

**I&E Statement No. 1
Witness: Christine Wilson, CPA**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

AQUA PENNSYLVANIA, INC. & AQUA PENNSYLVANIA WASTEWATER, INC.

Docket Nos. R-2021-3027385 & R-2021-3027386

Direct Testimony

of

Christine Wilson, CPA

Bureau of Investigation & Enforcement

Concerning:

Overall Revenue Requirement

Operating & Maintenance Expenses, Taxes, and Cash Working Capital

Federal Tax Adjustment Surcharge

COVID-19 Deferral for Uncollectible Expense

Universal Service Plan

Energy Cost Adjustment Mechanism

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Christine Wilson, and my business address is Pennsylvania Public
4 Utility Commission, 400 North Street, Harrisburg, PA 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst Supervisor.

10

11 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL
12 BACKGROUND.**

13 A. My education and professional background are set forth in the attached
14 Appendix A.

15

16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. I&E's analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires the balancing of the
20 interests of ratepayers, the regulated utility, and the regulated community as a
21 whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to present recommended adjustments to claims
3 made in the base rate filings of Aqua Pennsylvania, Inc. (Water) and Aqua
4 Pennsylvania Wastewater, Inc. (Wastewater) (collectively referred to as AP, Aqua,
5 or Company), to present the I&E overall recommended revenue requirements for
6 Aqua Pennsylvania, Inc. – Water (Water), Aqua Pennsylvania Wastewater, Inc.
7 (Wastewater Base), Aqua Pennsylvania Wastewater, Inc. – Limerick (Limerick
8 Wastewater), Aqua Pennsylvania Wastewater, Inc. – East Bradford (East Bradford
9 Wastewater), Aqua Pennsylvania Wastewater, Inc. – Cheltenham (Cheltenham
10 Wastewater), Aqua Pennsylvania, Wastewater, Inc. – East Norriton (East Norriton
11 Wastewater), and Aqua Pennsylvania Wastewater, Inc. – New Garden (New
12 Garden Wastewater), and to present the I&E-recommended Act 11 allocation
13 between the individual revenue requirements. In this testimony I make
14 recommendations regarding proposed fully projected future test year (FPFTY)
15 ending March 31, 2023 claims for: (1) operating and maintenance (O&M)
16 expenses and cash working capital; (2) the proposed federal tax adjustment
17 surcharge rider; (3) proposed regulatory asset treatment of incremental COVID-19
18 related uncollectible expense; (4) the proposed Universal Service Plan; and (5) the
19 proposed energy cost adjustment mechanism.

20

21 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

22 A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

1 **OVERALL I&E POSITION**

2 **Q. PLEASE SHOW THE I&E RECOMMENDED REVENUE**
 3 **REQUIREMENTS PRIOR TO THE ACT 11 ALLOCATION.**

4 A. Separate I&E recommended revenue requirements prior to the Act 11 allocation
 5 for Water, Wastewater Base, Limerick Wastewater, East Bradford Wastewater,
 6 Cheltenham Wastewater, East Norriton Wastewater, and New Garden Wastewater
 7 are shown below:

Aqua of PA - Water R-2021-3027385	TABLE I				
	INCOME		SUMMARY		
	INVESTIGATION & ENFORCEMENT				
	3/31/23 Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	509,746,949	9,951,217	519,698,166	-3,393,544	516,304,622
Deductions:					
O&M Expenses	116,492,928	-3,587,429	112,905,499	-17,383	112,888,116
Depreciation	122,166,578	-121,865	122,044,713		122,044,713
Taxes, Other	12,279,861	-349,428	11,930,433	-21,590	11,908,843
Income Taxes:					
Current State	5,767,840	1,415,952	7,183,792	-335,122	6,848,670
Current Federal	13,072,876	2,679,131	15,752,007	-634,084	15,117,923
Deferred Taxes	-5,608,906	0	-5,608,906		-5,608,906
ITC	-253,413	0	-253,413		-253,413
Total Deductions	263,917,764	36,361	263,954,125	-1,008,179	262,945,946
Income Available	245,829,185	9,914,856	255,744,041	-2,385,365	253,358,676
Measure of Value	3,818,296,012	-2,653,305	3,815,642,707	0	3,815,642,707
Rate of Return	6.44%		6.70%		6.64%

8

Aqua of PA - Wastewater Base R-2021-3027386		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	19,011,761	0	19,011,761	13,835,985	32,847,746
Deductions:					
O&M Expenses	9,874,361	-246,626	9,627,735	165,189	9,792,924
Depreciation	7,780,016	0	7,780,016		7,780,016
Taxes, Other	296,805	0	296,805	88,024	384,829
Income Taxes:					
Current State	-1,182,491	25,235	-1,157,256	1,356,919	199,663
Current Federal	-2,233,149	47,747	-2,185,402	2,567,429	382,027
Deferred Taxes	1,136,320	0	1,136,320		1,136,320
ITC	0	0	0		0
Total Deductions	15,671,862	-173,644	15,498,218	4,177,561	19,675,779
Income Available	3,339,899	173,644	3,513,543	9,658,424	13,171,967
Measure of Value	198,372,990	0	198,372,990	0	198,372,990
Rate of Return	1.68%		1.77%		6.64%

1

Aqua of PA - Wastewater Limerick R-2021-3027386		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	3,978,573	0	3,978,573	5,057,885	9,036,458
Deductions:					
O&M Expenses	2,055,513	-61,606	1,993,907	60,387	2,054,294
Depreciation	1,998,881	0	1,998,881		1,998,881
Taxes, Other	25,311	0	25,311	32,178	57,489
Income Taxes:					
Current State	-147,783	6,328	-141,455	496,035	354,580
Current Federal	-279,621	11,974	-267,647	938,550	670,903
Deferred Taxes	65,919	0	65,919		65,919
ITC	0	0	0		0
Total Deductions	3,718,220	-43,304	3,674,916	1,527,150	5,202,066
Income Available	260,353	43,304	303,657	3,530,735	3,834,392
Measure of Value	57,746,861	0	57,746,861	0	57,746,861
Rate of Return	0.45%		0.53%		6.64%

2

Aqua of PA - Wastewater E. Bradford R-2021-3027386		TABLE I INCOME SUMMARY			
		INVESTIGATION & ENFORCEMENT			
3/31/23 Proforma		[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	1,014,569	0	1,014,569	737,657	1,752,226
Deductions:					
O&M Expenses	1,115,524	-2,218	1,113,306	8,807	1,122,113
Depreciation	158,552	0	158,552		158,552
Taxes, Other	11,054	0	11,054	4,693	15,747
Income Taxes:					
Current State	-42,422	238	-42,184	72,343	30,159
Current Federal	-80,267	449	-79,818	136,881	57,063
Deferred Taxes	11,546	0	11,546		11,546
ITC	0	0	0		0
Total Deductions	1,173,987	-1,531	1,172,456	222,724	1,395,180
Income Available	-159,418	1,531	-157,887	514,933	357,046
Measure of Value	5,377,205	0	5,377,205	0	5,377,205
Rate of Return	-2.96%		-2.94%		6.64%

1

Aqua of PA - Wastewater Cheltenham R-2021-3027386		TABLE I INCOME SUMMARY			
		INVESTIGATION & ENFORCEMENT			
3/31/23 Proforma		[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	7,258,740	0	7,258,740	2,322,882	9,581,622
Deductions:					
O&M Expenses	4,575,924	-57,029	4,518,895	27,733	4,546,628
Depreciation	1,011,770	0	1,011,770		1,011,770
Taxes, Other	46,180	0	46,180	14,778	60,958
Income Taxes:					
Current State	-12,394	5,838	-6,556	227,809	221,253
Current Federal	-23,451	11,049	-12,402	431,038	418,636
Deferred Taxes	184,368	0	184,368		184,368
ITC	0	0	0		0
Total Deductions	5,782,397	-40,142	5,742,255	701,358	6,443,613
Income Available	1,476,343	40,142	1,516,485	1,621,524	3,138,009
Measure of Value	47,259,177	0	47,259,177	0	47,259,177
Rate of Return	3.12%		3.21%		6.64%

2

Aqua of PA - Wastewater E. Norriton R-2021-3027386		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	2,923,770	0	2,923,770	2,518,448	5,442,218
Deductions:					
O&M Expenses	2,283,124	-26,029	2,257,095	30,068	2,287,163
Depreciation	952,641	0	952,641		952,641
Taxes, Other	18,601	0	18,601	16,022	34,623
Income Taxes:					
Current State	-85,250	2,676	-82,574	246,989	164,415
Current Federal	-161,302	5,064	-156,238	467,327	311,089
Deferred Taxes	11,829	0	11,829		11,829
ITC	0	0	0		0
Total Deductions	3,019,643	-18,289	3,001,354	760,406	3,761,760
Income Available	-95,873	18,289	-77,584	1,758,042	1,680,458
Measure of Value	25,308,104	0	25,308,104	0	25,308,104
Rate of Return	-0.38%		-0.31%		6.64%

1

Aqua of PA - Wastewater New Garden R-2021-3027386		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	2,871,698	17,382	2,889,080	2,292,892	5,181,972
Deductions:					
O&M Expenses	1,848,890	-7,407	1,841,483	27,375	1,868,858
Depreciation	735,834	0	735,834		735,834
Taxes, Other	18,270	111	18,381	14,587	32,968
Income Taxes:					
Current State	-77,386	2,556	-74,830	224,868	150,038
Current Federal	-146,422	4,836	-141,586	425,473	283,887
Deferred Taxes	102,038	0	102,038		102,038
ITC	0	0	0		0
Total Deductions	2,481,224	96	2,481,320	692,303	3,173,623
Income Available	390,474	17,286	407,760	1,600,589	2,008,349
Measure of Value	30,246,226	0	30,246,226	0	30,246,226
Rate of Return	1.29%		1.35%		6.64%

2

1 **Q. SUMMARIZE I&E’S COMBINED RECOMMENDED REVENUE**
2 **REQUIREMENT INCLUDING THE I&E RECOMMENDED ACT 11**
3 **ALLOCATION.**

4 A. I&E’s total recommended revenue requirement for all Aqua revenue requirements
5 combined is \$580,146,864. This recommended revenue requirement represents an
6 increase of \$23,372,205 to the I&E-adjusted present rate revenues of
7 \$556,774,659.¹ This total recommended allowance incorporates my adjustments
8 made in this testimony to O&M expenses, taxes, and cash working capital, and
9 those recommended adjustments made in the testimony of I&E witnesses Anthony
10 Spadaccio (I&E Statement No. 2), Esyan Sakaya (I&E Statement No. 3), Ethan
11 Cline (I&E Statement No. 4), and Joseph Kubas (I&E Statement No. 5).

12
13 **Q. PLEASE SHOW THE COMPUTATION FOR I&E’S PROPOSED ACT 11**
14 **REVENUE ALLOCATION AS SUPPORTED BY I&E WITNESS JOSEPH**
15 **KUBAS IN I&E STATEMENT NO. 5.**

16 A. The I&E proposed Act 11 allocation as recommended by I&E witness Joseph
17 Kubas (I&E Statement No. 5) is summarized below in Table II:

¹ See Table II below.

TABLE II								
Aqua Pennsylvania, Inc.								
Water & Wastewater Revenue Requirement Summary								
R-2021-3027385 and R-2021-3027386								
	Total Company	Water Operation	Wastewater - Base	Limerick WW	E. Bradford WW	Cheltenham WW	E. Norriton WW	New Garden WW
I&E Recommended Present Rate Revenue	\$556,774,659	\$519,698,166	\$19,011,761	3,978,573	1,014,569	7,258,740	2,923,770	2,889,080
I&E Additional Revenue Requirement	23,372,205	(3,393,544)	13,835,985	5,057,885	737,657	2,322,882	2,518,448	2,292,892
I&E Recommended Proposed Revenues prior to Allocation	\$580,146,864	\$516,304,622	\$32,847,746	\$9,036,458	\$1,752,226	\$9,581,622	\$5,442,218	\$5,181,972
I&E Recommended Act 11 Allocation*	0	10,126,660	(7,786,580)	(2,075,741)	(126,892)	1,761,951	(990,052)	(909,346)
I&E Proposed Revenues After Act 11 Allocation*	\$580,146,864	\$526,431,282	\$25,061,166	\$6,960,717	\$1,625,334	\$11,343,573	\$4,452,166	\$4,272,626
Rate Increase/(Decrease) - \$	\$23,372,205	\$6,733,116	\$6,049,405	\$2,982,144	\$610,765	\$4,084,833	\$1,528,396	\$1,383,546
Rate Increase/(Decrease) - %	4.20%	1.30%	31.82%	74.96%	60.20%	56.27%	52.27%	47.89%
* Per I&E witness Joseph Kubas, I&E Statement No. 5.								

1

2

3 **I&E RECOMMENDED ADJUSTMENTS TO O&M, TAXES, AND CASH**

4 **WORKING CAPITAL**

5 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED O&M, TAX, AND**
6 **CASH WORKING CAPITAL ADJUSTMENTS TO THE COMPANY'S**
7 **REVENUE REQUIREMENTS.**

8 **A. The following tables summarize my recommended adjustments:**

<u>Water</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$6,777,277	\$6,478,778	(\$298,499)
PURTA	\$4,800,000	\$4,603,341	(\$196,659)
Purchased Water Expense	\$4,135,311	\$3,968,516	(\$166,795)
Labor	\$35,799,206	\$33,354,120	(\$2,445,086)
Employee Benefits	\$9,912,896	\$9,235,845	(\$677,051)
Federal and State Payroll Tax	\$3,163,655	\$2,947,577	(\$216,078)
Total O&M Expense & Tax Adjustments			(\$4,000,168)
<u>Rate Base Adjustments:</u>			
Cash Working Capital	\$1,576,000	\$1,360,000	(\$216,000)
Total Rate Base Adjustments			(\$216,000)

9

<u>Wastewater Base</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$67,350	\$49,525	(\$17,825)
Labor	\$2,106,538	\$1,962,661	(\$143,877)
Employee Benefits	\$1,243,433	\$1,158,507	(\$84,926)
Total O&M Expense & Tax Adjustments			<u>(\$246,628)</u>

1

<u>Limerick Wastewater</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$23,155	\$12,954	(\$10,201)
Labor	\$474,164	\$441,779	(\$32,385)
Employee Benefits	\$278,473	\$259,453	(\$19,020)
Total O&M Expense & Tax Adjustments			<u>(\$61,606)</u>

2

<u>East Bradford Wastewater</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$5,081	\$2,863	(\$2,218)
Total O&M Expense & Tax Adjustments			<u>(\$2,218)</u>

3

<u>Cheltenham Wastewater</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$40,482	\$22,821	(\$17,661)
Labor	\$367,197	\$342,117	(\$25,080)
Employee Benefits	\$209,194	\$194,906	(\$14,288)
Total O&M Expense & Tax Adjustments			<u>(\$57,029)</u>

4

<u>East Norriton Wastewater</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$20,274	\$8,919	(\$11,355)
Labor	\$137,735	\$128,328	(\$9,407)
Employee Benefits	\$77,148	\$71,879	(\$5,269)
Total O&M Expense & Tax Adjustments			<u>(\$26,031)</u>

5

<u>New Garden Wastewater</u>	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
<u>O&M and Tax Adjustments:</u>			
Insurance	\$8,051	\$1,806	(\$6,245)
Labor	\$12,112	\$11,285	(\$827)
Employee Benefits	\$4,904	\$4,569	(\$335)
Total O&M Expense & Tax Adjustments			(\$7,407)

1

2

3 **RATE CASE EXPENSE**

4 **Q. BRIEFLY EXPLAIN THE NATURE AND TYPES OF EXPENDITURES**
5 **TYPICALLY ALLOWED AS A PART OF A REGULATED UTILITY’S**
6 **OVERALL RATE CASE EXPENSE.**

7 A. The nature and types of individual expenditures that comprise a utility’s allowable
8 claim for rate case expense are those directly incurred to compile, present, and
9 defend a utility’s request for a base rate increase before the Commission. The
10 actual expenditures and estimated costs typically found in an allowable rate case
11 expense claim include legal fees for outside counsel, outside consultants, and the
12 cost of printing, document assembly, and postage.

13

14 **Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE**
15 **CASE EXPENSE FOR RATEMAKING PURPOSES?**

16 A. The Commission has historically stated that it considers prudently incurred rate
17 case expense as an ongoing expense, occurring at irregular intervals, related to the
18 rendering of utility service. The Commission has also cited the importance of

1 considering the involved utility's history regarding the frequency of rate case
2 filings as an essential element in determining the normalized level of rate case
3 expense for ratemaking purposes.

4
5 **Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?**

6 A. The frequency is determined by computing the average number of months
7 between the filing dates of the utility's most recently filed rate cases.

8
9 **Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?**

10 A. The Company's projected total rate case expense of \$2,200,000 is spread out over
11 a period 36 months, resulting in a total annual rate case expense claim of \$733,333
12 allocated between Water and the Wastewater revenue requirements.²

13
14 **Q. DO YOU AGREE WITH THE COMPANY'S RATE CASE EXPENSE
15 CLAIM?**

16 A. No. The Company has seemingly used the terms amortization and normalization
17 interchangeably on the supporting Schedule C-4.4,³ and I disagree with the
18 Company's attempt to amortize, rather than normalize, its rate case expense claim.

² AP Exhibit 1-A, Schedule C-4.4.

³ AP Exhibit 1-A, Schedule C-4.4, AP Statement No. 3, p. 3, and I&E Exhibit No. 1, Schedule 1.

1 **Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

2 A. I accept the Company's 36-month rate case period, but I recommend that the
3 Company's rate case expense be normalized over that period, not amortized.
4

5 **Q. YOU RECOMMEND ABOVE THAT RATE CASE EXPENSE SHOULD BE**
6 **NORMALIZED RATHER THAN AMORTIZED. BRIEFLY DISCUSS THE**
7 **CONCEPT OF NORMALIZATION.**

8 A. Normalization is a ratemaking concept that describes the transformation of an
9 operating expense that recurs at irregular intervals into a normal annual test year
10 expense allowance. Normalization specifically addresses the prospective recovery
11 of an ongoing expense that recurs sporadically. Allowed normalized rate case
12 expenses are no different than other O&M expenses in that a company is given the
13 opportunity to achieve full recovery.
14

15 **Q. EXPLAIN THE CONCEPT OF AMORTIZATION.**

16 A. Amortization is an accounting procedure that extinguishes an atypical,
17 nonrecurring expense over a pre-determined number of years by charging to
18 operations, a pro rata share based on the selected amortization period. Although a
19 claim for an unrecovered normalized expense would be disallowed if requested in
20 a subsequent rate case, because the base rate case gives the opportunity to
21 reevaluate and reset the normalized level of expense, an amortization expense

1 allowance could be claimed in succeeding rate cases if there is a remaining
2 unamortized balance.

3
4 **Q. IS THE COMPANY'S PROPOSED AMORTIZATION OF RATE CASE**
5 **EXPENSE APPROPRIATE?**

6 A. No. The Company's rate case expense claim should be normalized instead of
7 amortized because it is an ongoing expense that recurs at irregular intervals, which
8 is the precise circumstance under which normalization treatment of an expense
9 should occur. It should be noted that the terms are not interchangeable and should
10 not be used as such.

11
12 **INSURANCE EXPENSE**

13 **Q. WHAT IS INCLUDED IN INSURANCE EXPENSE?**

14 A. The Company's claims for insurance expense include workers compensation,
15 general liability, automobile, and other insurance (Exec Risk Property, Surety
16 Bond).⁴

17
18 **Q. WHAT ARE THE COMPANY'S CLAIMS FOR INSURANCE EXPENSE?**

19 A. The Company's claim for insurance expense is \$6,777,277 for Water,⁵ \$67,350 for

⁴ AP Exhibits 1-A through 1-G, Schedule C-4.6 and AP Statement No. 4, p. 7.

⁵ AP Exhibit 1-A, Schedule C-2, line 17.

1 Wastewater Base,⁶ \$23,155 for Limerick Wastewater,⁷ \$5,081 for East Bradford
2 Wastewater,⁸ \$40,482 for Cheltenham Wastewater,⁹ \$20,274 for East Norriton
3 Wastewater,¹⁰ and \$8,051 for New Garden Wastewater.¹¹
4

5 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMS?**

6 A. The Company applied a year-over-year five-year average 5.97% increase to actual
7 experienced premiums in 2021 to develop its future test year (FTY) and FPFTY
8 claims.¹²
9

10 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIMS?**

11 A. No.
12

13 **Q. WHAT DO YOU RECOMMEND?**

14 A. I recommend an allowance of \$6,478,778, or a reduction of \$298,499 (\$6,777,277
15 - \$6,478,778) to the Company's claim for Water; an allowance of \$49,525 or a
16 reduction of \$17,825 (\$67,350 - \$49,525) to the Company's claim for Wastewater
17 Base; an allowance of \$12,954, or a reduction of \$10,201 (\$23,155 - \$12,954) to
18 the Company's claim for Limerick Wastewater; an allowance of \$2,863, or a

⁶ AP Exhibit 1-B, Schedule C-2, line 17.

⁷ AP Exhibit 1-C, Schedule C-2, line 17.

⁸ AP Exhibit 1-D, Schedule C-2, line 17.

⁹ AP Exhibit 1-E, Schedule C-2, line 17.

¹⁰ AP Exhibit 1-F, Schedule C-2, line 17.

¹¹ AP Exhibit 1-G, Schedule C-2, line 17.

¹² AP Statement No. 4, p. 7.

1 reduction of \$2,218 (\$5,081 - \$2,863) to the Company's claim for East Bradford
2 Wastewater; an allowance of \$22,821, or a reduction of \$17,661 (\$40,482 -
3 \$22,821) to the Company's claim for Cheltenham Wastewater; an allowance of
4 \$8,919, or a reduction of \$11,355 (\$20,274 - \$8,919) to the Company's claim for
5 East Norriton Wastewater; and an allowance of \$1,806, or a reduction of \$6,245
6 (\$8,051 - \$1,806) to the Company's claim for New Garden Wastewater.
7

8 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATIONS?**

9 A. My recommended allowances are based on the historic test year (HTY) insurance
10 expense, applying a year-over-year three-year average of 4.38% $((-5.44\% + 7.06\%$
11 $+ 11.53\%) \div 3)^{13}$ to calculate FTY and FPFTY allowances. Use of a three-year
12 average instead of the Company's five-year average allows for consideration of
13 more recent experience and is consistent with the Company's method for
14 calculating uncollectible expense¹⁴ and legal expense.¹⁵
15

16 **Q. EXPLAIN HOW YOU CALCULATED YOUR RECOMMENDED**
17 **ALLOWANCES.**

18 A. I multiplied the Company's HTY claims as provided on the corresponding
19 Schedule C-2 for each revenue requirement by my calculated 4.38% three-year
20 average increase percentage to determine an FTY allowance, and again multiplied

¹³ I&E Exhibit No. 1, Schedule 2, p. 2.

¹⁴ AP Exhibit 1-A, Schedules C-4.2 and C-4.2.i.

¹⁵ AP Exhibit 1-A, Schedule C-9.1 and I&E Exhibit No. 1, Schedule 2, p. 3.

1 the FTY result by 4.38% to determine a recommended FPFTY allowance as
2 follows:

3 Water: $(\$5,946,460 \times 1.0438) \times 1.0438 = \$6,478,778$

4 Wastewater Base: $(\$45,456 \times 1.0438) \times 1.0438 = \$49,525$

5 Limerick Wastewater: $(\$11,890 \times 1.0438) \times 1.0438 = \$12,954$

6 East Bradford: $(\$2,628 \times 1.0438) \times 1.0438 = \$2,863$

7 Cheltenham Wastewater: $(\$20,946 \times 1.0438) \times 1.0438 = \$22,821$

8 East Norriton Wastewater: $(\$8,186 \times 1.0438) \times 1.0438 = \$8,919$

9 New Garden Wastewater: $(\$1,658 \times 1.0438) \times 1.0438 = \$1,806$

10
11 **PUBLIC UTILITY REALTY TAX**

12 **Q. WHAT IS PUBLIC UTILITY REALTY TAX (PURTA)?**

13 A. PURTA is a tax levied against certain entities furnishing utility services regulated
14 by the Commission or a similar regulatory body. This tax is imposed by the
15 Commonwealth in lieu of local real estate taxes.¹⁶

16
17 **Q. WHAT IS THE COMPANY'S CLAIM FOR PURTA?**

18 A. The Company's claim for PURTA is \$4,800,000 for Water,¹⁷ and no amount was
19 assigned to Wastewater PURTA as discussed below.

¹⁶ <https://www.revenue.pa.gov/TaxTypes/Corporation%20Taxes/Pages/Public%20Utility%20Realty%20Tax.aspx>,
accessed on October 28, 2021.

¹⁷ AP Exhibit 1-A, Schedule D-2.3.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

2 A. According to the Company’s response to I&E-RE-59-D, the claim is “an estimate
3 based on the review of prior year billings and the anticipation of ending increases
4 from the Delaware County Property Tax Reassessment. The pending increases
5 were under appeal at the time of filing, the Company will provide an update in
6 rebuttal.”¹⁸

7 Additionally, it should be noted that no claim was made for Wastewater
8 Base or the other wastewater acquisitions, because, according to the Pennsylvania
9 Department of Revenue’s website, sewer companies are exempt from PURTA.¹⁹

10

11 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

12 A. No.

13

14 **Q. WHAT DO YOU RECOMMEND?**

15 A. I recommend an allowance of \$4,603,341, or a reduction of \$196,659 (\$4,800,000
16 - \$4,603,341) to the Company’s Water claim.

17

18 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

19 A. My recommendation is based on the most recent PURTA notice of determination

¹⁸ I&E Exhibit No. 1, Schedule 3, p. 1.

¹⁹ <https://www.revenue.pa.gov/TaxTypes/Corporation%20Taxes/Pages/Public%20Utility%20Realty%20Tax.aspx>,
accessed October 28, 2021.

1 amount of \$4,603,341.²⁰ It is more prudent to rely on the most up-to-date data for
2 PURTA than to rely on the Company's increase with no stated basis or calculation.
3 Further, the Company's tax amount is currently under appeal and may be
4 reduced.²¹ Thus, the Company's claim is unsupported, and my recommendation
5 should be adopted.

6
7 **PURCHASED WATER EXPENSE**

8 **Q. HOW MUCH IS AQUA WATER REQUESTING IN PURCHASED WATER**
9 **EXPENSE?**

10 A. Aqua Water is requesting \$4,135,311 in purchased water expense for the FPFTY.²²

11
12 **Q. DOES THE CLAIM AMOUNT OF \$4,135,311 INCLUDE PURCHASES**
13 **FROM AN AQUA AFFILIATE?**

14 A. Yes. The Company's claim includes \$297,839 of purchased water expense from
15 Aqua Ohio.²³

²⁰ I&E Exhibit No. 1, Schedule 3, p. 2.

²¹ I&E Exhibit No. 1, Schedule 3, p. 1.

²² AP Exhibit 1-A, Schedule C-7 1.i.

²³ AP Exhibit 1-A, Schedule C-7 1.i, line 1.

1 **Q. WHAT IS THE PROPOSED COMPOSITE RATE AQUA WATER IS**
2 **PAYING AQUA OHIO FOR PURCHASED WATER?**

3 A. The composite rate is \$0.7839 per hundred gallons ($\$297,839 \div 37,994,900$
4 gallons).²⁴

5
6 **Q. IS PAYMENT OF \$0.7839 PER HUNDRED GALLONS TO AQUA'S**
7 **AFFILIATE REASONABLE?**

8 A. No.

9
10 **Q. WHAT DO YOU RECOMMEND?**

11 A. I recommend that that Commission only allow Aqua to reflect water purchases
12 from Aqua Ohio at \$0.3449 per hundred gallons. My recommendation is based on
13 the Sales for Resale Contract – Masury Water Company implied rate (calculated
14 composite rate including customer charges) of \$0.3449 ($\$302,907 \div 878,333$
15 hundred gallons).²⁵

16
17 **Q. IF AQUA PAID \$0.3449 PER HUNDRED GALLONS, HOW MUCH**
18 **WOULD THAT SAVE PENNSYLVANIA RATEPAYERS?**

19 A. The Aqua Ohio-related purchased water expense would decrease from \$297,839 to

²⁴ AP Exhibit 1-A, Schedule C-7 1.i, line 1.

²⁵ AP Exhibit 5-A, Part II, Schedule 5, p. 23.

1 \$131,044 which is an annual savings of \$166,795 for Pennsylvania ratepayers that
2 would make the expense more reasonable.²⁶

3

4 **Q. SUMMARIZE YOUR RECOMMENDATION FOR PURCHASED WATER**
5 **EXPENSE.**

6 A. I recommend an allowance of \$3,968,516 or a reduction of \$166,795 (\$4,135,311 -
7 \$3,968,516) to the Company's claim for Aqua Water.

8

9 **DREDGING EXPENSE**

10 **Q. WHAT IS DREDGING EXPENSE?**

11 A. Dredging is the excavation of material from a water environment.

12

13 **Q. SUMMARIZE THE COMPANY'S CLAIM FOR DREDGING EXPENSE.**

14 A. The Company plans to dredge once every three years and is requesting to accrue a
15 reserve for dredging at a rate of \$400,000 per year. Actual dredging costs would
16 be charged against the reserve. The reserve would be recorded as a regulatory
17 liability and reevaluated in subsequent base rate cases.²⁷

²⁶ I&E Exhibit No. 1, Schedule 4.

²⁷ AP Statement No. 3, pp. 5-6.

1 **Q. DO YOU AGREE WITH THE COMPANY’S PROPOSED METHOD FOR**
2 **DREDGING EXPENSE RECOVERY?**

3 A. No.

4
5 **Q. WHAT DO YOU RECOMMEND?**

6 A. While I have no dollar adjustment to the Company’s claim, I recommend that
7 dredging expense be normalized and that the Company’s proposed use of a reserve
8 account and regulatory liability be rejected.

9
10 **Q. WHY DO YOU RECOMMEND THAT THE RESERVE ACCOUNT AND**
11 **REGULATORY LIABILITY TREATMENT BE DISALLOWED?**

12 A. This routine operating expense would be more appropriately normalized for
13 ratemaking purposes and accrual treatment via a regulatory liability should be
14 rejected. This expense is not extraordinary in nature and regulatory liability
15 treatment should not be granted. Normalized dredging expenses are no different
16 than any other O&M expense in that a company is given the opportunity to
17 achieve full recovery.

18

19 **LABOR EXPENSE**

20 **Q. WHAT IS INCLUDED IN THE COMPANY’S CLAIM FOR LABOR**
21 **EXPENSE?**

22 A. The Company’s labor expense claim includes payroll for non-union full-time,

1 union full-time, regular part-time, seasonal, and co-op employees.²⁸

2

3 **Q. WHAT ARE THE COMPANY’S CLAIMS FOR LABOR EXPENSE?**

4 A. The Company’s claims for labor expense are \$35,799,206 for Water,²⁹ \$2,106,538
5 for Wastewater Base,³⁰ \$474,164 for Limerick Wastewater,³¹ \$367,197 for
6 Cheltenham Wastewater,³² \$137,735 for East Norriton Wastewater,³³ and \$12,112
7 for New Garden Wastewater.³⁴

8

9 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIMS?**

10 A. The Company started with historical amounts and reflected “known and
11 anticipated changes.”³⁵

12

13 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIMS?**

14 A. No.

15

16 **Q. WHAT DO YOU RECOMMEND?**

17 A. I recommend the following allowances for labor expense:

²⁸ I&E Exhibit No. 1, Schedule 5.

²⁹ AP Exhibit 1-A, Schedule C-2, line 1.

³⁰ AP Exhibit 1-B, Schedule C-2, line 1.

³¹ AP Exhibit 1-C, Schedule C-2, line 1.

³² AP Exhibit 1-E, Schedule C-2, line 1.

³³ AP Exhibit 1-F, Schedule C-2, line 1.

³⁴ AP Exhibit 1-G, Schedule C-2, line 1.

³⁵ AP Statement No. 2, pp. 10-11.

1 Water: \$33,354,120, or a reduction of \$2,445,086 (\$35,799,206 -
2 \$33,354,120) to the Company's claim.

3 Wastewater Base: \$1,962,661 or a reduction of \$143,877 (\$2,106,538 -
4 \$1,962,661) to the Company's claim.

5 Limerick Wastewater: \$441,779, or a reduction of \$32,385 (\$474,164 -
6 \$441,779) to the Company's claim.

7 Cheltenham Wastewater: \$342,117, or a reduction of \$25,080 (\$367,197 -
8 \$342,117) to the Company's claim.

9 East Norriton Wastewater: \$128,328, or a reduction of \$9,407 (\$137,735 -
10 \$128,328) to the Company's claim.

11 New Garden Wastewater: \$11,285, or a reduction of \$827 (\$12,112 -
12 \$11,285) to the Company's claim.

13
14 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDED ALLOWANCES?**

15 A. My recommendations are based on an employee vacancy adjustment. Normally,
16 companies have a certain level of employee vacancies on a day-to-day operating
17 basis due to retirements, resignations, transfers, layoffs, etc., that are
18 unpredictable. Such vacancies will yield an annual savings in the Company's
19 payroll and benefit costs that need to be reflected for ratemaking.

1 **Q. EXPLAIN HOW YOU CALCULATED THE NORMAL EMPLOYEE**
2 **VACANCY RATE AND THE CORRESPONDING ADJUSTMENTS TO**
3 **LABOR EXPENSE.**

4 A. My recommended payroll, employee benefits, and federal and state payroll tax
5 expense reductions are based on a vacancy percentage of 6.83%. Based on the
6 Company's response to I&E-RE-20-D,³⁶ I used the current complement of actual
7 full-time employees of 559 in the HTY to carry forward into the FPFTY and
8 calculated 41 vacant positions given the 600 authorized/budgeted full-time
9 positions in the FPFTY. Thus, I calculated the vacancy percentage of 6.83% by
10 dividing 41 by 600 (i.e., $41 \div 600 = 6.83\%$). Subsequently, I multiplied 6.83% by
11 the claims for labor expense for each rate division except East Bradford
12 Wastewater to calculate my adjustment to labor expense. East Bradford has an
13 unusually low claim for labor expense, so it made sense to exclude it from
14 adjustment.

15
16 **Q. PLEASE SHOW THE CALCULATIONS FOR YOUR RECOMMENDED**
17 **ADJUSTMENTS.**

18 A. Multiplying the vacancy rate of 6.83% by the individual labor claims produces the
19 following recommended adjustments:³⁷

20 Water: $\$35,799,206 \times 0.0683 = \$2,445,086$

³⁶ I&E Exhibit No. 1, Schedule 5.

³⁷ As more recent headcount detail has been requested in discovery, I will update this recommendation in surrebuttal testimony.

1 Wastewater Base: $\$2,106,538 \times 0.0683 = \$143,877$
2 Limerick Wastewater: $\$474,164 \times 0.0683 = \$32,385$
3 Cheltenham Wastewater: $\$367,197 \times 0.0683 = \$25,080$
4 East Norriton Wastewater: $\$137,735 \times 0.0683 = \$9,407$
5 New Garden Wastewater: $\$12,112 \times 0.0683 = \827

6

7 **EMPLOYEE BENEFITS**

8 **Q. WHAT IS TYPICALLY INCLUDED IN EMPLOYEE BENEFITS?**

9 A. Employee benefits typically include medical, dental, vision, life insurance, long
10 term disability, and 401K plans. In this instance, since the Company has made no
11 specific claims for payroll tax in the Wastewater Base and other wastewater
12 acquisitions, it appears the employee benefits claim in those revenue requirements
13 also includes payroll taxes, though the Company should confirm this in rebuttal
14 testimony.

15

16 **Q. WHAT ARE THE COMPANY'S CLAIMS FOR EMPLOYEE BENEFITS?**

17 A. The Company's claims for employee benefits are \$9,912,896 for Water,³⁸
18 \$1,243,433 for Wastewater Base,³⁹ \$278,473 for Limerick Wastewater,⁴⁰ \$209,194

³⁸ AP Exhibit 1-A, Schedule C-2, line 1.

³⁹ AP Exhibit 1-B, Schedule C-2, line 1.

⁴⁰ AP Exhibit 1-C, Schedule C-2, line 1.

1 for Cheltenham Wastewater,⁴¹ \$77,148 for East Norriton Wastewater,⁴² and \$4,904
2 for New Garden Wastewater.⁴³

3
4 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMS?**

5 A. The Company has based its FPFTY claims on its projected employee benefits
6 costs and allocated intracompany benefits from Water to Wastewater Base and the
7 other wastewater acquisitions.

8
9 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIMS?**

10 A. No.

11
12 **Q. WHAT DO YOU RECOMMEND?**

13 A. I recommend the following allowance amounts for employee benefits:

14 Water: \$9,235,845, or a reduction of \$677,051 (\$9,912,896 - \$9,235,845) to
15 the Company's claim.

16 Wastewater Base: \$1,158,507 or a reduction of \$84,926 (\$1,243,433 -
17 \$1,158,507) to the Company's claim.

18 Limerick Wastewater: \$259,453, or a reduction of \$19,020 (\$278,473 -
19 \$259,453) to the Company's claim.

⁴¹ AP Exhibit 1-E, Schedule C-2, line 1.

⁴² AP Exhibit 1-F, Schedule C-2, line 1.

⁴³ AP Exhibit 1-G, Schedule C-2, line 1.

1 Cheltenham Wastewater: \$194,906, or a reduction of \$14,288 (\$209,194 -
2 \$194,906) to the Company's claim.

3 East Norriton Wastewater: \$71,879, or a reduction of \$5,269 (\$77,148 -
4 \$71,879) to the Company's claim.

5 New Garden Wastewater: \$4,569, or a reduction of \$335 (\$4,904 - \$4,569)
6 to the Company's claim.

7
8 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

9 A. My recommendation is based on an employee vacancy adjustment as noted in the
10 labor expense section above. Likewise, I applied the vacancy rate of 6.83% to the
11 Company's claims for employee benefits for each revenue requirement except East
12 Bradford (as explained above) to calculate my adjustment to employee benefits.

13
14 **Q. PLEASE SHOW THE CALCULATIONS FOR YOUR RECOMMENDED**
15 **ADJUSTMENTS.**

16 A. Multiplying the vacancy rate of 6.83% by the individual employee benefits claims
17 produces the following recommended adjustments:

18 Water: $\$9,912,896 \times 0.0683 = \$677,051$

19 Wastewater Base: $\$1,243,433 \times 0.0683 = \$84,926$

20 Limerick Wastewater: $\$278,473 \times 0.0683 = \$19,020$

21 Cheltenham Wastewater: $\$209,194 \times 0.0683 = \$14,288$

22 East Norriton Wastewater: $\$77,148 \times 0.0683 = \$5,269$

1 New Garden Wastewater: $\$4,904 \times 0.0683 = \335

2
3 **FEDERAL AND STATE PAYROLL TAX**

4 **Q. WHAT IS THE COMPANY'S CLAIM FOR FEDERAL AND STATE**
5 **PAYROLL TAX?**

6 A. The Company's claim is \$3,163,655 for Water.⁴⁴

7
8 **Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?**

9 A. The Company's claim is based on the FPPTY payroll claim and the applicable
10 federal and state payroll tax rates and was reduced by the capitalized amount.⁴⁵

11
12 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

13 A. No. While I am not disputing the Company's calculation method, it is necessary
14 to make an adjustment to the Company's federal and state payroll tax claim that
15 corresponds to my labor recommendations as discussed above.

16
17 **Q. WHAT IS YOUR RECOMMENDATION FOR FEDERAL AND STATE**
18 **PAYROLL TAX?**

19 A. I recommend a federal and state payroll tax expense allowance of \$2,947,577 or a
20 reduction of \$216,078 ($\$3,163,655 - \$2,947,577$) to the Company's claim.

⁴⁴ AP Exhibit 1-A, Schedules A-1 and D-2.5.

⁴⁵ AP Statement No. 2, pp. 13-14.

1 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

2 A. My recommendation is based on an employee vacancy adjustment as noted in the
3 labor expense and employee benefits sections above. Likewise, I applied the
4 vacancy rate of 6.83% to the Company's Water claim for federal and state payroll
5 tax of \$3,163,655 for an adjustment of \$216,078 ($\$3,163,655 \times 6.83\%$).

6
7 **Q. WHY DID YOU NOT HAVE SIMILAR ADJUSTMENTS FOR**
8 **WASTEWATER BASE OR THE OTHER WASTEWATER**
9 **ACQUISITIONS?**

10 A. It appears that the Company has allocated payroll taxes to Wastewater Base and
11 the wastewater acquisitions in its employee benefits allocation where it states that
12 employee benefits and other related overheads are allocated.⁴⁶ The Company
13 made no clearly identified claims for payroll taxes in these wastewater revenue
14 requirements.

15
16 **CASH WORKING CAPITAL**

17 **Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR**
18 **RATEMAKING PURPOSES?**

19 A. CWC includes the amount of funds necessary to operate a utility during the
20 interim period between the rendition of service, including the payment of related

⁴⁶ AP Exhibit 1-A, Schedule C-8.5.

1 expenses, and the receipt of revenue in payment for services rendered by the
2 utility.

3
4 **Q. HOW DOES THE COMPANY CALCULATE ITS CWC CLAIM?**

5 A. The Company calculates its CWC claim by using a lead/lag study. A lead/lag
6 study measures the differences in time between: (1) the time services are rendered
7 until payment of those services is received; and (2) the time between the point
8 when a utility has incurred an expense and the actual payment of the expense.
9 Stated a different way, the lead/lag study measures how many days exist on an
10 average between the midpoint of the service period and the date the payment is
11 made.

12
13 **Q. DO YOU AGREE WITH THE COMPANY'S USE OF THE LEAD/LAG
14 METHOD?**

15 A. Yes. I agree with the Company's use of this method.
16

17 **Q. WHAT IS THE COMPANY'S CLAIM FOR CWC?**

18 A. The Company's claims for CWC is \$1,576,000 for Water.⁴⁷

⁴⁷ AP Exhibit 1-A, Schedule G-5, line 4.

1 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM FOR WATER?**

2 A. No.

3

4 **Q. WHAT DO YOU RECOMMEND?**

5 A. I recommend an allowance of \$1,360,000,⁴⁸ or a reduction of \$216,000
6 (\$1,576,000 - \$1,360,000) to the Company’s claim for Water. I do not make any
7 recommendations for Wastewater Base, Limerick Wastewater, East Bradford
8 Wastewater, Cheltenham Wastewater, East Norriton Wastewater, and New Garden
9 Wastewater because incorporating my O&M expense and tax adjustments
10 discussed above does not yield a material change to the respective CWC claims.

11

12 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

13 A. My recommendation includes modification of the Company’s claim based on my
14 recommended adjustments to O&M expenses and taxes as discussed previously in
15 this testimony for Water.

16

17 **Q. HOW DO YOUR OTHER ADJUSTMENTS DISCUSSED ABOVE IMPACT**
18 **YOUR RECOMMENDATION FOR CWC?**

19 A. All O&M adjustments that are cash-based expense claims are included when
20 determining the Company’s overall CWC requirement for Water. Therefore, CWC

⁴⁸ I&E Exhibit No. 1, Schedule 6, p. 3 – PROPRIETARY.

1 was adjusted to reflect my recommended adjustments to O&M expenses and taxes
2 as discussed above. To reflect the I&E recommended adjustments, I modified the
3 Company's electronic files, Exhibit 1-A, Schedules A-1 and C-2⁴⁹ which flowed
4 through to the CWC files, Exhibit 1-A, Schedules G-5, G-5.2, and G-5.3.⁵⁰
5 Specifically, Schedule G-5 contains the CWC Summary with my
6 recommendation.⁵¹

7
8 **Q. SUMMARIZE WHERE EACH OF THE RECOMMENDED O&M**
9 **EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC**
10 **COMPUTATION.**

11 A. **Schedule A-1:**

12 In Schedule A-1, I reduced Line 7, Column 4 Present Rates 3/31/2021 Amount for
13 Public Utility Realty Tax by \$196,659 to reflect my adjustment to PURTA as
14 discussed earlier in my testimony. Furthermore, I reduced Line 10, Column 10
15 Federal and State Payroll Tax by \$216,078 as discussed above. These adjustments
16 flowed through the rest of Schedule A-1 as highlighted⁵² and ultimately through
17 the CWC Schedules of G-5 and G-5.3.⁵³

⁴⁹ I&E Exhibit No. 1, Schedule 6, pp. 1-2 - PROPRIETARY.

⁵⁰ I&E Exhibit No. 1, Schedule 6, pp. 3-5 - PROPRIETARY.

⁵¹ I&E Exhibit No. 1, Schedule 6, p. 3 - PROPRIETARY.

⁵² I&E Exhibit No. 1, Schedule 6, p. 1 - PROPRIETARY.

⁵³ I&E Exhibit No. 1, Schedule 6, pp. 3 and 5 - PROPRIETARY.

1 **Schedule C-2:**

2 In Schedule C-2, I reduced Column 8 for the remaining adjustments as discussed
3 earlier in my testimony and highlighted in my exhibit.⁵⁴ The adjustments are as
4 follows: Labor - \$2,445,086, employee benefits - \$677,051, purchased water -
5 \$166,795, and insurance - \$298,499. These adjustments flowed through the rest of
6 Schedule C-2 and ultimately into CWC Schedules G-5 and G-5.2.⁵⁵

7

8 **Q. IS YOUR RECOMMENDED CWC ALLOWANCE A FINAL**
9 **RECOMMENDATION?**

10 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and
11 rate base must be continually brought together in the Administrative Law Judge’s
12 Recommended Decision and again in the Commission’s Final Order. This
13 process, known as iteration, effectively prevents the determination of a precise
14 calculation until such time as all adjustments have been made to the Company’s
15 claim.

⁵⁴ I&E Exhibit No. 1, Schedule 6, p. 2 - PROPRIETARY.

⁵⁵ I&E Exhibit No. 1, Schedule 6, pp. 3-4 - PROPRIETARY.

1 **FEDERAL TAX ADJUSTMENT SURCHARGE RIDER**

2 **Q. WHAT IS THE PROPOSED FEDERAL TAX ADJUSTMENT**
3 **SURCHARGE (FTAS) RIDER?**

4 A. The Company is proposing the addition of a Federal Tax Adjustment Surcharge
5 Rider to its tariff to provide for adjustments to base rates for the effect of future
6 increases or decreases to the federal corporate income tax rate.⁵⁶ This proposal
7 addresses both current and deferred income taxes and the accumulated deferred
8 income taxes included as a component of rate base.⁵⁷

9

10 **Q. WHAT IS THE BASIS FOR THE COMPANY’S PROPOSED FTAS?**

11 A. Company witness Christine L. Saball asserted that a change in the federal income
12 tax rate could drastically change the Company’s revenue requirement and a
13 delayed response from the Commission would result in significant refunds or
14 retroactive collections. Specifically, she cited the Commission’s slow response in
15 implementing a negative surcharge in response to the Tax Cuts and Jobs Act
16 (TCJA). Furthermore, she asserts, it is reasonable to anticipate the tax rate
17 increasing from 21% to 28%.⁵⁸

18

19 **Q. DO YOU AGREE WITH ESTABLISHING THE PROPOSED FTAS?**

20 A. No. I recommend the Company’s proposal be disallowed.

⁵⁶ AP Statement No. 8, p. 14.

⁵⁷ AP Statement No. 8, pp. 14-18.

⁵⁸ AP Statement No. 8, p. 15.

1 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

2 A. The Company cannot say with certainty if/when an increase to the federal
3 corporate income tax rate may take effect. Furthermore, since the Commission
4 and its advisory staff have very recently dealt with the reduction in the federal
5 corporate income tax rate due to changes related to the TCJA starting January 1,
6 2018, I believe the Commission will provide adequate and timely guidance on a
7 statewide basis to affected regulated utilities if such a change in the corporate
8 income tax rate occurs. Aqua should be required to await such guidance,
9 particularly since any changes to the federal income tax rates are speculative at
10 this time.

11

12 **Q. IN THE EVENT THAT THE COMMISSION DECIDES TO ALLOW THE**
13 **COMPANY TO ESTABLISH THE FTAS, DO YOU HAVE ANY**
14 **RECOMMENDATIONS?**

15 A. Yes. I believe it would be critical not to allow rate adjustments via the proposed
16 surcharge mechanism for impacts associated with deferred federal income taxes
17 (i.e., excess accumulated deferred income taxes) as the Company has proposed,⁵⁹
18 and those changes should only be allowed to occur in the Company's base rate
19 case filed after any future tax rate changes may take effect. The proposed FTAS
20 should only be allowed for the *current* federal income tax expense portion of the

⁵⁹ AP Statement No. 8, p. 16-17.

1 change (like how the changes associated with the TCJA were handled by the
2 Commission). Deferred taxes require more scrutiny of regulators and statutory
3 parties due to subjectivity in certain circumstances in determining the proper
4 normalization periods, particularly for tax differences associated with non-
5 protected assets that are not subject to the strict requirements of IRS normalization
6 rules. However, I strongly recommend that the Commission require the Company
7 to await statewide guidance if/when any potential future corporate income tax rate
8 changes occur.

9
10 **PROPOSED REGULATORY ASSET TREATMENT FOR COVID-19 RELATED**
11 **UNCOLLECTIBLE EXPENSE**

12 **Q. WHAT IS UNCOLLECTIBLE EXPENSE?**

13 A. Uncollectible accounts are specific receivables that are determined to be
14 uncollectible, in whole or in part, either because the debtors do not pay or because
15 the creditor finds it impracticable to enforce payment. Those accounts deemed
16 uncollectible are charged against income as uncollectible accounts expense
17 (referred to herein as uncollectible expense).

18
19 **Q. HOW DO UTILITIES GENERALLY RECOGNIZE UNCOLLECTIBLE**
20 **EXPENSE FOR RATEMAKING PURPOSES?**

21 A. Generally, for ratemaking purposes, utilities compute uncollectible expense on an
22 annual prospective basis. While the uncollectible expense is a prospective claim,

1 the proper calculation begins with a historic analysis of actual net write-offs to
2 gross revenues to develop a historic write-off ratio. Thus, net write-offs are gross
3 write-offs less recoveries of amounts previously written off. This ratio is applied
4 to projected revenues to determine the proper prospective allowance. Normally,
5 the historic analysis is based on several years of data.

6
7 **Q. WHAT CLAIM ARE YOU ADDRESSING HEREIN FOR**
8 **UNCOLLECTIBLE EXPENSE?**

9 A. I am addressing the Company's proposed regulatory asset treatment for COVID-
10 19 related uncollectible expense.

11
12 **Q. WHAT IS THE COMPANY'S CLAIM FOR THE COVID-19 RELATED**
13 **REGULATORY ASSET FOR UNCOLLECTIBLE EXPENSE?**

14 A. The Company has indicated that it has not made a claim for amortization of any
15 regulatory asset amount associated with COVID-19 related uncollectible expense
16 in this rate filing.⁶⁰ However, the Company is requesting permission to create a
17 regulatory asset for such incremental uncollectible expense above those claimed in
18 base rates to be reviewed when it files its next base rate case.⁶¹

19 While the Company initially refused to provide a breakdown of the claim
20 since the start of the pandemic,⁶² it has recorded a regulatory asset amount of

⁶⁰ I&E Exhibit No. 1, Schedule 7.

⁶¹ AP Statement No. 1, pp. 22-24.

⁶² I&E Exhibit No. 1, Schedule 7, p. 1.

1 \$5,695,030 for 2020 and “into early 2021.”⁶³ However, as stated, no support has
2 been provided for this amount.⁶⁴

3
4 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

5 A. The Company followed the Commission’s guidance in the Commission’s May 13,
6 2020 Secretarial Letter regarding *COVID-19 Cost Tracking and Creation of*
7 *Regulatory Asset, Docket No. M-2020-3019775* (May 13, 2020 Secretarial Letter),
8 taking the difference between the amount of uncollectible expense claimed in the
9 prior base rate case and the actual amount experienced “into early 2021.”⁶⁵

10
11 **Q. DO YOU AGREE WITH THE COMPANY’S REQUEST TO CONTINUE**
12 **DEFERRING AMOUNTS IN EXCESS OF UNCOLLECTIBLES**
13 **EMBEDDED IN BASE RATES UP UNTIL THE COMPANY FILES ITS**
14 **NEXT BASE RATE CASE?**

15 A. No.

⁶³ AP Statement No. 1, p. 23.

⁶⁴ See I&E Exhibit No. 1, Schedule 7, pp. 2-3 where on November 3, 2021, the Company provided a breakdown for the COVID-19 uncollectible expense deferral through September 2021. I&E’s recommendation will be updated in surrebuttal testimony for commencement of the deferral amortization in this proceeding as necessary.

⁶⁵ AP Statement No. 1, pp. 22-23.

1 **Q. WHAT DO YOU RECOMMEND FOR COVID-19 RELATED**
2 **UNCOLLECTIBLE EXPENSE?**

3 A. I recommend that the Company provide support for its regulatory asset amount
4 accumulated to date in rebuttal testimony and that the Company begin amortizing
5 the balance in the instant proceeding over a three-year period consistent with its
6 rate case expense frequency and in line with Aqua's intention to file its next base
7 rate case in 2024. Since the Company has refused to provide a meaningful
8 response to I&E-RE-57-D, I cannot verify the underlying support for its
9 accumulated balance of \$5,695,030. Furthermore, the Company needs to provide
10 a breakdown for the requested deferral for all separate revenue requirements
11 presented in this proceeding. Until adequate supporting documentation is
12 provided, I recommend that the Company's request be denied in its entirety.
13 Furthermore, regardless of what support the Company may provide in rebuttal
14 testimony, I recommend that the Company be required to discontinue recording a
15 regulatory asset for COVID-19 related incremental uncollectible expense after the
16 effective date of new rates for this proceeding. Upon the effective date of new
17 rates for this proceeding, the Company should have a new uncollectible percentage
18 built into the rate formula that incorporates changes due to COVID-19.

19
20 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

21 A. First, as stated above, the Company has declined to provide support for its stated
22 \$5,695,030 regulatory asset balance including but not limited to a breakdown

1 between the different revenue requirements in this proceeding.⁶⁶ Secondly, the
2 continued tracking of incremental uncollectible expense beyond the effective date
3 of new rates in this proceeding is not appropriate and should not be necessary
4 since the Company has multiple years of actual historic experience that could
5 incorporate the higher COVID-19 related year of 2020 upon which to base its
6 current claim.

7
8 **Q. HAS THE COMMISSION ISSUED ANY RECENT ORDERS ASSOCIATED**
9 **WITH THE DEFERRAL OF COVID-19 RELATED UNCOLLECTIBLES**
10 **EXPENSE?**

11 A. Yes. The Commission issued an Opinion and Order at Docket No. P-2020-
12 3022426 (Order Entered September 15, 2021) in response to the Petition of
13 Pennsylvania-American Water Company (PAWC) for Authorization to Defer, and
14 Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses
15 Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue
16 Reductions Attributable to the Effects of the COVID-19 Emergency; and
17 (3) Carrying Charges on the Amounts Deferred. In that proceeding,
18 Administrative Law Judge Mark A. Hoyer recommended that the Commission set
19 a hard cut-off date for accumulations of deferred uncollectible expense after which
20 no further uncollectible expense deferrals would be permitted for PAWC and that

⁶⁶ I&E Exhibit No. 1, Schedule 7.

1 all other utilities should be treated in a similar manner.⁶⁷ However, the
2 Commission declined to set such a cut-off date in that proceeding.⁶⁸

3
4 **Q. WHAT IS THE DIFFERENCE BETWEEN PAWC’S REQUEST AND THE**
5 **CLAIM IN THIS INSTANT PROCEEDING?**

6 A. PAWC has not filed a base rate case since its request for deferral treatment was
7 granted, and in contrast, Aqua has filed its request for a rate increase in this instant
8 proceeding. In my opinion, when PAWC files its next rate case, it should be
9 required to cease accumulation of deferred COVID-19 related uncollectible
10 expense upon the effective date of new rates. As stated above, Aqua has filed its
11 base rate case and now has multiple years of historic uncollectible expense that
12 includes years affected by the pandemic. Therefore, this known and measurable
13 period should be used to produce a claim for routine uncollectible which will now
14 be based on a higher multi-year historic average percentage (preferably three years
15 in line with the Company’s claimed rate case expense filing interval). Each time
16 the Company files a subsequent base rate case, it would update that historic
17 percentage based on updated information in each future filing.

⁶⁷ Petition of Pennsylvania-American Water Company for Authorization to Defer, and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred, at Docket No. P-2020-3022426, Opinion and Order, p. 3.

⁶⁸ Petition of Pennsylvania-American Water Company for Authorization to Defer, and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred, at Docket No. P-2020-3022426, Opinion and Order, p. 14 and p. 48.

1 **Q. WHY WOULD CUTTING OFF THE REGULATORY ASSET FOR**
2 **DEFERRED COVID-19 RELATED UNCOLLECTIBLES BE**
3 **APPROPRIATE?**

4 A. In my opinion, if the Company had provided a response to I&E-RE-57-D, Parts E
5 and F,⁶⁹ the response would likely show an increase to routine uncollectible
6 expense percentages that follow the start of the COVID-19 pandemic. That being
7 the case, it would result in a modified claim for routine uncollectible expense.
8 That claim might even be overstated given the Company's proposed Universal
9 Service Plan and the fact that implementation of such a plan should result in
10 decreased uncollectible expense over time.

11
12 **Q. WOULD YOU HAVE ANY ADJUSTMENTS RELATED TO ANY**
13 **REDUCTION TO UNCOLLECTIBLES ASSOCIATED WITH THE**
14 **POTENTIAL IMPLEMENTATION OF A UNIVERSAL SERVICE PLAN?**

15 A. No, it is not likely that I would. Given that I currently have no precise way to
16 measure the related impact, I would likely agree to a modified uncollectible
17 expense percentage based on a recent three-year historic average of those figures.
18 By the time the Company files its next rate case in its planned three-year time
19 span, the Commission should see those uncollectible expense percentages begin to

⁶⁹ I&E Exhibit No. 1, Schedule 7.

1 reduce, depending on how many customers take advantage of the proposed
2 Universal Service Plan. Thus, this issue would gradually correct itself over time.

3
4 **PROPOSED UNIVERSAL SERVICE PLAN**

5 **Q. SUMMARIZE THE COMPANY’S PROPOSED UNIVERSAL SERVICE**
6 **PLAN.**

7 A. As a part of Aqua America, Inc.’s acquisition of the Peoples Companies, as stated
8 in the Commission’s Order in that proceeding, Aqua agreed to propose a universal
9 service plan that includes “(1) a bill payment/customer assistance program; (2) a
10 hardship fund; (3) a water conservation program; (4) a low income service repair
11 line and replacement program; and (5) a comparable funding mechanism that
12 exists for electric and gas utilities in Pennsylvania.”⁷⁰

13 As explained by Aqua witness Rita F. Black⁷¹ the proposed program
14 includes the following components: a Customer Assistance Program (CAP), a
15 Hardship Fund (the existing Helping Hand program), a Water Conservation
16 Program, and a Repair Program. This program was designed based on the existing
17 Peoples Companies’ low-income program.⁷²

18 The CAP component for water and wastewater customers is expected to
19 provide increased affordability and reduced arrearages.⁷³ This program would

⁷⁰ *Joint Application of Aqua America Inc. and Peoples Natural Gas Company, LLC.*, Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063 (Order Entered January 24, 2020), p. 138.

⁷¹ AP Statement No. 10, pp. 3-5.

⁷² AP Statement No. 10, p. 3.

⁷³ AP Statement No. 10, p. 3.

1 offer tiered discounting of services to provide larger discounts to customers at the
2 lowest income levels.⁷⁴

3 The Customer Assistance Program is intended to build upon the existing
4 Helping Hand program which provides grants to reduce unpaid balances (to
5 reduce arrearages) and a monthly arrearage reduction benefit of \$25.⁷⁵ The
6 proposed program would maintain the \$25/month credit when timely CAP
7 payments are made,⁷⁶ however, the Helping Hand program has historically been
8 funded via voluntary donations and shareholder contributions but would now be
9 funded via the proposed Universal Service Rider and would be fully ratepayer
10 funded.⁷⁷ Additionally, Ms. Black noted that Aqua also currently offers a
11 conservation program through Helping Hand that provides conservation kits
12 through the mail.⁷⁸ Finally, Aqua is proposing a \$100,000 annual budget for a new
13 low-income Emergency Repair Program that would include conservation kits to
14 reduce water usage along with an emergency component to address water leaks.⁷⁹

15 To fund the Universal Service Plan, Aqua is proposing implementation of a
16 Universal Service Rider like the riders in place for the Peoples Companies.⁸⁰

⁷⁴ AP Statement No. 10, pp. 7 and 11.

⁷⁵ AP Statement No. 10, pp. 5 and 8.

⁷⁶ AP Statement No. 10, p. 7.

⁷⁷ I&E Exhibit No. 1, Schedule 8.

⁷⁸ AP Statement No. 10, p. 5.

⁷⁹ AP Statement No. 10, p. 8.

⁸⁰ AP Statement No. 10, p. 9.

1 **Q. DO YOU AGREE WITH THE COMPANY’S PROPOSAL?**

2 A. No, not entirely. While I accept most aspects of the proposal, I have a couple
3 recommendations. First, I recommend that the Company be required to perform
4 income verifications to admit participants into the programs to ensure legitimacy
5 of applicants and reduce misuse of the program. Secondly, I recommend that the
6 Company be required to demonstrate effort is made to encourage participants to
7 take advantage of the Federal Low-Income Household Water Assistance Program
8 funds made available via the American Rescue Plan.

9

10 **Income Verification**

11 **Q. HAS THE COMPANY INDICATED THAT IT DOES NOT PLAN TO**
12 **VERIFY INCOME PRIOR TO PROVIDING BENEFITS OF THE**
13 **PROGRAMS TO RATEPAYERS?**

14 A. Yes. Aqua has stated that it does not plan to verify income to begin participating
15 in the CAP program or that there will be no recertification requirement.⁸¹
16 Additionally, there is no recertification requirement for the existing Helping Hand
17 program.⁸²

⁸¹ I&E Exhibit No. 1, Schedule 9, p. 2 and pp. 4-5.

⁸² I&E Exhibit No. 1, Schedule 10.

1 **Q. HOW DID THE COMPANY ATTEMPT TO SUPPORT THE LACK OF**
2 **INCOME VERIFICATION?**

3 A. It attempts to justify this process by pointing to the Company’s understanding that
4 Pennsylvania-American Water Company (PAWC) does not require income
5 documentation to begin participation or for recertification.⁸³

6
7 **Q. DO YOU AGREE THAT THE POSSIBILITY OF PAWC NOT VERIFYING**
8 **INCOME FOR PARTICIPATION JUSTIFIES THE COMPANY’S**
9 **PROPOSAL IN THIS PROCEEDING?**

10 A. No. First, it does not seem that the Company is even certain this is the way PAWC
11 runs its program, and in contrast, Peoples does require “income documentation
12 from an interested customer to certify income eligibility for participation.”⁸⁴
13 Secondly, even if PAWC does in fact not verify income as a criterion for
14 participation in its low-income program, that does not make it acceptable for Aqua
15 to copy that inadequate method.

16
17 **Q. WHY DO YOU BELIEVE INCOME VERIFICATION IS IMPORTANT?**

18 A. The program proposed by Aqua is a full-scale Universal Service Plan that would
19 be funded by ratepayers. If word gets out that the Company is not performing
20 income verifications, the Universal Service Plan will be subject to abuse and will

⁸³ I&E Exhibit No. 1, Schedule 9, p. 2.

⁸⁴ I&E Exhibit No. 1, Schedule 9, pp. 1-2.

1 harm paying customers. Therefore, I recommend the Commission require the
2 Company to establish guidelines for income verification consistent with the
3 Peoples Companies' requirements prior to the proposal being approved.
4

5 **Low-Income Household Water Assistance Program**

6 **Q. WHAT IS THE LOW-INCOME HOUSEHOLD WATER ASSISTANCE**
7 **PROGRAM (LIHWAP)?**

8 A. The American Rescue Plan Act of 2021 made funding available for a low-income
9 water assistance program which was launched in response to COVID-19.⁸⁵

10 LIHWAP funds are available in the form of grants made available to low-income
11 households with income equal to or less than 150 percent of the federal poverty
12 line that spend more than 30 percent of monthly income on housing.⁸⁶

13 According to the Pennsylvania Department of Human Services' website,
14 this program is not yet open and is still in the development phase, but it will assist
15 families that are behind on water and wastewater bills.⁸⁷

⁸⁵ [Low Income Household Water Assistance Program \(LIHWAP\) | The Administration for Children and Families \(hhs.gov\)](https://www.hhs.gov/low-income-household-water-assistance-program), accessed October 19, 2021.

⁸⁶ [LIHWAP Laws and Regulations | The Administration for Children and Families \(hhs.gov\)](https://www.hhs.gov/low-income-household-water-assistance-program/laws-and-regulations), accessed October 19, 2021.

⁸⁷ [LIHWAP \(pa.gov\)](https://www.pa.gov/low-income-household-water-assistance-program), accessed October 19, 2021.

1 **Q. WHAT INFORMATION HAS THE COMPANY PROVIDED REGARDING**
2 **ANY PARTICIPATION IN LIHWAP?**

3 A. The Company has indicated that once the program opens Aqua will be required to
4 allocate all payments received from LIHWAP to specific customers as identified
5 by the Department of Human Services for the benefit of those customers. Aqua
6 has indicated that payments from LIHWAP will be used to reduce customer
7 arrearages.⁸⁸

8
9 **Q. DO YOU HAVE ANY RECOMMENDATIONS IN THIS REGARD?**

10 A. I recommend that the Commission require the Company to track funds by year on
11 a per-customer level through the end of the program in 2023 (or longer if the
12 program is extended by the federal government). The Company should be
13 required to ensure that LIHWAP funds are properly applied to avoid a duplicating
14 reduction in the Help Hand program balance when such funds are made available
15 to reduce customer arrearages. The Company should be required to report this
16 information upon filing its next base rate case with the Commission.

17
18 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

19 A. The Company should be required to demonstrate adequate tracking of such
20 funding, show proof of encouraging low-income customer to take advantage of

⁸⁸ I&E Exhibit No. 1, Schedule 11.

1 such funding, and ensure that duplicative charges to customer-funded programs do
2 not occur.

3
4 **Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS WITH RESPECT**
5 **TO ANY AVAILABLE STATE AND FEDERAL ASSISTANCE**
6 **PROGRAMS?**

7 A. Yes. Consistent with the Motion of Vice Chairman John F. Coleman, Jr. made
8 recently at the October 28, 2021 Public Meeting, Aqua "...should monitor
9 available federal and state assistance programs and notify customers of all
10 available sources of aid."⁸⁹ In my opinion, all utilities should agree to do so to
11 maximize ratepayers' participation in state and federal programs and minimize the
12 burden of increased rates due to the proposed Universal Service Plan.

13
14 **PROPOSED ENERGY COST ADJUSTMENT MECHANISM**

15 **Q. SUMMARIZE THE COMPANY'S PROPOSED ENERGY COST**
16 **ADJUSTMENT MECHANISM (ECAM).**

17 A. Company witness Christopher Henkel is proposing a reconciling rider for recovery
18 of energy costs (gas and electric costs) that would allow for recovery of any

⁸⁹ UGI Utilities, Inc. – Gas Division and UGI Utilities Electric Division, Petitions filed on January 25, 2021 and February 3, 2021 for COVID-19 Emergency Relief Programs at Docket Nos. P-2021-3023839, P-2021-3023992, and M-2019-3014966.

1 shortfalls of expenses previously built into rates and provide for refunding of
2 excess expenses recovered from ratepayers that would fall under Section 1307.⁹⁰

3
4 **Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?**

5 A. According to Mr. Henkel, the Company would be protected from uncontrollable
6 increases in costs and customers would receive the benefit of decreases if those
7 costs were less than the amounts built into base rates.⁹¹

8
9 **Q. DOES THE COMPANY HAVE O&M EXPENSE CLAIMS FOR GAS AND
10 ELECTRIC EXPENSES?**

11 A. Yes.

12
13 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO AMOUNTS
14 CLAIMED IN O&M EXPENSES?**

15 A. No. I have reviewed the O&M claims for gas and electric expenses and am not
16 recommending adjustments to those claims in this proceeding.

17
18 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED ECAM?**

19 A. No. I disagree with the proposed ECAM and recommend that the reconciling rider
20 for routine O&M expenses (gas and electric expenses for a water company) be

⁹⁰ AP Statement No. 4, p. 5.

⁹¹ AP Statement No. 4, p. 6.

1 disallowed. Allowing guaranteed recovery of amounts less than what are claimed
2 in a rate filing reduces the incentive for a company to control costs regardless of
3 Mr. Henkel's assertion to the contrary.⁹² An ECAM would reduce incentive for
4 the Company to minimize its energy usage and minimize costs via
5 shopping/negotiating for lower rates. It should also be noted that no other water or
6 wastewater company in Pennsylvania to my knowledge has been granted similar
7 recovery. Furthermore, I&E witness Esyan Sakaya also disagrees with the
8 Company's request for an ECAM.⁹³

9
10 **Q. DOES MR. HENKEL DRAW INAPPROPRIATE COMPARISONS WHEN**
11 **DEFENDING THE COMPANY'S PROPOSED ECAM?**

12 A. Yes. He mentioned that gas and electric companies have reconcilable riders for
13 purchased energy costs and that these companies continue to focus on controlling
14 their energy costs.⁹⁴

15
16 **Q. DO YOU AGREE WITH MR. HENKEL THAT THE COMPANY'S**
17 **PROPOSAL IS COMPARABLE TO GAS AND ELECTRIC UTILITIES'**
18 **USE OF RECONCILABLE RIDERS FOR ENERGY COSTS?**

19 A. No. Gas and electric companies purchase the gas and electric commodities for
20 resale to their customers as pass-through charges on which the Company earns no

⁹² AP Statement No. 4, p. 6.

⁹³ I&E Statement No. 3, pp. 19-26.

⁹⁴ I&E Exhibit No. 1, Schedule 12.

1 profit and no base rate recovery. This purchase and cost recovery mechanism is
2 substantially different from Aqua’s proposal where the energy costs subject to the
3 proposed rider are simply O&M expenses that the Company incurs while
4 providing water and wastewater service to customers. These are two very
5 different situations and Mr. Henkel’s attempt to utilize gas and electric distribution
6 companies’ commodity purchase and reconciliation requirements to support its
7 claim for reconciliation of an ordinary O&M expense is unsupported.

8
9 **Q. DO YOU AGREE WITH MR. HENKEL THAT THE USE OF AN ECAM**
10 **FOR A WATER COMPANY (AQUA) IS ENCOURAGED BY THE**
11 **COMMISSION UNDER SECTION 1307(E)?**

12 A. No. I am not aware of the Commission encouraging water companies to use
13 Section 1307(e) for recovery of routine O&M expenses.

14
15 **Q. HAS THE COMPANY STATED HOW THE RECOVERY OF ENERGY**
16 **COSTS WOULD BE VERIFIED IF THE ECAM IS APPROVED?**

17 A. Yes. Company witness Christopher Henkel indicates that, “[a]ccording to the
18 PUC website, the Bureau of Audits currently verifies the energy costs of gas,
19 steam-heat, and certain electric utilities....”⁹⁵ Likewise, the Company is
20 proposing to add to the workload of the Commission’s Bureau of Audits by adding

⁹⁵ I&E Exhibit No. 1, Schedule 12.

1 verification of the rider addressing these routine O&M expenses (i.e., gas and
2 electric expense).⁹⁶

3
4 **Q. IS THE COMPANY’S REQUEST FOR AN ECAM CONSISTENT**
5 **BETWEEN THE WATER AND WASTEWATER FILINGS IN THIS**
6 **PROCEEDING?**

7 A. No. The proposed ECAM is only applicable to the Water tariff.⁹⁷ The difference
8 in treatment between water and wastewater customers in this proceeding is further
9 problematic in that either the Company will inappropriately use the Water Tariff to
10 reconcile wastewater expenses, or the Company will simply treat water and
11 wastewater customers unequally.

12
13 **Q. WHAT IS YOUR MAIN CONCERN WITH RESPECT TO THE**
14 **PROPOSED ECAM?**

15 A. My main concern is the proposal to recover routine O&M expenses via a
16 reconcilable rider. As explained above, this is inappropriate and the proposed
17 ECAM should be rejected in its entirety.

18
19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

⁹⁶ Tariff Water-PA P.U.C. No. 3, p. 36, Issued: August 20, 2021, Effective: October 19, 2021.

⁹⁷ Tariff Water-PA P.U.C. No. 3, pp. 35-36, Issued: August 20, 2021, Effective: October 19, 2021.

Christine S. Wilson, CPA

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

August 2013 to Present:

Fixed Utility Financial Analyst Supervisor, Bureau of Investigation and Enforcement
Responsible for supervising six fixed utility financial analysts in the analysis and preparation of written and oral testimony in base rate case proceedings, purchased gas cost proceedings, and other proceedings as required.

February 2008 to August 2013:

Fixed Utility Financial Analyst, Bureau of Investigation & Enforcement
Review of operating and maintenance expenses for regulated utilities as a part of the evaluation and recommendation process for utility base rate and purchased gas cost filings, preparing written testimony for cases, and testifying as an expert witness.

Prior Accounting Employment: Approximately fifteen years performing public, corporate, and nonprofit accounting, in addition to eight years of full-time administrative work.

Education/Certification:

Green Mountain College, Poultney, Vermont
Sustainable MBA Program, four credits earned, 2009-2010

Certified Public Accountant in Pennsylvania, since 2000

Pennsylvania State University, Middletown, Pennsylvania
Bachelor of Science, Professional Accountancy, 1995
(Graduated with distinction)

Utility-Related Trainings & Other Courses/Webinars:

NARUC Staff Subcommittee on Accounting & Finance, Fall 2021 webinar, October 5-7, 2021

Institute of Public Utilities Accounting and Ratemaking Course (Online)
Michigan State University, East Lansing, Michigan, September 14-16, 2021 (not for credit)

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 webinar, April 6-8, 2021

NARUC Staff Subcommittee on Accounting & Finance, Fall 2020 webinar, October 21-22, 2020

S&P Global Essentials of Regulatory Finance, Georgetown University, Washington, DC,
October 15-16, 2019

Christine S. Wilson, CPA

Professional and Educational Background

Utility-Related Trainings & Other Courses/Webinars (continued):

Taxation of Business Entities I: Corporations by University of Illinois, coursera.com, completed October 2019 (not for credit)

Federal Taxation II: Property Transactions of Business Owners and Shareholders by University of Illinois, coursera.com, completed August 2019 (not for credit)

Federal Taxation I: Individuals, Employees, and Sole Proprietorships by University of Illinois, coursera.com, completed July 2019 (not for credit)

Positive Psychology Specialization by University of Pennsylvania, coursera.com, completed May 2019 (not for credit)

Institute of Public Utilities Advanced Regulatory Studies Program
Michigan State University, East Lansing, Michigan, October 1-5, 2018 (not for credit)

Financial Markets (with Honors) by Yale University, coursera.com, completed November 2017 (not for credit)

PA Public Utility Commission Rate Case Training, March 5-6, 2010; October 4-5, 2012

Institute of Public Utilities Advanced Regulatory Studies Program
Michigan State University, East Lansing, Michigan, October 7-10, 2008

NARUC Utility Rate School (conducted by NARUC's Committee on Water and the Institute of Public Utilities, Michigan State University), San Diego, May 11-16, 2008

Testimony Submitted:

R-2021-3024750	Duquesne Light Company
P-2020-3022426	PAWC Response to COVID-19 Emergency and Financial Impacts
R-2020-3019369	PAWC base rate case (Water)
R-2020-3019371	PAWC base rate case (Wastewater)
R-2018-3000164	PECO Energy Company – Electric Division
R-2017-2640058	UGI Utilities, Inc. – Electric Division
R-2014-2428745	Metropolitan Edison Company (Met-Ed)
R-2014-2428744	Pennsylvania Power Company (Penn Power)
R-2014-2428743	Pennsylvania Electric Company (Penelec)

Christine S. Wilson, CPA

Professional and Educational Background

Testimony Submitted (continued):

R-2014-2428742	West Penn Power Company
R-2014-2402324	Emporium Water Company
R-2014-2406274	Columbia Gas of Pennsylvania, Inc.
R-2013-2397353	Pike County Power & Light (Gas)
R-2013-2372129	Duquesne Light Company
R-2013-2360798	Columbia Water Company
R-2012-2336379	York Water Company
R-2012-2321748	Columbia Gas of Pennsylvania, Inc.
R-2012-2292082	Peoples Natural Gas Company, LLC (1307(f))
R-2012-2285985	Peoples Natural Gas Company, LLC
R-2011-2267958	Aqua Pennsylvania, Inc.
R-2010-2214415	UGI Central Penn Gas, Inc.
R-2010-2201702	Peoples Natural Gas Company, LLC
R-2010-2166214	PAWC Northeast Wastewater Operations
R-2010-2166212	PAWC Coatesville Wastewater Operations
R-2010-2166210	PAWC Claysville Wastewater Operations
R-2010-2166208	PAWC Clarion Wastewater Operations
R-2010-2161694	PPL Electric Utilities Corporation
R-2009-2132019	Aqua Pennsylvania, Inc.
R-2009-2117740	Penn Estates Utilities Inc. (Sewer)
R-2009-2117532	Penn Estates Utilities Inc. (Water)
M-2009-2123945	PPL Electric Utility Company (Smart Meter Plan)
M-2009-2123944	PECO Energy Company (Smart Meter Plan)
M-2009-2093216	PPL Electric Utility Corporation (EE&C Plan)
M-2009-2093215	PECO Energy Company (EE&C Plan)
R-2008-2079675	UGI Central Penn Gas, Inc.
R-2008-2046518	Pike County Light & Power Company (Electric)
R-2008-2042293	Newtown Artesian Water Company
R-2008-2032689	PAWC Coatesville Wastewater Operations