



COMMONWEALTH OF PENNSYLVANIA

January 21, 2022

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
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 Secretary Chiavetta:

Enclosed please find the Reply Brief, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

Copies will be served on all known parties in these proceedings, as indicated on the attached Certificate of Service.

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

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
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Attorney I.D. No. 77538

Enclosures

cc: Brian Kalcic
Parties of Record

**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.**

**REPLY BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

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Date: January 21, 2022

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TABLE OF AUTHORITIES

CASES

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I. Introduction

On August 20, 2021, Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. (collectively “Aqua PA” or the “Company”) filed Tariff Water-Pa. P.U.C. No. 3 and Original Tariff Sewer-Pa. P.U.C. No. 3 (collectively, the “Tariffs”) with the Pennsylvania Public Utility Commission (“Commission”). The Tariffs, if approved by the Commission, would increase Aqua PA’s total annual operating revenues by \$97,684,824.

On September 8, 2021, the Office of Small Business Advocate (“OSBA”) filed a formal Complaint in opposition to the Tariffs.

On October 15, 2022, a prehearing conference was held before Administrative Law Judge (“ALJ”) Mary D. Long.

On October 19, 2021, ALJ Long issued her Prehearing Order.

On November 10, 2021, the OSBA served the Direct Testimony of Brian Kalcic.

On December 2, 2021, the OSBA served the Rebuttal Testimony of Mr. Kalcic.

On December 14, 2021, the OSBA served the Surrebuttal Testimony of Mr. Kalcic.

On December 20, 2021, ALJ Long conducted an evidentiary hearing.

On January 11, 2022, the OSBA submitted its Main Brief.

The OSBA submits this Reply Brief in accordance with ALJ Long’s October 19th Prehearing Order.

II. Summary of Argument

The only just, reasonable, and non-discriminatory result is for all costs of any Company residential-only customer assistance program to be recovered solely from the Company’s residential class, as under the mechanism proposed by Aqua PA. In the alternative, the OSBA

does not object to the proposal of the Office of Consumer Advocate (“OCA”) to defer this issue to the Company’s next rate proceeding.

Aqua PA’s proposed Energy Cost Adjustment Mechanism should be rejected as unjust and unreasonable.

Aqua PA’s proposed Purchased Water Adjustment Clause should be rejected as unjust and unreasonable.

The OSBA submits that Aqua PA’s water cost of service study and wastewater cost of service studies are acceptable for the purposes of this proceeding.

Aqua PA’s proposed customer class revenue allocation for water service customers is unjust and unreasonable, since it fails to move all customer classes closer to cost of service. The revenue allocation proposed by the OSBA is just, reasonable, and meets the legal requirements set forth by the Commission and the Pennsylvania Commonwealth Court.

If the Commission awards Aqua PA an overall water revenue increase less than that requested by the Company, the OSBA’s proposed water service increases, excluding those increases assigned to the Public Fire Protection and Contract Sales classes, should be proportionally scaled back.

The scaleback proposals proffered by Aqua PA, the Bureau of Investigation and Enforcement (“I&E”), and the OCA should be rejected.

Aqua PA’s proposed methodology for allocating the Company’s Act 11 revenue requirement to water service customers is just and reasonable.

The OSBA recommends that Aqua PA’s Act 11 revenue requirement be limited to no more than \$18.580 million. The OSBA takes no position regarding the Act 11 revenue requirement proposals of I&E and the OCA.

If the Commission awards Aqua PA an overall wastewater revenue requirement less than that requested by the Company, the OSBA's proposed wastewater class increases should remain unchanged, and the Act 11 revenue requirement assigned to water service classes should be reduced by proportionally scaling back Aqua PA's total claimed wastewater cost of service, by wastewater class.

III. Rate Base

The OSBA is not addressing this issue in this Main Brief.

IV. Revenues

The OSBA is not addressing this issue in this Main Brief.

V. Expenses

The OSBA is not addressing this issue in this Main Brief.

VI. Taxes

The OSBA is not addressing this issue in this Main Brief.

VII. Rate of Return

The OSBA is not addressing this issue in this Main Brief.

VIII. Miscellaneous Issues

A. Universal Service Rider

As set forth in the OSBA's Main Brief, the OSBA takes no position on the specific details of the Company's CAP proposals. OSBA Statement No. 1, at 20.

The OSBA supports the Company's proposal to recover all costs of its CAP programs from the residential class. Although the OSBA does not propose any specific cost recovery mechanism, the Company's proposal, as set forth in its Main Brief, is just, reasonable, and non-discriminatory. *See* Aqua PA Main Brief, at 155-161.

In the alternative, the OCA stated, as follows:

The OCA respectfully reserves the right to address the allocation of the costs in a future base rate proceeding and submits that it is unnecessary to resolve the issue at this time.

OCA Main Brief, at 160. If the Commission is inclined to defer the issue of CAP cost recovery to a future case, the OSBA would not object to that resolution of this issue.

B. Energy Cost Adjustment Mechanism (“ECAM”)

In its Main Brief, Aqua PA defends its proposed ECAM mechanism. Aqua PA Main Brief, at 255-259. In summary, Aqua PA rejects every argument raised by other parties and concludes that the proposed ECAM mechanism should be approved as filed.

As set forth in the OSBA Main Brief, OSBA witness Brian Kalcic summarized the Company’s ECAM proposal, as follows:

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 Aqua’s most recent base rate case. Any difference in such energy costs would be tracked over a twelve-month calculation period, with the difference recovered from or refunded to customers (as appropriate) via a volumetric surcharge or surcredit over the following twelve-month period.

OSBA Statement No. 1, at 20-21 (footnote omitted).

Mr. Kalcic testified to the inherent defect in the Company’s ECAM proposal:

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.

Id., at 22.

In its Main Brief, the OSBA also observed that the Company’s ECAM proposal exhibits other problems. The ECAM would insulate the Company from fluctuating energy costs, thereby

lowering Aqua PA's business risk. This should result in a lower return on equity ("ROE") for Aqua PA, but the Company rejects such a result. Aqua PA Main Brief, at 258-259.

In addition, Aqua PA mildly claims as "unsupported" the OSBA argument that, by lowering Aqua PA's business risk (while not lowering the Company's ROE) the Company's shareholders would benefit the most from the ECAM proposal. Aqua PA Main Brief, at 255; OSBA Statement No. 1, at 21-22. The ALJ and the Commission will recognize that it is basic economic theory that any reduction in business risk will result in a lowered ROE.

Furthermore, the ECAM proposal provides a classic example of single-issue ratemaking. In its Main Brief, the OCA provides a detailed discussion of how the ECAM proposal is a textbook example of single-issue ratemaking. OCA Main Brief, at 112-115.

As set forth herein and in the OSBA's Main Brief, the Company's ECAM proposal should be rejected in its entirety.

C. Purchased Water Adjustment ("PWA") Clause

In its Main Brief, Aqua PA defends its proposed PWA Clause. Aqua PA Main Brief, at 248-255. In summary, Aqua PA once again rejects every argument raised by other parties and concludes that the proposed PWA Clause should be approved as filed.

As set forth in the OSBA Main Brief, Mr. Kalcic explained the Company's proposed PWA clause, as follows:

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.

OSBA Statement No. 1, at 23.

Mr. Kalcic testified to the inherent defect in the Aqua PA proposal:

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.

Id., at 25.

In addition, in its Main Brief the OSBA observed that Aqua PA's proposed PWA clause is unnecessary. The Company's claimed annual purchased water costs are \$4.5 million, whereas Aqua PA's claimed water cost of service is \$575.03 million. Purchased water costs are only 0.7% of the Company's total costs. OSBA Statement No. 1, at 24. Aqua PA is unable to counter the OSBA on this issue, responding only that the purchased water costs are "easily identifiable" and that "the calculation of these costs" is a simple "mathematical exercise." Aqua PA Main Brief, at 252-253. While both of Aqua PA's assertions are true, neither contradicts the fact that the Company's purchased water costs are *de minimis* relative to Aqua PA's total claimed water cost of service, and that the PWA clause is a solution in search of a problem.

Like the Company's proposed ECAM, the PWA clause provides a classic example of single-issue ratemaking. In its Main Brief, the OCA provides a detailed discussion of how the proposed PWA clause is a textbook example of single-issue ratemaking. OCA Main Brief, at 112-115.

Therefore, like the Company's proposed ECAM, the PWA clause is inappropriate. The Commission should reject the Company's PWA clause in its entirety.

IX. Rate Structure

A. Cost of Service

Aqua PA performed a class cost of service study (“COSS”) for water service. *See* Aqua PA Statement No. 5, at 3-10. As set forth in the OSBA’s Main Brief, the OSBA concluded that Aqua PA’s water COSS was accurate, just, and reasonable. OSBA Main Brief, at 7. The OCA and I&E also did not oppose the Company’s water COSS. OCA Main Brief, at 84; I&E Main Brief, at 65.

Aqua PA also performed a separate COSSs for wastewater service, by wastewater division. *See* Aqua PA Statement No. 5, at 18-21. As set forth in the OSBA’s Main Brief, the OSBA concluded that Aqua PA’s wastewater COSSs were also accurate, just, and reasonable. OSBA Main Brief, at 7. The OCA did not oppose the Company’s wastewater COSSs. OCA Main Brief, at 84. I&E, while not opposing the Company’s wastewater COSSs, did provide a series of suggestions for future rate cases. I&E Main Brief, at 65-66.

Therefore, the OSBA agrees with Aqua PA that the ALJ and the Commission should accept the Company’s water and wastewater COSSs for the purpose of this proceeding.

B. Revenue Allocation

1. Water Service

a. Reply to Aqua

On page 227 of its Main Brief, Aqua PA argues that its proposed revenue allocation for water service, inclusive of its Act 11 wastewater allocation, “is reasonable and progresses each customer classification toward the system average relative rate of return.” To the contrary, as discussed below and in the OSBA’s Main Brief, Aqua PA’s proposed revenue allocation fails to move the Residential, Public, Other Water Utilities and Private Fire Protection classes closer to

cost of service. OSBA Main Brief, at 9-14. As such, Aqua PA's proposed class revenue allocation is unjust and unreasonable, and in violation of *Lloyd*.

With regard to the using relative rates of return to measure movement toward cost of service, the Commission has provided specific guidance on how to determine whether a proposed revenue allocation moves customer classes closer to their respective cost of service. Specifically, the Commission in *Pennsylvania Public Utility Commission v. City of Bethlehem -- Water Department*, Docket No. R-2020-3020256 (Order entered April 15, 2021) decided, as follows:

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.

City of Bethlehem, at 36.

Employing the class subsidy metric adopted by the Commission, the OSBA, in its Main Brief, explained that Aqua PA's proposed water service revenue allocation was improper as it failed to move all customer classes closer to their respective cost-based revenue levels. OSBA Main Brief, at 9-14.

To correct the deficiencies inherent in Aqua PA's proposed revenue allocation, Mr. Kalcic sponsored an alternative proposal that would move all classes toward their respective cost-based revenue levels. Schedule BK-4W sets forth Mr. Kalcic's revenue allocation proposal (at Aqua PA's requested increase in water revenues of \$65.3 million), exclusive of Act 11 considerations.¹

To confirm that Mr. Kalcic's proposed water service revenue allocation complies with the *City of Bethlehem* methodology, he calculated the class subsidies that would result from the

¹ Schedule BK-4W is attached in Appendix A to this Reply Brief.

OSBA’s proposal in Schedule BK-5W.² Schedule BK-5W demonstrates that the OSBA’s proposed water service revenue allocation moves *all* the Company’s customer classes toward their respective cost of service.

Significantly, Aqua PA agrees that the OSBA’s proposed water service revenue allocation is reasonable. Aqua PA Main Brief, at 228. However, Aqua PA claims that its revenue allocation proposal is “more reasonable” since (i) it does not attempt to exclude the Act 11 allocation from the analysis, and (ii) Aqua PA’s proposal moves each customer classification toward its appropriate percentage cost of service including the Act 11 allocation. *Id.*

Mr. Kalcic addressed Aqua PA’s alternative cost-of-service metric, *i.e.*, the “percentage of cost of service recovered by each class,” along with Aqua PA’s claim that Act 11 revenues should be included when evaluating class revenue allocations, as follows:

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 in Table 1S below.

* * *

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.

OSBA Statement No. 1-S, at 4-5.³

Mr. Kalcic went on to explain why Aqua PA’s “percentage of cost of service” metric is conceptually invalid, as follows:

² Schedule BK-5W is attached in Appendix A to this Reply Brief.

³ Table 1-S is attached in Appendix A to this Reply Brief.

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.

OSBA Statement No. 1-S, 6-7 (emphasis in original).

To demonstrate how the inclusion of Act 11 revenues biases the "percentage of cost of service" metric favored by the Company, Mr. Kalcic revised Table 1-S to exclude Act 11 revenues, showing the results in Table 2-S.⁴ Mr. Kalcic explained, as follows:

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 proposal, using Aqua's percentage of cost-of-service metric, corrected to remove Act 11 revenues.

OSBA Statement No. 1-S, at 7-8. Mr. Kalcic concluded his discussion of Table 2-S with the following observations:

Note that the share of revenues for the Residential class, exclusive of Act 11, declines from present to proposed rates. This decline follows from the fact that Company assigned the Residential class an increase of only

⁴ Table 2-S is attached in Appendix A to this Reply Brief.

12.4%, exclusive of Act 11 revenues, which is less than the corresponding system average increase in sales revenue of 13.0%.

It is axiomatic that a necessary condition for an under-contributing class to move closer to cost of service is that the class receive an increase greater than the system average. Since Aqua proposes to assign the Residential class an increase that is less than the system average, exclusive of Act 11 revenues, it is not possible for the Residential class to move closer to cost of service under Aqua's revenue allocation proposal. This outcome is confirmed by both the OSBA's subsidy analysis (discussed in OSBA Statement No. 1) and the percentage of revenue analysis shown in Table 2-S. To suggest that the Residential class would, in fact, move closer to cost of service under Aqua's proposed revenue allocation is simply not credible.

OSBA Statement No. 1-S, at 8 (footnote omitted).

Simply put, the class revenue allocation for water service proposed by Aqua PA is constructed out of whole cloth, totally without a legal foundation, and must be rejected by the ALJ and the Commission.

In commenting about the OSBA's practice of isolating Act 11 revenues as a first step toward determining its revenue allocation proposal, Aqua PA speculated as follows:

[I]t appears that OSBA's recommendation to isolate and remove the Act 11 allocation from its analysis is motivated by a desire to decrease the revenue allocated to non-residential customer classifications, while increasing the revenue allocated to residential customer classes.

Aqua PA Main Brief, at 229. Aqua PA's unfounded speculation as to the OSBA's motivations is inane.

The OSBA's motivation for isolating Act 11 revenues is based upon its desire to follow the Public Utility Code, Commission regulations and precedent, and Commonwealth Court decisions. Specifically, the OSBA approach of isolating Aqua PA's claimed water cost of service from Act 11 subsidies is necessary since Act 11 is not in any manner related to the water cost of service. Act 11 simply addresses the recovery of proposed wastewater subsidies. The fact that the OSBA revenue allocation proposal assigns greater revenue responsibility to the

residential class than under Aqua PA's proposal is due to fact that the Company's proposed revenue allocation moves the Residential class in the wrong direction – away from cost of service. As a result, any revenue allocation that corrects Aqua PA's failure to move all classes toward cost of service will necessarily, and appropriately, assign greater revenue responsibility to the residential class than under the Company's proposal.

In a final attempt to justify the Company's failure to isolate Act 11 revenues from its analysis, Aqua PA continued, as follows:

However, from the perspective of customers, the effect of the increase includes both the water increase and the wastewater allocation. The Company's methodology better reflects the cost of service.

Aqua Main Brief, at 229. There is no basis in the Public Utility Code, Commission regulations, Commission precedent, or Commonwealth Court decisions that justifies Aqua PA's proposed methodology for determining appropriate class revenue targets.

Specifically, the revenue allocation for water service must be evaluated *solely* on the basis of Aqua PA's claimed water cost of service, which, by definition, excludes Act 11 revenues. To do otherwise violates the mandates of the Commonwealth Court's decision in *Lloyd*.⁵ The wastewater COSSs, wastewater revenue allocation, and any resulting Act 11 subsidies must be determined separately. Once Act 11 subsidies are finalized, such subsidies are simply added back, by class, to the underlying "water only" revenue allocation to arrive at the final class increases.

Consequently, the OSBA respectfully submits that the OSBA's proposed revenue allocation for water service should be adopted in this proceeding, as it is just, reasonable, and

⁵ *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), *appeal denied*, 591 Pa. 676 (2007).

conforms to the requirements set forth by the Commission in *City of Bethlehem* and the Commonwealth Court's decision in *Lloyd*.

b. Reply to I&E

In its Main Brief, I&E states the following:

In consideration of all of the above and the record evidence presented by I&E, I&E recommends the revenue allocations, after applying Act 11, as shown on I&E Table VII – Water – Act 11 Allocation on line 15, Proposed Revenues, attached hereto in Appendix A.

I&E Main Brief, at 70.

The OSBA observes that the referenced I&E table contains a summary of I&E's recommended position on Aqua PA's claimed water and wastewater revenue requirements, including I&E's recommended Act 11 revenue requirement, by division. However, the referenced table does not contain I&E's recommended *class* revenue allocation for water or wastewater service.

The OSBA takes no position regarding I&E's recommended revenue requirement proposals. To the extent that I&E's proposed class revenue allocation for water service is to be determined by I&E's scale back proposal, the OSBA will address I&E's scaleback proposal below.

2. Wastewater Service

a. Reply to Aqua

As set forth in the OSBA's Main Brief, Mr. Kalcic testified to his agreement with the Company's method of allocating its Act 11 revenue requirement to its water service classes, but not with the overall magnitude of Aqua PA's proposed Act revenue requirement. OSBA

Statement No. 1, at 15 and 17. Aqua PA, in its Main Brief, disputed the OSBA's conclusion that Aqua PA's proposed Act 11 revenue requirement should be reduced. The Company concluded:

Aqua PA's rebuttal testimony makes clear that OSBA's proposed Act 11 allocation would force certain wastewater Rate Zones to absorb additional rate increases in violation of the concept of gradualism.

Aqua PA Main Brief, at 224.

Mr. Kalcic addressed this Aqua PA argument, as follows:

[Aqua witness] 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.

OSBA Statement No. 1-S, at 1. Mr. Kalcic, continued, as follows:

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

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

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

OSBA Statement No. 1-S, at 2 (footnote omitted) (emphasis added).

With regard to the OSBA's proposed 74.6% increase to the New Garden rate zone, Mr. Kalcic concluded, as follows:

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

* * *

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 [Docket No. A-2016-2580061]. 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.

OSBA Statement No. 1-S, at 3 (footnotes omitted). *See also*, OSBA Statement No. 1, at 15-16 (addressing the New Garden Sewer Authority).⁶

Accordingly, the OSBA's proposal to reduce Aqua PA's proposed Act 11 revenue requirement from \$20.839 million to \$18.580 million, by assigning an additional (aggregate) increase of \$2.259 million to the Company's Base and New Garden wastewater divisions, is just and reasonable and should be adopted by the Commission.

⁶ Schedule BK-4WW, setting forth the OSBA's proposed wastewater increases by wastewater division, is included in Appendix A to this Reply Brief.

b. Reply to OCA

The OSBA takes no position regarding the magnitude of the Act 11 revenue requirement advocated by the OCA, as long as the resulting Act 11 revenue requirement is recovered from Aqua PA's water service classes on a revenue neutral basis, by customer class. OSBA Statement No. 1-R, at 1. *See also* the OSBA's Main Brief at 23-24.

c. Reply to I&E

The OSBA takes no position regarding the magnitude of the Act 11 revenue requirement advocated by I&E, as long as the resulting Act 11 revenue requirement is recovered from Aqua PA's water service classes on a revenue neutral basis, by customer class. OSBA Statement No. 1-R, at 1. *See also* OSBA Main Brief, at 23-24.

3. Scaleback Proposals

a. Reply to Aqua

With respect to a scale back of the Company's proposed revenue allocation for water service, Aqua PA states the following:

However, to the extent the Commission approves a rate increase less than proposed by the Company, the scale back should be applied proportionately based on the Company's proposed revenue allocation.

Aqua PA Main Brief, at 265.

The OSBA respectfully submits that Aqua PA's proposal to scale back the Company's proposed revenue allocation must be rejected. First, Aqua PA's proposed revenue allocation, as set forth above and in the OSBA's Main Brief, is not cost based. Therefore, it is not valid to use the Company's proposed revenue allocation as starting point for any scale back. Second, as explained by Mr. Kalcic, it is necessary to employ a separate scale back for reductions in Aqua

PA's allowed water service revenue requirement, as well as changes in the Company's Act 11 revenue requirement.

Mr. Kalcic addressed the first issue, as follows:

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 targets, as doing so would preclude the recovery of Aqua's approved Act 11 revenue requirement on a revenue neutral basis, by customer class.

OSBA Statement No. 1-R, at 10-11. Mr. Kalcic further addressed the second issue:

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 [OCA witness] 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 11 revenue requirement.

OSBA Statement No. 1-R, at 8-9 (footnote omitted).

As explained in the OSBA's Main Brief, if the Commission awards Aqua PA a water service revenue increase less than the Company's requested amount of \$65.3 million (exclusive of Act 11 considerations), the OSBA's recommended class increases for water service shown in column 2 of Schedule BK-4W, excluding Public Fire Protection and Contract sales, should be scaled back proportionately. OSBA Main Brief, at 19.

Furthermore, any reduction in Aqua PA's proposed Act 11 revenue requirement at the conclusion of this proceeding would necessitate a separate scale back of the Company's proposed allocation of Act 11 revenues to water customers. OSBA Main Brief, at 20. If the Commission awards Aqua PA a wastewater service revenue requirement less than the Company's requested revenue requirement of \$69.5 million, the OSBA recommends that the Commission leave the OSBA's proposed wastewater class increases unchanged. However, the Commission should scale back the Company's wastewater class revenue requirements, summarized in column 1 of Table 1 (shown on page 28 of the OSBA's Main Brief) proportionately. The resulting difference between i) the scaled back wastewater revenue requirements and ii) final wastewater revenues, by class, should determine the final Act 11 revenue requirement to be collected from Aqua PA's water service classes. OSBA Main Brief, at 29-30.

b. Reply to OCA

The OCA describes its scale back proposal as follows:

To the extent the Commission authorizes a lower revenue requirement for Aqua's water operations, the OCA recommends that the water revenue allocation set forth in OCA Schedule GAW-5 should be scaled-back proportionally across divisions and classes.

OCA Main Brief, at 97.

As noted by Mr. Kalcic in his rebuttal testimony, the OCA's proposed revenue allocation for water service is identical to Aqua's proposal, except for Act 11-related modifications. OSBA Statement No. 1-R, at 6. Since the Company's revenue allocation is not cost based, neither is OCA's proposed revenue allocation. Accordingly, it would not be appropriate to set final class revenue levels by scaling back the OCA's revenue allocation.

Furthermore, as explained above in reply to Aqua PA's scale back proposal, it would not be appropriate to simply scale back total proposed water class increases, inclusive of Act 11 revenues, to arrive at final class revenue targets. Doing so would preclude the recovery of Aqua PA's approved Act 11 revenue requirement on a revenue neutral basis, by customer class. The ALJ and Commission should reject the OCA's scale back proposal.

c. Reply to I&E

In its Main Brief, I&E describes its scale back proposal, as follows:

I&E is proposing a total revenue increase of \$33,909,310 million across all water and wastewater customers. Of that I&E proposes that \$17,222,064 million would be applied to its water customers.

Therefore, I&E is only proposing a 20% increase for water customers as compared to the Company's proposal for water customers ($\$17.22 / \$86.12 = 0.20$). Therefore, the Company's proposed percentage increases to the water customer classes should all be scaled back to 20% of the Company's original proposed percentage increases.

I&E Main Brief, at 72-73.

Under the I&E scale back proposal, the Company's combined water and Act 11 increases would be multiplied by 0.20 to arrive at final water class revenue targets. The OSBA submits that the Commission should reject I&E's proposal for the following reasons: 1) it would employ Aqua PA's non-cost based revenue allocation as the starting point for its sale back; and 2) it would apply a *single* scale back to Aqua's filed class increases, which include Act 11 revenues, thereby precluding the recovery of I&E's proposed Act 11 revenue requirement of \$10.439 million on a revenue neutral basis, by customer class.

C. Tariff Structure

The OSBA is not addressing this issue in this Reply Brief.

D. Summary and Alternatives

The OSBA has concluded that Aqua PA's originally filed water COSS is accurate, just, and reasonable.

The OSBA has also concluded that Aqua PA's originally filed wastewater COSSs are accurate, just, and reasonable.

However, the OSBA has also concluded, as set forth above, that Aqua PA's proposed water revenue allocation is unjust and unreasonable, since it does not move all customer classes closer to cost of service and violates the requirements of *Lloyd*.

The OSBA's proposed water service revenue allocation comports with the results of the Company's water COSS, follows the Commission's *City of Bethlehem* methodology, and meets the requirements of *Lloyd* by moving all customer classes closer to their respective cost of service. The OSBA water service revenue allocation provides a just a reasonable result (at the Company's requested water service revenue increase).

Furthermore, if the Commission awards Aqua PA a water service revenue increase less than the Company's requested amount of \$65.3 million (exclusive of Act 11 considerations), the class increases shown in column 2 of Schedule BK-4W, excluding the Public Fire Protection and Contract Sales, should be proportionally scaled back.

The Commission should reject the scale back proposals advanced by the Company, I&E, and the OCA.

The OSBA agrees with Aqua PA's method of assigning Act 11 wastewater subsidies to the Company's water customer classes, since the proposal recovers Act 11 subsidies on a revenue neutral basis across customer classes. However, the OSBA disagrees with Aqua's

proposed Act 11 revenue requirement of \$20.839 million and recommends that the Commission limit the Company's Act 11 revenue requirement to no more than \$18.580 million.

Finally, if the Commission awards Aqua PA a wastewater service revenue requirement less than the Company's requested revenue requirement of \$69.5 million, the Commission should 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 proportionately⁷.

⁷ Schedule BK-7W is attached in Appendix A to this Reply Brief.

X. Conclusion

Therefore, the OSBA respectfully requests that the ALJ and Commission:

Recover all costs of any approved Aqua PA customer assistance program from the Company's residential class;

Reject Aqua PA's proposed Energy Cost Adjustment Mechanism;

Reject Aqua PA's proposed Purchased Water Adjustment Clause;

Adopt Aqua PA's water cost of service study and wastewater cost of service studies for purposes of this proceeding;

Reject Aqua PA's proposed revenue allocation for water service customers, and adopt the OSBA's class revenue allocation for water service;

Determine that, if the Commission awards Aqua PA an overall water revenue increase less than that requested by the Company, the OSBA's proposed water service increases, exclusive of Act 11, excluding those increases assigned to the Public Fire Protection and Contract Sales classes, should be proportionally scaled back;

Adopt Aqua PA's proposed methodology for allocating the Company's Act 11 revenue requirement to water service customers;

Limit Aqua PA's Act 11 revenue requirement to no more than \$18.580 million; and

Determine that, if the Commission awards Aqua PA an overall wastewater revenue requirement less than that requested by the Company, the OSBA's proposed wastewater class increases should remain unchanged, and the Act 11 revenue requirement assigned to water service classes should be reduced by proportionally scaling back Aqua PA's total claimed wastewater cost of service, by wastewater class.

Respectfully submitted,

/s/ Steven C. Gray

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Dated: January 21, 2022

APPENDIX A

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)

<u>Line</u>	<u>Classification</u>	Present <u>Revenue*</u>	<u>Recommended Increase</u>	
			<u>Amount</u>	<u>Percent</u>
		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.	<u>\$6,438,592</u>	<u>\$1,329,034</u>	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	<u>\$1,318,393</u>	<u>\$0</u>	0.0%
11	TOTAL	<u>\$509,678,691</u>	<u>\$65,345,313</u>	12.8%

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

<u>Line</u>	<u>Classification</u>	Present	OSBA
		Subsidy	Proposed
		(\$000)	(\$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.	<u>(\$444)</u>	<u>\$0</u>
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.

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

<i>Class</i>	<i>Present Revenue %</i>	<i>Proposed Revenue %</i>	<i>Target Cost of Serv. %</i>
	(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	<u>1.28%</u>	<u>1.32%</u>	<u>1.32%</u>
Total Sales	100.00%	100.0%	100.00%

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

Table 2-S
Summary of Percentages of Revenues
and Claimed Cost of Service, Exclusive of Act 11, by Customer Class

<i>Class</i>	<i>Present Revenue %</i>	<i>Proposed Revenue %</i>	<i>Target Cost of Serv. %</i>
	(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	<u>1.28%</u>	<u>1.37%</u>	<u>1.37%</u>
Total Sales	100.00%	100.00%	100.00%

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

AQUA PENNSYLVANIA WASTEWATER, INC.

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

<u>Line</u>	<u>Division</u>	Present	<u>Recomm. Increase</u>	
		<u>Revenue*</u>	<u>Amount</u>	<u>Percent</u>
		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	<u>\$2,871,698</u>	<u>\$2,142,222</u>	74.6%
7	Total Sales	\$36,669,875	\$13,803,772	37.6%
8	Contract	\$312,754	\$19,047	6.1%
9	Other Revenues	<u>\$76,434</u>	<u>\$0</u>	0.0%
10	TOTAL	<u>\$37,059,063</u>	<u>\$13,822,819</u>	37.3%

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

Notes:

* Includes DSIC Revenues.

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)

<u>Line</u>	<u>Classification</u>	Present	OSBA	OSBA	Total	%
		<u>Revenue*</u>	<u>Increase</u>	<u>Act 11</u>	<u>Increase</u>	<u>Inc.</u>
		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 Util.	\$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.	<u>\$6,438,592</u>	<u>\$1,329,034</u>	<u>\$0</u>	<u>\$1,329,034</u>	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	<u>\$1,318,393</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0.0%
11	TOTAL	<u>\$509,678,691</u>	<u>\$65,345,313</u>	<u>\$18,580,204</u>	<u>\$83,925,517</u>	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%.

**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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