	14	6,463	4,782	1,067	148	72	0	134
642.8	Rent - Equipment	14	33,243	24,594	5,487	762	369	0	687
650.8	Transportation	14	83,970	62,124	13,860	1,925	933	1	1,736
656.8	Vehicle Insurance	14	235,327	174,102	38,842	5,396	2,615	2	4,864
657.8	General Liability Insurance	14	3,987,744	2,950,253	658,193	91,439	44,308	36	82,427
658.8	A&G Workers Comp Insurance	16	1,088,288	774,944	202,093	29,135	13,780	11	22,615
659.8	A&G General Liablity Insurance	14	1,465,917	1,084,530	241,956	33,613	16,288	13	30,301
660.8	Advertising	14	295,651	218,732	48,798	6,779	3,285	3	6,111
666.8	Rate Case Amortization	19	679,553	461,161	156,131	23,556	10,519	3	18,970
676.21	Labor (Transfrd)	16	(2,184,129)	(1,555,266)	(405,588)	(58,471)	(27,655)	(22)	(45,386)
676.22	Employee Benefits (Transfrd)	16	(7,310,097)	(5,205,345)	(1,357,470)	(195,699)	(92,560)	(73)	(151,904)
676.24	Other (Transfrd)	14	(2,019,211)	(1,493,873)	(333,279)	(46,301)	(22,435)	(18)	(41,737)
406.0	Amortization of UPAA	14	214,754	158,881	35,446	4,924	2,386	2	4,439
404.8	Employee Benefits (Transfrd)	16	(1,428,119)	(1,016,929)	(265,199)	(38,232)	(18,083)	(14)	(29,676)
675.8	A & G Miscellaneous	14	3,179,606	2,352,368	524,807	72,908	35,329	29	65,722
	Subtotal Administrative and General		56,601,227	41,608,313	9,553,870	1,337,031	644,460	515	1,175,764

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total Operation & Maintenance Expenses		116,492,928	83,446,046	22,085,137	3,331,589	1,485,111	911	2,103,134
503.00	**DEPRECIATION EXPENSE**								
304.20	Power and Pumping Structures								
	Major Treatment Plants	2	531,248	324,927	164,938	27,863	11,017	1	1,227
	Other Structures	3	1,149,507	655,553	331,973	56,082	22,175	1	30,655
304.30	Purification Buildings								
	Major Treatment Plants	2	4,556,989	2,787,191	1,414,817	239,010	94,503	5	10,522
	Other Structures	2	1,774,543	1,085,364	550,946	93,073	36,800	2	4,097
304.61	Office Buildings	14	2,625,765	1,942,620	433,393	60,209	29,175	24	54,275
304.62	Stores, Shop and Garage Bldgs.	14	216,854	160,435	35,793	4,972	2,409	2	4,482
304.63	Misc. Structures and Impr.	14	1,267,185	937,501	209,154	29,057	14,080	11	26,193
305.00	Collecting & Impounding Res.	1	978,797	588,306	306,950	56,582	20,503	1	3,164
306.00	Lake, River and Other Intakes	2	747,621	457,267	232,115	39,212	15,504	1	1,726
307.00	Wells and Springs	2	1,692,728	1,035,323	525,545	88,782	35,104	2	3,909
310.40	Other Power Producing Equipment	3	1,864,656	1,063,397	538,505	90,973	35,971	2	49,727
311.00	Electric Pumping Equipment	3	3,050,399	1,739,615	880,943	148,823	58,845	3	81,348
320.00	Purification System								
	Structures	2	4,310,321	2,636,322	1,338,234	226,072	89,387	4	9,953
	Wells and Boosters	2	1,043,659	638,333	324,027	54,739	21,643	1	2,410
	Equipment	2	3,007,902	1,839,723	933,869	157,761	62,378	3	6,945
	Computers	2	-	-	-	-	-	-	-
	Painting	2	8,962	5,481	2,782	470	186	0	21
	Filter Media	2	-	-	-	-	-	-	-
330.00	Distr. Reservoirs & Standpipes								
	Tanks	5	1,556,596	938,336	437,195	65,660	29,202	-	31,520
	Tank Painting	5	5,263,449	3,172,875	1,478,324	222,023	98,742	-	106,580
331.00	Mains and Accessories								
	12 inch and Over	3	7,194,577	4,103,003	2,077,765	351,009	138,791	7	191,865
	Under 12 inch	4	38,756,639	21,961,217	10,210,553	1,533,523	682,001	-	1,580,108
333.00	Services	8	8,419,866	7,444,803	576,205	24,258	39,270	109	335,220

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
334.00	Meters								
	Remote	7	4,150,283	3,647,850	348,221	20,071	29,899	158	104,085
	ERTS	7A	1,787,517	1,611,534	153,837	8,868	13,208	70	-
335.00	Fire Hydrants	6	1,818,925	-	-	-	-	-	175,526
336.00	Back Flow Prevention Devices	7	10,160	8,930	852	49	73	0	255
339.00	Other Plant and Miscellaneous	14	-	-	-	-	-	-	-
340.00	Office Furniture and Equipment								
	Furniture	14	433,785	320,927	71,598	9,947	4,820	4	8,966
	Mechanical Equipment	14	216,761	160,366	35,777	4,970	2,408	2	4,480
	Computers	14	15,303,289	11,321,832	2,525,869	350,904	170,035	138	316,319
341.00	Transportation Equipment								
	Vehicles	14	2,646,549	1,957,996	436,823	60,685	29,406	24	54,704
	Other	14	203,936	150,878	33,660	4,676	2,266	2	4,215
342.00	Stores Equipment	14	199,759	147,788	32,971	4,580	2,220	2	4,129
343.10	Shop Equipment	14	50,087	37,056	8,267	1,148	557	0	1,035
343.20	Tools & Work Equipment - General	14	981,404	726,072	161,985	22,504	10,904	9	20,286
344.00	Laboratory Equipment								
	Conventional	2	56,085	34,303	17,413	2,942	1,163	0	130
	Electronic	2	169,175	103,473	52,524	8,873	3,508	0	391
346.00	Communication Equipment								
	Communication Equipment	14	955,067	706,587	157,638	21,900	10,612	9	19,741
	SCADA Equipment	3	3,068,003	1,749,654	886,027	149,682	59,185	3	81,818
347	Miscellaneous Equipment	14	95,888	70,941	15,827	2,199	1,065	1	1,982
348	Other Tangible Plant	14	1,642	1,215	271	38	18	0	34
	Total Depreciation Expense		122,166,578	78,274,997	27,943,587	4,244,188	1,879,033	599	3,334,041

AQUA PENNSYLVANIA, INC.

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS AT PRESENT RATES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2023

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	TAXES OTHER THAN INCOME TAXES								
	Federal and State Payroll Taxes	16	3,163,655	2,252,763	587,484	84,694	40,058	32	65,741
	State Capital Stock Tax	18	-	-	-	-	-	-	-
	PUC Assessment	19	2,305,969	1,564,886	529,810	79,934	35,696	12	64,371
	OCA and SBA Assessments	19	937,010	635,877	215,284	32,481	14,505	5	26,157
	Local Property Taxes	18	1,073,227	654,946	258,972	39,620	17,343	3	34,927
	Public Utility Realty Taxes	18	4,800,000	2,929,243	1,158,250	177,202	77,568	14	156,211
	Total Taxes Other Than Income Taxes		12,279,861	8,037,716	2,749,800	413,931	185,171	65	347,407
	INCOME TAXES								
	Federal Income Taxes	18	13,072,876	7,977,840	3,154,511	482,611	211,258	39	425,444
	State Income Taxes	18	5,767,840	3,519,876	1,391,791	212,931	93,208	17	187,709
	Deferred Taxes	18	(5,608,906)	(3,422,885)	(1,353,440)	(207,064)	(90,640)	(17)	(182,536)
	ITC-Amortized	18	(253,413)	(154,648)	(61,149)	(9,355)	(4,095)	(1)	(8,247)
	Total Income Taxes		12,978,397	7,920,184	3,131,713	479,123	209,731	39	422,369
	UTILITY OPERATING INCOME	18	245,760,927	149,977,818	59,302,603	9,072,756	3,971,497	737	7,998,044
	Total Cost of Service		509,678,691	327,656,760	115,212,840	17,541,588	7,730,543	2,352	14,204,995
	Less:								
	Other Water Revenues	19	(1,318,393)	(894,693)	(302,909)	(45,701)	(20,409)	(7)	(36,803)
	Revenues from Contract Sales	19	(7,262,995)	(4,928,843)	(1,668,717)	(251,764)	(112,431)	(36)	(202,746)
	Unrecovered Public Fire	20		-	-	-	-	-	-
	Reallocate Unrecovered Public Fire	21		18,329,669	1,749,744	100,860	150,222	-	-
	Total Cost of Service Related to Sales		501,097,304	340,162,893	114,990,959	17,344,982	7,747,925	2,309	13,965,446
	Act 11		**20,838,897**	**16,806,100**	**3,939,400**		**93,398**		
	Total Cost of Service		**$ 521,936,201**	**$ 356,968,993**	**$ 118,930,359**	**$ 17,344,982**	**$ 7,841,323**	**$ 2,309**	**$ 13,965,446**

Witness: William C. Packer
Date: 10/6/2021

AQUA PENNSYLVANIA, INC. &
AQUA PENNSYLVANIA WASTEWATER INC.

OFFICE OF SMALL BUSINESS ADVOCATE

DATA REQUEST SET I

DOCKET NO. R-2021-3027385 & R-2021-3027386

OSBA-I-7: Reference Schedule D, page 7 of 7, of Exhibit No. 5-A, Part I.

a. Please explain in detail how the Company determined that $20,838,897 of its claimed wastewater revenue requirement should be recovered from water service customers under Act 11.

b. Please explain in detail how the Company allocated its proposed Act 11 wastewater revenue requirement to water service classes.

RESPONSE:

a. The Company's determination was based on a desire to keep the overall wastewater increase in revenue requirement (post-allocation) under 40%. This was based on the Company's historical experience with bringing water systems whose rates were materially lower than its Main Division rates (ex. Bensalem Division), gradually up to Main Division rates over multiple rate cases. In those cases, each individual rate increase typically did not exceed 40%.

b. Approximately $16.8M, or approximately 81% of the $20.8M, was allocated to the residential class with the remaining $4.0M, or approximately 19% of the $20.839M, allocated to the commercial and public classes. The present rates as presented in Schedule B-1 of Exhibit 1-A for the residential, commercial and public classes are $324,914,386, $102,965,309 and $8,061,121 respectively, of which residential represents approximately 75% and the commercial and public represent approximately 25%.

Witness: C. Heppenstall
Date: 10/25/2021

AQUA PENNSYLVANIA, INC. &
AQUA PENNSYLVANIA WASTEWATER INC.

OFFICE OF SMALL BUSINESS ADVOCATE

DATA REQUEST SET II

DOCKET NO. R-2021-3027385 & R-2021-3027386

OSBA-II-4: Reference the Company's response to OSBA-I-7(b). Please confirm that the Company's allocation of its proposed Act 11 wastewater revenue requirement to individual water service classes reflects the approximate difference between (i) the corresponding wastewater class's (e.g., residential) total cost of service, as measured by the applicable wastewater cost-of-service study, and (ii) the proposed level of wastewater revenues recovered from that class, summed across all of Aqua's wastewater operations. If incorrect, please explain.

RESPONSE:

This explanation is correct.

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota,

Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
Aqua Pennsylvania, Inc.	:	
Aqua Pennsylvania Wastewater, Inc.	:	

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Direct Testimony labeled OSBA Statement No. 1 are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: November 9, 2021

(Signature)

Brian Kalcic

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	**Docket Nos. R-2021-3027385**
	:	
v.	:	**R-2021-3027386**
	:	
Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.		

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: November 10, 2021

/s/ Steven C. Gray
_____
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COMMONWEALTH OF PENNSYLVANIA

December 2, 2021

The Honorable Mary D. Long
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 2020
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. / Docket Nos. R-2021-3027385, R-2021-3027386

Dear Judge Brady:

Enclosed please find the Rebuttal Testimony and Exhibits of Brian Kalcic, labeled OSBA Statement No. 1-R, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures
cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
	:	
AQUA PENNSYLVANIA, INC.	:	
AQUA PENNSYLVANIA WASTEWATER, INC.	:	

Rebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Revenue Allocation
Scale Back Proposals

Date Served: December 2, 2021

Date Submitted for the Record: _____

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes.

Q. What is the subject of your rebuttal testimony?

A. I will respond to the direct testimony of the following witnesses: a) Glenn A. Watkins on behalf of the Pennsylvania Office of Consumer Advocate ("OCA"); b) Joseph Kubas on behalf of the Bureau of Investigation and Enforcement ("I&E"); c) Ethan H. Cline on behalf of I&E; and d) Richard A. Baudino on behalf of the Aqua Large Users Group ("Aqua LUG").

Q. Do you have any preliminary comments?

A. Yes. Like the OSBA, I&E and OCA sponsor proposals to reduce the Company's requested Act 11 revenue requirement of $20.8 million. While the I&E and OCA proposals exceed the OSBA's recommended reduction in Act 11 revenues of $2.2 million, Counsel advises that the OSBA takes no position regarding the *magnitude* of the Act 11 reduction advocated by either party, as long as any remaining Act 11 revenue requirement is recovered from Aqua's water service classes on a revenue neutral basis, by customer class.

<u>OCA Witness Watkins</u>

Q. On pages 3-10 of OCA Statement No. 4, Mr. Watkins discusses his disagreement with Aqua's proposal to shift $20.8 million of its claimed wastewater revenue requirement to water customers under Act 11. Mr. Watkins instead proposes to reduce the Company's proposed Act 11 revenue requirement by $9.1 million (i.e., to an overall level of approximately $11.7 million) by recovering an additional $9.1 million per year from wastewater customers. How does Mr. Watkins propose to allocate the additional $9.1 million increase to wastewater classes?

A. Mr. Watkins' total proposed wastewater increases, by customer class, are shown on page 1 of Schedule GAW-4. I have summarized his proposed *incremental* wastewater increases, by class, in column 1 of Table 1-R below.

Q. Does Mr. Watkins sponsor any modifications to the Company's proposed revenue allocation for *water* service?

A. Yes. Mr. Watkins' proposed water increases, by customer class, are shown on page 2 of Schedule GAW-5. The OCA's proposed class increases total $77.1 million in aggregate, which is $9.1 million less than under Aqua's proposal.

Q. How did Mr. Watkins arrive at his proposal revenue allocation for water service?

A. Mr. Watkins began with the Company's proposed class increases, inclusive of Act 11 revenues. He then reduced all of the Company's proposed class increases (excluding the increases to Public Fire and Contract customers) by a uniform 10.72% to account for the OCA's recommended $9.1 million reduction to Aqua's proposed Act 11 revenue requirement.

I have summarized his proposed *decremental* water increases, by class, in column 2 of Table 1-R.

Q. How do the OCA's incremental wastewater and decremental water increases compare, by customer class?

A. As shown in Table 1-R, the OCA's proposed revenue adjustments are *not* revenue neutral across customer classes.

Table 1-R
Comparison of OCA Recommended
Water and Wastewater Revenue Adjustments, by Class
($000)

Class	*Additional OCA WW Increases*	*OCA Recomm. Water Decreases*	*Difference*
	(1)	(2)	(3)=(2)-(1)
Residential	$7,094.6	$6,239.7	-$854.9
Commercial	1,824.6	2,046.7	222.1
Industrial	0.4	329.8	329.4
Public	36.9	146.0	109.1
Resale	-	0.2	0.2
Private Fire	-	302.6	302.6

Public Fire	-	-	-
Bulk	89.6	-	-89.6
Total Sales	$9,046.1	$9,065.0	$18.9

Source: OCA Schedules GAW-4, page 1 of 8, and GAW-5, page 2 of 11.

Q. Is such an outcome appropriate?

A. No. As I explained in my direct testimony, the temporary subsidies afforded to specific wastewater classes under Act 11 should be recovered from the utility's corresponding water service classes on a revenue neutral basis, by customer class.

Under the OCA's proposal shown in Table 1-R, residential wastewater customers would receive an incremental increase of $7.1 million, but the corresponding Act 11 revenue requirement borne by residential water customers would decline by only $6.2 million. At the same time, non-residential water classes would improperly receive Act 11-related revenue requirement decreases in excess of their corresponding incremental wastewater increases.

Q. Are there any other inequities inherent in the class results depicted in Table 1-R?

A. Yes. Under the OCA's proposal, the Company's proposed Industrial water increase would decline by approximately $303,000 due to the OCA's proposed reduction in overall Act 11 revenues. Yet, the total Act 11 revenue requirement initially assigned by Aqua to the Industrial water class is only $528.[1] Obviously, the

[1] See Schedule A of Exhibit No. 5-A, Part I.

maximum Act 11 rate relief reasonably assigned to industrial water customers under any alternative revenue allocation should not exceed $528.

Similarly, Table 1-R shows that the Company's proposed Private Fire water increase would decline by approximately $330,000, again due to the OCA's proposed reduction in overall Act 11 revenues. However, as Aqua did *not* assign any responsibility for its proposed Act 11 revenue requirement to the Private Fire class, Private Fire should not receive any rate decrease in connection with a proposed reduction in Aqua's Act 11 revenue requirement.[2]

Q. Mr. Kalcic, in the event the Commission were to adopt the OCA's proposed wastewater class increases and overall Act 11 revenue requirement reduction of $9.1 million, how should such a reduction in Act 11 revenue responsibility be allocated to Aqua's water service classes?

A. The changes in Act 11 revenue responsibility should mirror the OCA's proposed incremental wastewater class increases, as illustrated in Table 2-R.

[2] *Id.*

Table 2-R
Comparison of OCA Proposed WW Increases
to OSBA Recommended Water Decreases, by Class
($000)

Class	*Additional OCA WW Increases*	*OSBA Recommended Water Decreases*	*Difference*
	(1)	(2)	(3)=(2)-(1)
Residential	$7,094.6	$7,094.6	$0.0
Commercial	1,824.6	1824.6	0.0
Industrial	0.4	0.4	0.0
Public	36.9	36.9	0.0
Resale	-	-	-
Private Fire	-	-	-
Public Fire	-	-	-
Bulk	89.6	89.6	0.0
Total Sales	$9,046.1	$9,046.1	$0.0

Source: OCA Schedule GAW-4, page 1 of 8.

Q. Does Mr. Watkins sponsor any other modifications to the Company's proposed class water increases, apart from the adjustments necessitated by the OCA's recommended reduction to the Company's proposed Act 11 revenue requirement?

A. No. Mr. Watkins implicitly accepts the Company's proposed revenue allocation for water service, applying only a uniform reduction to certain of Aqua's proposed class increases in order to effectuate the OCA's Act 11 proposal.

Q. Is the Company's proposed allocation of its claimed water service revenue requirement, exclusive of Act 11 assignments, appropriate?

A. No. As I explained in my direct testimony, the Company's proposal fails to move all customer classes closer to their respective cost-based revenue levels.[3]

Moreover, since the OCA's proposed class revenue allocation for water service is identical to Aqua's proposal, except for Act 11-related modifications, it follows that the OCA's proposed revenue allocation would also fail to move all water classes closer to cost of service.

Q. Does Mr. Watkins sponsor a scale back proposal for wastewater service?

A. Yes. On page 12 of OCA Statement 4, Mr. Watkins states that if the Commission authorizes a lower wastewater revenue requirement than requested by the Company (for other than ROE-related reasons), the OCA's proposed wastewater revenue allocation should be scaled back proportionally across divisions and classes.

Q. What is your response to Mr. Watkins' wastewater scale back proposal?

A. I have recommended that the OSBA's proposed wastewater increases not be subject to scale back, in order to move wastewater rates closer to cost of service at the conclusion of the case. That said, I would not oppose a proportional scale back to the *OCA's* proposed wastewater increases, since such increases are significantly greater than those proposed by the OSBA.

[3] See the discussion contained on pages 6-9 of OSBA Statement No. 1.

Q. Would a scale back of wastewater increases impact the total Act 11 subsidy to be recovered from water customers?

A. Yes. All else equal, a scale back of class wastewater increases will increase Aqua's Act 11 revenue requirement. Moreover, any resulting change in Aqua's Act 11 subsidies would need to be tracked, by wastewater class, so that Aqua's final Act 11 revenue requirement can be recovered from Aqua's water service classes on a revenue neutral basis, by customer class.

Q. Does Mr. Watkins also sponsor a scale back proposal for water service?

A. Yes. To the extent the Commission authorizes a lower water revenue requirement than requested by Aqua, Mr. Watkins recommends that the OCA's water revenue allocation be scaled back proportionally across divisions and classes.

Q. Do you agree?

A. No. Leaving aside the fundamental question regarding which of the parties' alternative revenue allocation proposals is reasonable and proper, it would not be appropriate to scale back *total* proposed water class increases to arrive at a final water revenue requirement, as suggested by Mr. Watkins. Doing so would preclude the recovery of Aqua's Act 11 revenue requirement on a revenue neutral basis, by customer class.

Rather, as I explained in my direct testimony, there should be a separate scale back applied to: 1) class water increases associated with changes in Aqua's claimed water revenue requirement; and 2) class water increases associated with changes in Aqua's Act 11revenue requirement.[4]

<u>I&E Witness Kubas</u>

Q. On pages 7-56 of his direct testimony, Mr. Kubas recommends certain adjustments to Aqua's proposed wastewater rates. In general, Mr. Kubas' rate proposals are intended to reduce the size of Aqua's proposed Act 11 subsidy of wastewater customers. Does Mr. Kubas provide a breakdown of I&E's total proposed wastewater increase of $16.6 million, by customer class?

A. No.

Q. Absent such information, are you able to determine the level of wastewater class subsides under I&E's rate proposals?

A. No. While I&E is proposing to implement a total Act 11 revenue requirement of approximately $15.8 million, it is not clear how much each wastewater class would contribute to that total.

[4] See pages 11 and 19 of OSBA Statement No. 1.

Q. In the event that the Commission were to adopt I&E's proposed wastewater rates, how should the resulting $15.8 million Act 11 revenue requirement be recovered from water customers?

A. Whatever the final level of the Company's Act 11 revenue requirement, I continue to recommend that such Act 11 subsidies be recovered from Aqua's water service classes on a revenue neutral basis, by customer class.

<u>I&E Witness Cline</u>

Q. Does Mr. Cline sponsor a scale back proposal for water service?

A. Yes. On page 19 of I&E Statement No. 4, Mr. Cline advocates that in the event the Commission grants Aqua a final increase that is less than the Company's requested increase for its water operations, the Company's proposed customer and usage charges should be adjusted downwards such that the final increase for each customer class is proportional to the percentage increase that each class was originally supposed to receive.

Q. Do you agree with Mr. Cline's position?

A. No. First, as I have previously discussed, the Company's revenue allocation proposal for water service is not cost based. Therefore, Aqua's proposal should not be adopted for the purpose of developing final class revenue levels.

Second, as I have also previously discussed, it is not appropriate to simply scale back *total* proposed water class increases to arrive at final class revenue

1 targets, as doing so would preclude the recovery of Aqua's approved Act 11
2 revenue requirement on a revenue neutral basis, by customer class.
3
4 **Q. What do you recommend?**
5 A. I recommend that the Commission reject Mr. Cline's scale back proposal for water
6 service.
7
8 **<u>Aqua LUG Witness Baudino</u>**
9
10 **Q. Does Mr. Baudino accept the Company's proposed revenue allocation for**
11 **water service?**
12 A. No. Mr. Baudino sponsors an alternative class revenue allocation that is shown in
13 Aqua LUG Exhibit__(RAB-2), page 1 of 2.
14
15 **Q. Have you evaluated whether Aqua LUG's revenue allocation proposal would**
16 **move all classes closer to their respective cost-based revenue levels?**
17 A. Yes, in Schedule BK-1R.
18
19 **Q. What information is contained in Schedule BK-1R?**
20 A. Schedule BK-1R shows the levels of class subsidies at present and Aqua LUG
21 proposed class revenue levels, exclusive of any Act 11 revenue recovery,
22 employing the same format used for the subsidy analysis discussed in OSBA
23 Statement No. 1. As shown on page 1 of Schedule BK-1R, the Public, Other Water

1 Utilities and Private Fire Protection classes would fail to move closer to cost of
2 service under Mr. Baudino's revenue allocation proposal. In addition, the
3 significant present subsidy received by the Residential class would decline by less
4 than 22% under Aqua LUG's proposal.
5
6 **Q. Should the Commission adopt the Aqua LUG's revenue allocation proposal in**
7 **this proceeding?**
8 A. No. Aqua LUG's proposal fails to provide sufficient movement toward cost of
9 service for the Residential class, and fails to move all of Aqua's water service
10 classes toward cost of service. The Commission should therefore reject it.
11
12 **Q. Does this conclude your rebuttal testimony?**
13 A. Yes.

EXHIBIT BK-1R

Schedule BK-1R

AQUA PENNSYLVANIA, INC.

Class Revenue Subsidies at
Present and Aqua LUG Proposed Revenues
Basis: Water Service Only
(Future Test Period Ending March 31, 2023)

Line	Classification	Present Subsidy ($000)	Aqua LUG Proposed Subsidy ($000)
		1	2
1	Residential	($6,309)	($4,940)
2	Commercial	$4,500	$1,342
3	Industrial	($715)	($119)
4	Public	$769	$795
5	Other Water Utilities	$11	$12
6	Private Fire Prot.	$2,188	$2,907
7	Public Fire Prot.	($444)	$0
8	Total Company	($0)	($2)
	Source:	Sch. BK-1R, pg. 2 of 2	Sch. BK-1R, pg. 2 of 2

Note: A positive subsidy figure indicates that a class is providing a subsidy; a negative figure indicates that it is receiving a subsidy.

AQUA PENNSYLVANIA, INC.

Derivation of Class Revenue Subsidies at
Present and Aqua LUG Proposed Revenues
Basis: Aqua Water Cost-of-Service Study
(Dollars in Thousands)

		Present Rates			Aqua LUG Proposed Revenues		
Line	Classification	Present Revenue	Cost-of-Service	Revenue Subsidy	Proposed Revenue 1/	Cost-of-Service 1/	Revenue Subsidy
		(1)	(2)	(3) = (1)-(2)	(4)	(5)	(6) = (4)-(5)
1	Residential	$333,854	$340,163	-$6,309	$378,019	$382,959	-$4,940
2	Commercial	$119,491	$114,991	$4,500	$132,142	$130,800	$1,342
3	Industrial	$16,630	$17,345	-$715	$19,613	$19,733	-$119
4	Public	$8,517	$7,748	$769	$9,606	$8,811	$795
5	Other Water Utilities	$13	$2	$11	$15	$3	$12
6	Private Fire Prot.	$16,154	$13,965	$2,188	$18,976	$16,069	$2,907
7	Public Fire Prot.	$6,439	$6,883	-$444	$7,768	$7,768	$0
8	Total Company	$501,097	$501,097	$0	$566,139	$566,141	-$2
	Source:	Exh. No. 5-A, Part I, Sch. A	OSBA-I-1		Exh. _(RAB-2) Page 1	Exh. No. 5-A, Part I, Sch. A	

Notes:
1. Excludes Act 11 Wastewater Allocation.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
Aqua Pennsylvania, Inc.	:	
Aqua Pennsylvania Wastewater, Inc.	:	

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Rebuttal Testimony labeled OSBA Statement No. 1-R are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: December 1, 2021

(Signature)

Brian Kalcic

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	**Docket Nos. R-2021-3027385**
	:	
v.	:	**R-2021-3027386**
	:	
Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.		

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: December 2, 2021

/s/ Steven C. Gray

_____

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COMMONWEALTH OF PENNSYLVANIA

December 14, 2021

The Honorable Mary D. Long
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 2020
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. / Docket Nos. R-2021-3027385, R-2021-3027386

Dear Judge Long:

Enclosed please find the Surrebuttal Testimony of Brian Kalcic, labeled OSBA Statement No. 1-S, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures
cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
	:	
AQUA PENNSYLVANIA, INC.	:	
AQUA PENNSYLVANIA WASTEWATER, INC.	:	

Surrebuttal Testimony of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Revenue Allocation

Date Served: December 14, 2021

Date Submitted for the Record: _____

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I have.

Q. What is the subject of your surrebuttal testimony?

A. I will respond to the rebuttal testimony sponsored by the following witnesses: a) Constance E. Heppenstall on behalf of Aqua; and b) Glenn A. Watkins on behalf of the OCA.

<u>Company Witness Heppenstall</u>

Q. On pages 3-4 of Aqua Statement No. 5-R, Ms. Heppenstall discusses her disagreement with your proposal to assign i) Aqua's Rate Zones 1-6 wastewater customers an increase of 24.8% and ii) Rate Zone 11 (New Garden) customers an increase of 74.6%. Why does Ms. Heppenstall object to your proposed average increase of 24.8% to Rate Zones 1-6?

A. Ms. Heppenstall notes that the OSBA's proposed incremental increase (over that proposed by Aqua) would apply only to customers in Rates Zones 1, 1A, 1B and 2, since Rates Zones 3-6 rates are higher, and would result in an average increase to residential customers in those zones of 30.0%. In Aqua's view, the Company's proposed increase of 20.2% is reasonable while the OSBA's proposed 30.0% increase would be excessive.

1

2 **Q. What is your response?**

3 A. I restricted the OSBA's additional increase to Rate Zones 1, 1A, 1B and 2 precisely
4 because such zones have lower proposed rates than Rate Zones 3-6. The resulting
5 average increase of 30.0% cited by Ms. Heppenstall is certainly not excessive in
6 comparison to the Company's proposed range of wastewater increases in other
7 divisions, i.e., 35.1% (Cheltenham) to 74.5% (Limerick).[1]

8 In addition, I would point out again that Aqua is proposing an Act 11 credit
9 of $13.5 million for its Base Wastewater Division, which is the highest percentage
10 Act 11 credit (37.4%) of any of the Company's wastewater divisions.[2] Since
11 Aqua's Base Wastewater Division includes the Rate Zone 1 or Main Division rate
12 schedule, it makes no intuitive sense for Aqua to assign the *highest* percentage Act
13 11 credit to the Base Wastewater Division. If anything, the Base Wastewater
14 Division should receive the lowest percentage Act 11 credit, with the Company's
15 recent wastewater acquisitions assigned larger credits while such divisions are
16 moved toward the Company's statewide wastewater rate.

17 In short, the Company's proposed average increase of 18.5% to its Base
18 Wastewater Operations division is too low and a larger increase is warranted.

19

20 **Q. Why does Ms. Heppenstall object to your proposed increase of 74.6% to the**
21 **New Garden rate zone?**

---

[1] See Schedule BK-2WW in Exhibit BK-1WW, attached to OSBA Statement No. 1.

[2] See Schedule BK-3WW in Exhibit BK-1WW, attached to OSBA Statement No. 1.

A. Ms. Heppenstall characterizes the OSBA's proposal as contrary to the concept of gradualism.

Q. Please respond.

A. I don't disagree that the OSBA is proposing a significant increase to New Garden. However, Ms. Heppenstall's criticism is misplaced in that Aqua fails to acknowledge that the OSBA's proposal is grounded in a rate commitment agreed to by Aqua in its settlement of the remand portion of the Company's acquisition of the New Garden Sewer Authority.[3] Put simply, had Aqua honored the settlement on remand, the Company would have proposed to assign New Garden an increase of two times its proposed system average wastewater increase or (2.0 times 31.2%) *62.4%*. Instead, the Company chose to assign New Garden an increase of only 37.0%, which is artificially low in context of the remand settlement – thereby causing the OSBA's proposed increase to appear excessive.

To sum up this discussion, the OSBA's proposed New Garden increase is 74.6%, or 2.0 times the OSBA's proposed system average wastewater increase of 37.3%, and wholly consistent with the rate commitment contained in the remand settlement.[4]

Q. On pages 4-5 of her rebuttal testimony, Ms. Heppenstall discusses her disagreement with the OSBA's proposed revenue allocation for water service.

[3] See OSBA Statement No. 1 at pages 15-16.

[4] See Schedule BK-4WW in Exhibit BK-1WW, attached to OSBA Statement No. 1.

While Ms. Heppenstall agrees that the OSBA's methodology is reasonable, she concludes that "the Company's allocation method is more reasonable as its proposed allocation views the cost of service as a whole, including Act 11 subsidy, and sets rates to move each class toward its appropriate percentage of cost of service, including Act 11 subsidy." Does the Company's proposed revenue allocation move each class toward its appropriate percentage of Aqua's total claimed water cost of service?

A. No, it does not.

Q. Why not?

A. I discussed the Company's proposed revenue allocation for water service at length in my direct testimony, and explained why Aqua's proposal would, in fact, move the Residential, Public, Other Water Utilities and Private Fire Protection classes away from cost of service. I won't repeat that discussion here. Instead, I will discuss why Aqua's proposal fails to move all classes closer to cost of service, even if one employs Ms. Heppenstall's preferred cost-of-service metric of "percentage of cost of service."

Q. Please continue.

A. Ms. Heppenstall's cost metric is depicted in Schedule A of Exhibit No. 5-A, Part I, at columns 5, 7 and 9. Column 5 shows each class's cost-based percentage of Aqua's claimed water cost of service, including Act 11. Column 7 shows each class's percentage contribution toward total water revenues at present rates; column

9 shows the corresponding percentages at proposed rates. I have summarized all of this information is Table 1S below.

Table 1-S
Summary of Percentages of Revenues
and Claimed Cost of Service, Inclusive of Act 11, by Customer Class

Class	*Present Revenue %*	*Proposed Revenue %*	*Target Cost of Serv. %*
	(1)	(2)	(3)
Residential	66.62%	66.79%	68.11%
Commercial	23.85%	23.61%	22.95%
Industrial	3.32%	3.36%	3.36%
Public	1.70%	1.68%	1.52%
Resale	0.00%	0.00%	0.00%
Private Fire	3.22%	3.23%	2.74%
Public Fire	1.28%	1.32%	1.32%
Total Sales	100.00%	100.0%	100.00%

Source: Schedule A of Exhibit No. 5-A, Part I, columns 7, 9 & 5, respectively.

According to Ms. Heppenstall, Aqua's revenue allocation proposal is cost based since the change in a class's percentage of revenue across columns 1-2, i.e., present to proposed rates, move each class closer to the cost-based percentage shown in column 3.

Q. Does Table 1-S provide accurate information as to whether Aqua's revenue allocation moves all water service classes closer to cost of service?

A. No.

Q. Why not?

A. The cost metric depicted in Table 1-S is deficient precisely because it includes Act 11 revenues in the calculation of the percentages shown in columns 2 and 3. Keep in mind that the class contributions to present revenue shown in column 1 do not include any Act 11 revenues. In contrast, since class contributions to proposed revenues (column 2) include Act 11 revenues, total class contributions at proposed rates will reflect each class's contribution toward *two* components: 1) assigned Act 11 revenue responsibility; and 2) allocated water cost of service responsibility.

Since Aqua appropriately assigns Act 11 revenue responsibility to water classes on a revenue neutral basis across (water and wastewater) classes, 100% of class contributions toward Act 11 revenues (i.e., the first component of total class contributions at proposed rates) goes towards paying for wastewater subsidies, with zero dollars "left over" to contribute toward a class's allocated share of Aqua's claimed water cost of service. In other words, giving water service classes full credit for paying for Act 11 subsidies tells us nothing about whether a given class is paying its allocated cost of water service.

In summary, since class contributions to present revenue only reflect class contributions toward water cost of service (as there are no Act 11 revenues included in present rates), while class contributions to proposed revenue include two separate components, the class percentages shown in columns 1 and 2 of Table 1-S are *not*

comparable. Accordingly, one must conclude that the Company's preferred cost metric is invalid.

Q. Have you revised Table 1-S to exclude Act 11 revenues, so as to make class contributions at present and proposed rates comparable?

A. Yes, I have. The revised figures are shown in Table 2-S below.

Table 2-S

Summary of Percentages of Revenues
and Claimed Cost of Service, Exclusive of Act 11, by Customer Class

Class	*Present Revenue %*	*Proposed Revenue %*	*Target Cost of Serv. %*
	(1)	(2)	(3)
Residential	66.62%	66.28%	67.64%
Commercial	23.85%	23.78%	23.10%
Industrial	3.32%	3.48%	3.49%
Public	1.70%	1.73%	1.56%
Resale	0.00%	0.00%	0.00%
Private Fire	3.22%	3.35%	2.84%
Public Fire	1.28%	1.37%	1.37%
Total Sales	100.00%	100.00%	100.00%

Source: Schedule A of Exhibit No. 5-A, Part I, exclusive of Act 11 revenues.

Q. What does Table 2-S show?

A. Table 2-S shows that the Residential, Public and Private Fire protection classes would move away from cost of service under the Company's revenue allocation

1 proposal, using Aqua's percentage of cost-of-service metric, corrected to remove
2 Act 11 revenues.
3
4 **Q. Do you have any other comment on Table 2-S?**
5 A. Yes. Note that the share of revenues for the Residential class, exclusive of Act 11,
6 declines from present to proposed rates. This decline follows from the fact that
7 Company assigned the Residential class an increase of only 12.4%, exclusive of Act
8 11 revenues, which is less than the corresponding system average increase in sales
9 revenue of 13.0%.[5]
10 It is axiomatic that a necessary condition for an under-contributing class to
11 move closer to cost of service is that the class receive an increase greater than the
12 system average. Since Aqua proposes to assign the Residential class an increase
13 that is less than the system average, exclusive of Act 11 revenues, it is not possible
14 for the Residential class to move closer to cost of service under Aqua's revenue
15 allocation proposal. This outcome is confirmed by both the OSBA's subsidy
16 analysis (discussed in OSBA Statement No. 1) and the percentage of revenue
17 analysis shown in Table 2-S. To suggest that the Residential class would, in fact,
18 move closer to cost of service under Aqua's proposed revenue allocation is simply
19 not credible.
20

[5] See Schedule BK-2W in Exhibit BK-1W, attached to OSBA Statement No. 1.

<u>OCA Witness Watkins</u>

Q. On pages 5-11 of OCA Statement No. 4R, Mr. Watkins discusses his disagreement your proposed class revenue allocation for water service. As a general theme of his rebuttal, Mr. Watkins argues that the OSBA's revenue allocation does not reflect the underlying "range of profitability" exhibited by each of the Company's customer classes, and would impose unreasonable increases on certain classes. Do you agree with Mr. Watkins that Aqua's individual classes exhibit a range of profitability, or rates of return, under alternative assumptions that should be considered when determining a revenue allocation proposal?

A. No. Mr. Watson goes to great length in an attempt to establish that the Residential class is "paying close to parity" or cost of service, at present and proposed rates, and that the Company's revenue allocation proposal is therefore reasonable. As discussed below, Mr. Watkins' range of profitability analysis is without merit. The Commission should dismiss it.

Q. On page 5 of his rebuttal, Mr. Watson claims that the Company's cost-of-service study for water service ("COSS") "contains numerous allocations that do not reflect the true profitability of classes." To what types of allocations does Mr. Watkins refer?

A. At present rates, Mr. Watkins refers to the method that Aqua uses to allocate the Public Fire Protection shortfall, and income taxes and achieved return. At proposed rates, Mr. Watkins adds a third item – the allocation of Act 11 revenues to classes.

Mr. Watkins proceeds to calculate alternate class rates of return, at present and proposed rates, by including and/or excluding the above allocations in Aqua's COSS.

Q. Do you agree with Mr. Watkins that the Public Fire revenue shortfall "is not a cost per se, but rather simply a statutory subsidy provided to the Public Fire class"?

A. No. The Public Fire revenue shortfall is a valid cost of service expense precisely because it is a statutory subsidy *that must be recovered from the non-fire classes*. As such, Mr. Watkins' calculation of alternative class rates of return, with and without the public fire subsidy, is a meaningless exercise. In addition, I would note that Mr. Watkins implicitly accepted the Company's methodology for allocating the Public Fire subsidy when he failed to contest Aqua's COSS in his direct testimony.

Q. Do you have any comment about Mr. Watkins' reference to alternatives to Aqua's method of allocating income taxes and available return to classes?

A. Yes. There is no issue here as evidenced by the fact that Mr. Watkins' calculation of alternative indexed rates of return ("ROR"), as shown in Table 5 and 6 of his rebuttal testimony, are *identical* to those reported by the Company, when Public Fire and Act 11 subsidies are included. In other words, Mr. Watkins alternative cost of service runs employ the same methods as Aqua when allocating and/or calculating class income taxes and available return.

Q. In Table 7 on page 7 of his rebuttal testimony, Mr. Watkins compares a range of indexed class RORs at present rates to your proposed class increases. He concludes that your recommended Residential increase of 14.6% (before Act 11) is unreasonable, given that the Residential class exhibits indexed RORs ranging from 96% to 107%. What is your response?

A. To begin, the Commission should ignore column 1 of Table 7 because it excludes the Public Fire revenue shortfall – a valid cost of service expense. Column 2 of Table 7, which is identical to the Company's reported results at present rates, shows the Residential class exhibiting a below-average relative rate of return of 96%. The OSBA proposes to assign the Residential class an increase of 14.6%, *which is 1.13 times the system average increase of 13.0%*, in order to move the class closer to cost of service. I am unaware of any traditional ratemaking standard that would deem assigning a class an increase of 1.13 times the system average excessive, or a violation of the principal of gradualism.

Q. In Table 8 on page 8 of his rebuttal testimony, Mr. Watkins compiles a range of class indexed RORs at present and Company proposed rates. Since classes may exhibit above- or below-average indexed rates of return, depending on whether Public Fire and/or Act 11 subsidies are included, Mr. Watkins concludes that Aqua's proposed revenue allocation is reasonable, and the OSBA's reported class subsidies are "misnomers." Please respond.

A. I have several comments. First, Mr. Watkins is once again attempting to paint the Residential class as providing an above system average rate of return, if only the

Public Fire and/or Act 11 subsidy (or both) were excluded. In point of fact, the Residential class never exhibits a rate of return above the system average unless the Public Fire subsidy is excluded (see Mr. Watkins' Tables 6 and 7). Moreover, as previously discussed, the Public Fire subsidy cannot be reasonably excluded since it is a valid cost-of-service expense.

Second, the Residential class's indexed RORs of 96% at present and proposed rates in Table 8 reflect the Company's filed COSS results, i.e., without any exclusions.[6] As such, even if one were to use Mr. Watkins' favored relative rate of return cost metric, the Company's revenue allocation proposal is shown to provide *zero* movement toward cost of service for the Residential class, when both Public Fire and Act 11 subsidies are included.

Finally, to the extent Mr. Watkins favors removing Act 11 subsidies when evaluating class performance, I would point out that the OSBA's subsidy analysis explicitly excludes Act 11 revenues since such revenues do not contribute anything toward the recovery of Aqua's claimed water revenue requirement. In that respect, the OSBA's subsidy analysis correctly evaluates class movement toward cost of service.

Q. In Table 9 on page 9 of his rebuttal testimony, Mr. Watkins shows that under Aqua's proposal the Residential class is assigned a greater than average allocation of Act 11 revenues, while the opposite is true for the Commercial class. He suggests that this outcome somehow disadvantages the Residential

[6] See column 4 of Mr. Watkins' Tables 5 and 6.

class, further undermining the OSBA's revenue allocation proposal. Do you agree that Aqua's Act 11 allocation methodology disadvantages the Residential class?

A. Certainly not. Again, the Company allocates Act 11 revenues on a revenue neutral basis across customer classes. As a result, residential water customers pay for the subsidy received by residential wastewater customers, and commercial water customers pay for the subsidy received by commercial wastewater customers. To the extent that Table 9 shows a greater than average allocation of Act 11 revenues to the Residential water class, it simply means that the majority of Act 11 subsidies provided to wastewater customers at the present time accrue to *residential* wastewater customers.

Q. On pages 10-11 of his rebuttal testimony, Mr. Watkins argues that "it cannot be said that a particular class of water customers should exactly subsidize the same class of wastewater customers," since the mix of customers on Aqua's water and wastewater systems are different. Do you agree?

A. No. Why should residential *water* customers subsidize the rates paid by commercial *wastewater* customers, or vice versa? Mr. Watkins offers no valid rationale in support of such an outcome. Moreover, I am quite confident that if Aqua's wastewater rates were ever to recover 100% of the Residential class's allocated wastewater revenue requirement, the OCA would express little interest in receiving *any* Act 11 revenue allocation in a subsequent Aqua base rate case.

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

2 A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2021-3027385**
	:	**Docket No. R-2021-3027386**
Aqua Pennsylvania, Inc.	:	
Aqua Pennsylvania Wastewater, Inc.	:	

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Surrebuttal Testimony labeled OSBA Statement No. 1-S are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: December 13, 2021

(Signature)

Brian Kalcic

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	**Docket Nos. R-2021-3027385**
	:	
v.	:	**R-2021-3027386**
	:	
Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.		

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: December 14, 2021

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