

**I&E Statement No. 4-SR
Witness: Ethan H. Cline
NON-PROPRIETARY VERSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

AQUA PENNSYLVANIA WATER, INC.

AQUA PENNSYLVANIA WASTEWATER, INC.

Docket No. R-2021-3027385 and R-2021-3027386

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

**Reporting Requirements
Present Rate Revenue
Sales for Resale Contracts
Scale Back of Rates**

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1 **INTRODUCTION**

2 **Q. ARE YOU THE SAME ETHAN CLINE THAT SUBMITTED DIRECT**
3 **TESTIMONY IN THIS CASE ON NOVEMBER 10, 2021?**

4 A. Yes. I submitted I&E Statement No. 4 on November 10, 2021.

5

6 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

7 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
8 submitted by witnesses on behalf of Aqua Pennsylvania Water Company (“Aqua”
9 or “Company”): Erin M. Feeney (Aqua St. No. 2-R), Constance E. Heppenstall
10 (Aqua St. No. 5-R). I will also address the rebuttal testimony submitted on behalf
11 of the Office of Small Business Advocate (“OSBA”) by witness Brian Kalcic
12 (OSBA St. No. 1-R).

13

14 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

15 A. Yes. I&E Exhibit No. 4-SR contains schedules relating to my testimony.

16

17 **FTY AND FPFTY REPORTING**

18 **Q. DID YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT**
19 **ADDITIONS THAT AQUA PROJECTS TO BE IN SERVICE DURING**
20 **THE FTY ENDING MARCH 31, 2022, AND THE FPFTY ENDING**
21 **MARCH 31, 2023?**

22 A. Yes. I recommended that the Company provide the Commission’s Bureaus of

1 Technical Utility Services and Investigation and Enforcement with an update to
2 Schedule G-2 of Aqua Exhibits 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, and 1-G, no later
3 than July 1, 2022 which should include actual capital expenditures, plant
4 additions, and retirements by month for the twelve months ending March 31, 2022
5 and an additional update for actuals for the year ending March 31, 2023, no later
6 than July 1, 2023 (I&E St. No. 4, p. 5).

7
8 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

9 A. No. Therefore, I interpret the Company's lack of response as agreement to my
10 recommendation.

11
12 **WATER OPERATIONS - FORFEITED DISCOUNTS**

13 **Q. DO YOU WISH TO MAKE ANY CORRECTIONS TO YOUR DIRECT**
14 **TESTIMONY REGARDING FORFEITED DISCOUNTS?**

15 A. Yes. On I&E Statement No. 4, page 7, line 2 and page 8, line 13 I inadvertently
16 referenced Aqua's Wastewater Operations in regard to my forfeited discounts
17 recommendations. Those references should instead be to Aqua's Water
18 Operations.

19
20 **Q. WHAT ARE FORFEITED DISCOUNTS?**

21 A. A public utility can assess a separate charge to customers who do not pay their bill

1 on time. The term forfeited discounts revenue, also referred to as late payment
2 charges, refers to the revenue received by the utility as a result of this charge.

3
4 **Q. WHAT DID YOU RECOMMEND REGARDING THE AMOUNT OF**
5 **REVENUE FROM FORFEITED DISCOUNTS AQUA WATER**
6 **OPERATIONS BASE WILL RECEIVE UNDER PRESENT RATES FOR**
7 **THE FPFTY?**

8 A. I recommended the Company reflect \$1,373,542 in forfeited discounts under
9 present rates in the year ending March 31, 2023 (I&E St. No. 4, p. 7).

10
11 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION**
12 **REGARDING FORFEITED DISCOUNTS UNDER PRESENT RATES?**

13 A. Yes. Aqua witness Feeney, on pages 29-30 of Aqua Statement No. 2-R, disagreed
14 with my recommendation to reflect \$1,373,542 in forfeited discounts under
15 present rates in the year ending March 31, 2023. She indicated that my
16 recommendation was in error and that the Company did record late payment fees
17 in the amount of \$735,710 as part of the Company's overall \$1,301,938
18 miscellaneous revenue claim in the historic test year. She further indicated that in
19 its review, the Company made an adjustment to increase its miscellaneous revenue
20 claims by \$150,172 from \$1,302,895 to \$1,453,067 (Aqua Ex. 1-A(a), Sch. B-1) to
21 normalize the impact of COVID on miscellaneous revenues.

1 **Q. DO YOU AGREE WITH THE COMPANY’S \$150,172 INCREASE TO**
2 **MISCELLANEOUS REVENUES UNDER PRESENT RATES?**

3 A. Yes. The Company’s adjustment to miscellaneous revenues is reasonable.
4 Therefore, I withdraw my recommendation and adopt the Company’s \$150,172
5 increase to miscellaneous revenue under present rates.

6
7 **Q. DID YOU MAKE ANY RECOMMENDATIONS REGARDING**
8 **FORFEITED DISCOUNTS UNDER PROPOSED RATES?**

9 A. Yes. As I stated on p. 8 of I&E Statement No. 4, revenues will increase when a
10 utility’s base rates are increased as a result of a base rate proceeding. Since
11 forfeited discounts are generally a percentage of a customer’s bill, increasing
12 revenue through a rate increase will cause revenues from forfeited discounts to
13 increase over time. Therefore, I recommended that Aqua Wastewater Operations
14 Base’s forfeited discount claim under proposed rates be increased by the same
15 percent increase as the overall base rate increase granted by the Commission.

16
17 **Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION**
18 **REGARDING FORFEITED DISCOUNTS UNDER PROPOSED RATES?**

19 A. No. Aqua witness Feeney stated on page 30 of Aqua Statement No. 2-R that
20 “[t]he ratio proposed by Mr. Cline to increase late payment charges under
21 proposed rates is not necessary as the Company has already adjusted for this under
22 present rates.”

1 **Q. DO YOU AGREE WITH THE COMPANY THAT IT ALREADY**
2 **ACCOUNTED FOR THE INCREASE TO LATE PAYMENT CHARGES**
3 **FOR PROPOSED RATES IN ITS PRESENT RATE ADJUSTMENT?**

4 A. No. The late payment claim under present rates is designed to project the amount
5 of revenue the Company would receive in the FPFTY if its rates were not
6 increased. The claim that the Company already made an adjustment for the
7 increase in late payment revenue that would be generated under proposed rates in
8 its present rate claim is illogical and should be rejected.

9
10 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
11 **REGARDING REVENUE FROM LATE PAYMENT FEES UNDER**
12 **PROPOSED RATES?**

13 A. No. For the reasons described above, I continue to recommend that the late
14 payment claim under proposed rates be increased by the same percent increase as
15 the overall base rate increase granted by the Commission.

16
17 **WATER - RESALE RIDER CONTRACTS**

18 **Q. DOES THE COMPANY HAVE RESALE AGREEMENTS WITH**
19 **VARIOUS OTHER WATER UTILITIES?**

20 A. Yes. The Company has sales for resale agreements with eleven different water
21 utilities to supply water at various rates (Aqua Ex. 5-A, Part I, RS2 Attachment,
22 pp. 5-9).

1 **Q. DOES THE COMPANY’S TARIFF DESCRIBE WHAT IS REQUIRED TO**
2 **GRANT A CONTRACT TO A RESALE CUSTOMERS AT LESS THAN**
3 **FULL TARIFF RATES?**

4 A. Yes. Aqua Tariff Water, PA P.U. C. No. 3, Original page 20 describes “RIDER
5 DRS – DEMAND BASED RESALE SERVICE”

6 **II. Availability**

7 This rider is available to a customer or prospective customer that:

- 8 1. purchases or intends to purchase water from the Company for resale
9 purposes;
- 10 2. enters into a Service Agreement for a term of not less than 10 years
- 11 3. during the original and any renewal terms of the Service Agreement,
12 agrees to maintain a daily load factor of not less than 0.60; and
- 13 4. has a viable competitive alternative to service from the Company
14 and intends to select that alternative to the detriment of the Company
15 and its other customers.

16 The Company shall require documentation to establish, to the
17 Company’s satisfaction, the existence of a competitive alternative.
18 Such documentation may include, but is not limited to, an affidavit of
19 the customer or, if the customer is a corporation, an affidavit of one or
20 more of its officers.
21

22 **Q. WHAT DID YOU RECOMMEND REGARDING CERTAIN RATE DRS**
23 **CONTRACTS IN YOUR DIRECT TESTIMONY?**

24 A. I recommended that the contracts for City of Hubbard (“Hubbard”), Horsham
25 Water Authority (“Horsham”), Downingtown Municipal Water Authority
26 (“Downingtown”), Aqua PA and Aqua Ohio’s Masury Division (“Masury”),
27 Bucks County Water and Sewer Authority’s Bristol Division (“Bristol”),
28 Chemung Industrial Development Agency (“Chemung”), Warwick Township
29 Water and Sewer Authority (“Warwick”), Borough of Sharpsville (“Sharpsville”),

1 and Schwenksville Borough Authority (“Schwenksville”) be canceled, and that
2 each customer begin to pay full approved tariff rates when they become effective
3 (I&E St. No. 4, pp. 11-12).

4
5 **Q. DID THE COMPANY RESPOND IN GENERAL TO YOUR ANALYSIS OF**
6 **THE CONTRACTS LISTED ABOVE?**

7 A. Yes. Witness Feeney stated on page 15 of Aqua Statement No. 2-R that she
8 disagreed with my approach and analysis of the contracts. Specifically, Ms.
9 Feeney claimed that I failed to discuss the Company’s ability to review
10 documentation to its satisfaction when entering into these agreements, that I
11 incorrectly expanded the documentation needed to support the contracts based on
12 the “plain language of the Rider DRS approved in the Company’s tariff,” and that
13 the additional documentation that I stated the Company did not provide is not
14 required to be filed with the Commission as part of the contract filing.

15
16 **Q. WHAT INFORMATION DOES WITNESS FEENEY CLAIM CAN BE**
17 **UTILIZED TO SUPPORT DISCOUNTED RATES UNDER RIDER DRS?**

18 A. Ms. Feeney correctly stated that under Rider DRS, “the Company must require
19 documentation of the existence of competitive alternative to the Company’s
20 satisfaction.” She further indicates that Rider DRS states that such documentation
21 “may include, but is not limited to, an affidavit of the customer or, if the customer

1 is a corporation, an affidavit of one or more of its officers.” (Aqua St. No. 2-R, p.
2 15).

3
4 **Q. DO YOU AGREE THAT AN AFFIDAVIT FROM A CUSTOMER (OR**
5 **MUNICIPAL EMPLOYEES) SWORN UNDER OATH CAN BE USED AS**
6 **PROOF OF A COMPETITIVE ALTERNATIVE?**

7 A. Yes. However, it is reasonable to verify that the information provided in the
8 affidavit actually provides support of a competitive alternative and that it remains
9 true and correct if time has passed since the affidavit was signed. I will discuss
10 those Rider DRS customers where the customer provided what the customers and
11 the Company believed to be competitive alternative documentation in an affidavit
12 in more detail below.

13
14 **Q. IS MS. FEENEY CORRECT THAT THE PLAIN LANGUAGE OF RIDER**
15 **DRS INDICATES THAT THE COMPANY HAS THE ABILITY TO**
16 **REVIEW DOCUMENTATION TO ITS SATISFACTION WHEN**
17 **ENTERING INTO THE DISCOUNTED AGREEMENTS?**

18 A. Yes. I quoted the exact language to Rider DRS on page 9 of I&E Statement No. 4,
19 including the sentence that states “[t]he Company shall require documentation to
20 establish, to the Company’s satisfaction, the existence of a competitive
21 alternative.”

1 **Q. DOES THE LANGUAGE OF THE COMPANY’S TARIFF PRECLUDE**
2 **I&E FROM REQUESTING AND REVIEWING ADDITIONAL**
3 **DOCUMENTATION REGARDING THE DISCOUNTED RATES?**

4 A. No. I am advised by counsel that Chapter 13, Subchapter A of the Public Utility
5 Code (66 Pa. C.S. Section 1301, et. al.) means that every part of the Company’s
6 tariff and rates are eligible to be reviewed and that the Commission is final arbiter
7 of whether the Company’s rates are just and reasonable. Therefore, the Company
8 incorrectly believes that, once a rider rate is reviewed and approved, the
9 Commission may never again review any part of the contract including the rates.

10

11 **Q. PLEASE ADDRESS MS. FEENEY’S CLAIM THAT YOU INCORRECTLY**
12 **EXPANDED THE NEEDED DOCUMENTATION TO SUPPORT RIDER**
13 **DRS CONTRACTS.**

14 A. Ms. Feeney is correct that neither the tariff nor the settlement of the 2018 Aqua
15 base rate case required the Company provide a specific competitive alternative
16 **analysis**. However, I do not agree with her claim on page 16 of Aqua Statement
17 No. 2-R that the 2018 Settlement Agreement “did not change the requirements of
18 the rider, which already requires documentation that includes submission of an
19 affidavit.” My interpretation of the plain language of the Settlement agreement is
20 that, if the Company’s existing means of providing support was insufficient in the
21 last case, then additional support and documentation was required in this case.

22 The Company failed to provide that support in the initial filing in this proceeding

1 as was required, as well as in its response to OCA-III-7 as I described in my direct
2 testimony.

3
4 **Q. DID THE COMPANY PROVIDE THIS ADDITIONAL INFORMATION IN**
5 **ITS DIRECT TESTIMONY?**

6 A. No.

7
8 **Q. DID THE COMPANY PROVIDE SOME ADDITIONAL INFORMATION**
9 **IN ITS REBUTTAL TESTIMONY TO SUPPORT GRANTING RIDER**
10 **DISCOUNTS TO CERTAIN CUSTOMERS?**

11 A. Yes. The Company indicated on pages 20 and 22 of Aqua Statement No. 2-R that
12 the contracts provided in response to OCA-III-7 “inadvertently excluded” an
13 affidavit for Sharpsville and Schwenksville and an alternative analysis and study
14 for Hubbard, respectively. These supporting documents were included by Aqua as
15 HIGHLY CONFIDENTIAL Aqua Exhibit EMF-1-R.

16
17 **Q. DID YOU REVIEW THE ALTERNATIVE ANALYSIS AND STUDY**
18 **PROVIDED IN HIGHLY CONFIDENTIAL AQUA EXHIBIT EMF-1-R?**

19 A. Yes. {BEGIN PROPRIETARY} [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED] {END PROPRIETARY}

4

5 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
6 **REGARDING THE HUBBARD CONTRACT RATE?**

7 A. Yes. While I haven't verified this documentation, for the purposes of this case I
8 will accept the additional representations and information provided by the
9 Company on good faith, and I will withdraw my original recommendation to
10 cancel the Hubbard contract.

11

12 **Q. DID YOU REVIEW THE AFFIDAVIT FOR SHARPSVILLE PROVIDED**
13 **IN HIGHLY CONFIDENTIAL AQUA EXHIBIT EMF-1-R?**

14 A. Yes. {BEGIN PROPRIETARY} [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED] {END

21 PROPRIETARY}

1 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION FOR**
2 **SHARPSVILLE?**

3 A. No. Based on my analysis above, I continue to recommend the Sharpsville
4 contract be canceled and it begin to pay full tariff rates when they go into effect.

5
6 **Q. DID YOU REVIEW THE AFFIDAVIT PROVIDED FOR**
7 **SCHWENKSVILLE?**

8 A. Yes. **{BEGIN PROPRIETARY}** [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED] **{END PROPRIETARY}**

1 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION FOR**
2 **SCHWENKSVILLE?**

3 A. No. Based on my analysis above, I continue to recommend the Schwenksville
4 contract be canceled and it begin to pay full tariff rates when they go into effect.

5

6 **Q. DID THE COMPANY PROVIDE ADDITIONAL INFORMATION**
7 **REGARDING THE WARWICK CONTRACT?**

8 A. Yes. On pages 18-19 of Aqua Statement No. 2-R, the Company indicated that it
9 began providing service to Warwick by submitting the successful bid for
10 Warwick's Request for Proposal ("RFP") process. The RFP supports the claim for
11 a competitive alternative because, if Aqua increased its rates, Warwick could
12 simply submit another RFP for service and select a different provider.

13

14 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
15 **REGARDING WARWICK?**

16 A. Yes. While I haven't verified this documentation, for the purposes of this case I
17 will accept the additional representations and information provided by the
18 Company on good faith, and I will withdraw my recommendation to cancel the
19 Warwick contract.

1 **Q. DID THE COMPANY PROVIDE ADDITIONAL INFORMATION**
2 **REGARDING THE CHEMUNG CONTRACT?**

3 A. No. Ms. Feeney, on p. 17 of Aqua Statement No. 2-R, simply pointed back to the
4 Chemung contract that states Chemung “has considered alternative means of
5 obtaining service” and “following the consideration of other alternatives,
6 Chemung has decided to obtain its water supply from Aqua.” Aqua provided no
7 additional information or documentation regarding what alternative means of
8 obtaining service Chemung considered.

9
10 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
11 **REGARDING CHEMUNG?**

12 A. No, I continue to recommend the Chemung contract be canceled and it begin to
13 pay full tariff rates when they go into effect. First, Chemung is one of the
14 contracts that was specifically listed in the 2018 Settlement as requiring additional
15 documentation. The contract for Chemung, shown on HIGHLY
16 CONFIDENTIAL I&E Exhibit. No. 4, p. 113 of 219, {**BEGIN PROPRIETARY**}

17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

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[REDACTED]

[REDACTED] {END PROPRIETARY} Therefore, with no additional information or documentation to support a competitive alternative, it is not reasonable to grant Chemung a discounted rate.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE CHEMUNG CONTRACT?

A. No. Based on my analysis above, I continue to recommend the Chemung contract be canceled and it begin to pay full tariff rates when they go into effect.

Q. DID AQUA PROVIDE A DESCRIPTION OF THE HORSHAM SYSTEM?

A. Yes. Ms. Feeney, on p. 22 of Aqua Statement No. 2-R, claimed that Horsham “withdraws water from fifteen strategically-located wells through Horsham Township and has interconnections with the Company and North Wales.” She further claimed that Horsham could supply all of its water needs through its wells and its interconnection to North Wales.

Q. DID THE COMPANY REQUEST ADDITIONAL DOCUMENTATION FROM HORSHAM REGARDING ITS COMPETITIVE ALTERNATIVES?

A. {BEGIN PROPRIETARY} [REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] {END PROPRIETARY}

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE HORSHAM CONTRACT?

A. No. Based on my analysis above, I continue to recommend the Horsham contract be canceled and it begin to pay full tariff rates when they go into effect.

Q. DID THE COMPANY PROVIDE ANY ADDITIONAL DISCUSSION REGARDING DOWNINGTOWN?

A. Yes. On page 23 of Aqua Statement No. 2-R, Ms. Feeney described the “unique” nature of the Downingtown contract. Specifically, she noted that Aqua currently purchases water from Downingtown and that, on occasion, Downingtown requires replacement water to be sold back to Downingtown. Ms. Feeney further indicated that any revenues gained by Aqua would be offset by increased expenses associated with purchased water expense and hydrant charges. The de minimis amount of revenue shown on I&E Exhibit No. 4, Schedule 2, line 8 supports Aqua’s claim.

1 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
2 **REGARDING THE DOWNINGTOWN CONTRACT?**

3 A. Yes. While I haven't verified this documentation, for the purposes of this case I
4 can accept the additional representations and information provided by the
5 Company in good faith, and I would like to withdraw my recommendation to
6 cancel the Downingtown contract.

7
8 **Q. WHAT DISCUSSION DID THE COMPANY PROVIDE REGARDING THE**
9 **AGREEMENT IT HAS WITH NEW WILMINGTON?**

10 A. Ms. Feeney stated that the New Wilmington contract was entered into to provide
11 service to a non-contiguous area in its distribution system and that "[i]t is the
12 Company's position that a competitive alternative is not required for a "wheeling"
13 agreement." (Aqua St. No 2-R, pp. 23-24). She further indicated that the
14 "wheeling" agreement was meant to have been such that costs of purchases and
15 withdrawals from New Wilmington would offset, but "the increases in usage for
16 AP's anticipated new service area did not materialize." (Aqua St. No. 2-R, p. 24).

17
18 **Q. WHY IS IT IMPORTANT THAT THE INCREASE IN USAGE FOR AQUA**
19 **DID NOT MATERIALIZE?**

20 A. That the increase in usage did not materialize is important because it means that
21 Aqua has been providing discounted service to New Wilmington for no apparent
22 reason. Aqua's position that a wheeling agreement does not require a competitive

1 alternative is immaterial in this case since, apparently, Aqua is not completing its
2 part of the agreement. As such, this contract can no longer be considered a
3 wheeling agreement and must be analyzed on the basis of a normal Rate DRS
4 customer. Therefore, with no documentation of a competitive alternative, the New
5 Wilmington contract should not continue.

6
7 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
8 **REGARDING THE NEW WILMINGTON CONTRACT?**

9 A. No. Based on my analysis above, I continue to recommend the New Wilmington
10 contract be canceled and it begin to pay full tariff rates when they go into effect.

11
12 **Q. DID THE COMPANY PROVIDE ADDITIONAL DETAIL REGARDING**
13 **ITS SERVICE TO BRISTOL?**

14 A. Yes. On page 26 of Aqua Statement No. 2-R, Ms. Feeney described the
15 “borderline service” agreement between Bristol and Aqua in which, in return for
16 providing water service to a small number of customers on the border of Aqua and
17 Bristol’s service territory, Bristol provides Aqua wastewater service for all of the
18 water from filter backwashing at Aqua’s Bristol water treatment plant.

19
20 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
21 **REGARDING THE BRISTOL SERVICE?**

22 A. Yes. While I haven’t verified this documentation, for the purposes of this case I

1 can accept the additional representations and information provided by the
2 Company in good faith, and I will withdraw my recommendation to cancel the
3 Bristol service.

4
5 **Q. WHY DID YOU RECOMMEND THE COMPETITIVE RIDER RATES**
6 **GRANTED TO MASURY BE CANCELED?**

7 A. I recommended that the competitive rider rates granted to Masury be canceled
8 because Masury does not have a water supply contract with Aqua and cannot
9 qualify for Rider DRS (I&E St. No. 4, p. 14).

10
11 **Q. WHAT WAS THE BASIS FOR YOUR RECOMMENDATION?**

12 A. My recommendation was the lack of documentation in the original filing and the
13 response to OCA-III-7 provided on October 7, 2021, which stated {BEGIN

14 **PROPRIETARY}** [REDACTED]

15 [REDACTED] **{END PROPRIETARY}**

16
17 **Q. DID THE COMPANY PROVIDE AN UPDATE REGARDING THE**
18 **MASURY RATE?**

19 A. Yes. On pages 24-25 of Aqua Statement No. 2-R, Ms. Feeney stated that a
20 contract between Masury and Aqua was filed with the Commission on November
21 30, 2021. This contract with Aqua Ohio was signed on August 12, 2021 and was

1 included on pages 23-38 of HIGHLY CONFIDENTIAL Aqua Exhibit EMF-1-R
2 which was provided to the parties on December 2, 2021.

3
4 **Q. DOES THE PROVIDED CONTRACT BETWEEN MASURY AND AQUA**
5 **SATISFY YOUR CONCERNS REGARDING THE MASURY RATE?**

6 A. No. While the contract may have been submitted to the Commission for review
7 on November 30, 2021, there is not sufficient time to review the contract and the
8 cost data used to support the competitive alternative. The contract and supporting
9 data has not yet been fully reviewed and approved by the Commission. As a new
10 affiliated interest agreement contract, such review and approval would require a
11 separate proceeding before the Commission. Until such time that the contract is
12 approved, the discount rate should not be reflected in the filing and Masury should
13 be billed under full tariff rates.

14
15 **Q. HOW MUCH DOES PRESENT RATE REVENUE INCREASE IF THE**
16 **COMMISSION ACCEPTS YOUR ADJUSTED RECOMMENDATION TO**
17 **CANCEL THESE RIDER CONTRACTS AND RIDER RATES?**

18 A. Canceling these contracts causes present rate revenue to increase by \$3,248,807
19 (\$5,902,320 - \$2,653,513) (I&E Ex. No. 4-SR, Sch. 1).

1 **SCALE BACK OF RATES**

2 **Q. WHAT IS A RATE SCALE BACK?**

3 A. If the Commission grants an increase less than the amount the Company requested,
4 the Company's proposed rates would be reduced, or scaled back, to produce the
5 revenue requirement allowed by the Commission.

6

7 **Q. WHAT OTHER I&E WITNESSES ADDRESS THE SCALE BACK OF**
8 **RATES?**

9 A. I&E witness Kubas discussed the Wastewater Operations revenue requirement and
10 scale back in I&E Statement No. 5. The revenue requirements and scale backs of the
11 wastewater operations must be determined prior to the application of a scale back to
12 the water operations rates.

13

14 **Q. WHY MUST THE WASTEWATER OPERATIONS REVENUE**
15 **REQUIREMENT AND SCALE BACK BE DETERMINED PRIOR TO THE**
16 **APPLICATION OF A SCALE BACK TO WATER OPERATION RATES?**

17 A. The wastewater operations revenue requirement must be set first because that will
18 determine the amount of revenue requirement to be subsidized and allocated to
19 Water Operations. Once the wastewater subsidy to water allocation is determined,
20 then the full Water Operations revenue requirement will be known, and those rates
21 can be scaled back.

1 **Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS AN**
2 **INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE**
3 **FOR WATER OPERATIONS AND REDUCES THE CUSTOMER**
4 **CHARGES?**

5 A. If the Commission grants an increase less than the fully requested increase and
6 reduces the customer charges in the FPFTY, I recommended that, after the
7 wastewater operations revenue requirement, the remaining revenue increase after
8 adjustment of the customer charge be utilized to decrease usage rates to produce the
9 revenue level the Commission approves. I also recommended that the Company
10 adjust the proposed usage rates so that the increase for each customer class is
11 proportional to the percentage increases that each class was originally supposed to
12 receive. If a rate is not proposed to be increased by the Company, it should not be
13 scaled back (I&E St. No. 4, pp. 16-20).

14

15 **Q. DID THE COMPANY AGREE WITH YOUR SCALE BACK**
16 **RECOMMENDATION?**

17 A. Yes. Aqua witness Heppenstall indicated that the Company agreed with my
18 recommendation on Aqua Statement No. 5-R, pp. 19-20.

19

20 **Q. DID ANY OTHER PARTIES RESPOND TO YOUR RECOMMENDATION?**

21 A. Yes. OSBA witness Kalcic disagreed with my recommendation because of his
22 position that the Company's water service revenue allocation would not be cost

1 based and that he believes it is not appropriate to scale back total proposed water
2 class increases because doing so would preclude recovery of Aqua's approved Act
3 11 subsidy revenue requirement on a revenue neutral basis by customer class (OSBA
4 St. No. 1-R, pp. 10-11).

5
6 **Q. PLEASE ADDRESS MR. KALCIC'S CONCERNS.**

7 A. The matter of the allocation of costs and revenues through a cost of service study is
8 often debated in base rate cases. As such, it is I&E's position that revenues should
9 be allocated based on the cost of service study that the Commission ultimately
10 approves. Regarding the scale back, I agree that it is not appropriate to simply scale
11 back total proposed water class increases to arrive at final class revenue targets, as
12 Mr. Kalcic claimed I did. As I stated on I&E Statement No. 4 and above, my scale
13 back recommendation for the water operations would occur *after* the wastewater
14 operations revenue requirement is set, and thus the Act 11 subsidy revenue
15 requirement is determined and allocated.

16
17 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

18 A. Yes.