

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

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

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

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

**Surrebuttal Testimony**

**of**

**Christine Wilson, CPA**

**Bureau of Investigation and 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 OF WITNESS**

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. ARE YOU THE SAME CHRISTINE WILSON WHO SUBMITTED**  
12 **TESTIMONY IN I&E STATEMENT NO. 1, I&E EXHIBIT NO. 1, AND I&E**  
13 **STATEMENT NO. 1-R?**

14 A. Yes.

15

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

17 A. The purpose of my surrebuttal testimony is to respond to Coalition for Affordable  
18 Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and Aqua  
19 Pennsylvania, Inc./Aqua Pennsylvania Wastewater, Inc. witnesses as follows:  
20 CAUSE-PA witness Harry Geller, Esq. (CAUSE-PA Statement No. 1-R) and  
21 Aqua witnesses William Packer (AP Statement No. 1-R), Erin Feeney (AP  
22 Statement No. 2-R), Christopher Manning (AP Statement No. 3-R), Christopher

1 Henkel (AP Statement No. 4-R), Christine Saball (AP Statement No. 8-R), and  
2 Rita Black (AP Statement No. 10-R).

3 In this surrebuttal testimony I also present I&E's overall recommended  
4 requirement for Aqua Pennsylvania, Inc. (Water) and Aqua Pennsylvania  
5 Wastewater, Inc. (Wastewater) (collectively referred to as AP, Aqua, or  
6 Company).

7  
8 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 1-SR supports my surrebuttal testimony.  
10

11 **OVERALL I&E POSITION**

12 **Q. PLEASE SHOW THE UPDATED I&E RECOMMENDED REVENUE**  
13 **REQUIREMENTS PRIOR TO THE ACT 11 ALLOCATION.**

14 A. Separate updated I&E recommended revenue requirements prior to the Act 11  
15 allocation for Aqua Pennsylvania, Inc. – Water (Water), Aqua Pennsylvania  
16 Wastewater, Inc. (Wastewater Base), Aqua Pennsylvania Wastewater, Inc. –  
17 Limerick (Limerick Wastewater), Aqua Pennsylvania Wastewater, Inc. – East  
18 Bradford (East Bradford Wastewater), Aqua Pennsylvania Wastewater, Inc. –  
19 Cheltenham (Cheltenham Wastewater), Aqua Pennsylvania, Wastewater, Inc. –  
20 East Norriton (East Norriton Wastewater), and Aqua Pennsylvania Wastewater,  
21 Inc. – New Garden (New Garden Wastewater) are shown below:

Aqua of PA - Water R-2021-3027385		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	510,006,687	3,248,807	513,255,494	6,783,252	520,038,746
Deductions:					
O&M Expenses	116,459,234	-507,738	115,951,496	34,747	115,986,243
Depreciation	122,166,578	-121,865	122,044,713		122,044,713
Taxes, Other	12,450,066	21,818	12,471,884	45,554	12,517,438
Income Taxes:					
Current State	5,783,096	398,102	6,181,198	669,625	6,850,823
Current Federal	13,101,742	753,251	13,854,993	1,266,998	15,121,991
Deferred Taxes	-5,608,906	0	-5,608,906		-5,608,906
ITC	-253,413	0	-253,413		-253,413
Total Deductions	264,098,397	543,568	264,641,965	2,016,924	266,658,889
Income Available	245,908,290	2,705,239	248,613,529	4,766,328	253,379,857
Measure of Value	3,818,456,012	-2,494,305	3,815,961,707	0	3,815,961,707
Rate of Return	6.44%		6.52%		6.64%

1

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	14,073,406	33,085,167
Deductions:					
O&M Expenses	9,830,816	18,640	9,849,456	168,024	10,017,480
Depreciation	7,780,016	0	7,780,016		7,780,016
Taxes, Other	303,529	0	303,529	94,511	398,040
Income Taxes:					
Current State	-1,178,637	-1,434	-1,180,071	1,379,706	199,635
Current Federal	-2,225,857	-2,713	-2,228,570	2,610,545	381,975
Deferred Taxes	1,136,320	0	1,136,320		1,136,320
ITC	0	0	0		0
Total Deductions	15,646,187	14,493	15,660,680	4,252,786	19,913,466
Income Available	3,365,574	-14,493	3,351,081	9,820,620	13,171,701
Measure of Value	198,368,990	0	198,368,990	0	198,368,990
Rate of Return	1.70%		1.69%		6.64%

2

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	5,112,610	9,091,183
Deductions:					
O&M Expenses	2,041,053	3,533	2,044,586	61,040	2,105,626
Depreciation	1,998,881	0	1,998,881		1,998,881
Taxes, Other	26,719	0	26,719	34,334	61,053
Income Taxes:					
Current State	-146,426	-228	-146,654	501,222	354,568
Current Federal	-277,054	-432	-277,486	948,363	670,877
Deferred Taxes	65,919	0	65,919		65,919
ITC	0	0	0		0
Total Deductions	3,709,092	2,873	3,711,965	1,544,959	5,256,924
Income Available	269,481	-2,873	266,608	3,567,651	3,834,259
Measure of Value	57,744,861	0	57,744,861	0	57,744,861
Rate of Return	0.47%		0.46%		6.64%

1

Aqua of PA - Wastewater E. Bradford R-2021-3027386		TABLE I INCOME SUMMARY			
3/31/23 Proforma		INVESTIGATION & ENFORCEMENT			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	1,014,569	0	1,014,569	738,982	1,753,551
Deductions:					
O&M Expenses	1,113,197	789	1,113,986	8,823	1,122,809
Depreciation	158,552	0	158,552		158,552
Taxes, Other	11,413	0	11,413	4,963	16,376
Income Taxes:					
Current State	-42,221	-67	-42,288	72,447	30,159
Current Federal	-79,886	-127	-80,013	137,076	57,063
Deferred Taxes	11,546	0	11,546		11,546
ITC	0	0	0		0
Total Deductions	1,172,601	595	1,173,196	223,309	1,396,505
Income Available	-158,032	-595	-158,627	515,673	357,046
Measure of Value	5,377,205	0	5,377,205	0	5,377,205
Rate of Return	-2.94%		-2.95%		6.64%

2

Aqua of PA - Wastewater Cheltenham R-2021-3027386		TABLE I INCOME SUMMARY			
	3/31/23 Proforma	INVESTIGATION & ENFORCEMENT			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	7,258,740	0	7,258,740	2,366,685	9,625,425
Deductions:					
O&M Expenses	4,552,450	6,299	4,558,749	28,256	4,587,005
Depreciation	1,011,770	0	1,011,770		1,011,770
Taxes, Other	48,747	0	48,747	15,894	64,641
Income Taxes:					
Current State	-10,260	-527	-10,787	232,021	221,234
Current Federal	-19,413	-998	-20,411	439,008	418,597
Deferred Taxes	184,368	0	184,368		184,368
ITC	0	0	0		0
Total Deductions	5,767,662	4,774	5,772,436	715,179	6,487,615
Income Available	1,491,078	-4,774	1,486,304	1,651,506	3,137,810
Measure of Value	47,256,177	0	47,256,177	0	47,256,177
Rate of Return	3.16%		3.15%		6.64%

1

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	2,536,693	5,460,463
Deductions:					
O&M Expenses	2,271,778	1,382	2,273,160	30,286	2,303,446
Depreciation	952,641	0	952,641		952,641
Taxes, Other	19,635	0	19,635	17,035	36,670
Income Taxes:					
Current State	-84,197	-83	-84,280	248,688	164,408
Current Federal	-159,309	-158	-159,467	470,544	311,077
Deferred Taxes	11,829	0	11,829		11,829
ITC	0	0	0		0
Total Deductions	3,012,377	1,141	3,013,518	766,553	3,780,071
Income Available	-88,607	-1,141	-89,748	1,770,140	1,680,392
Measure of Value	25,307,104	0	25,307,104	0	25,307,104
Rate of Return	-0.35%		-0.35%		6.64%

2

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	2,889,080	0	2,889,080	2,297,682	5,186,762
Deductions:					
O&M Expenses	1,845,024	-674	1,844,350	27,432	1,871,782
Depreciation	735,834	0	735,834		735,834
Taxes, Other	19,402	0	19,402	15,430	34,832
Income Taxes:					
Current State	-75,351	133	-75,218	225,257	150,039
Current Federal	-142,571	251	-142,320	426,208	283,888
Deferred Taxes	102,038	0	102,038		102,038
ITC	0	0	0		0
Total Deductions	2,484,376	-290	2,484,086	694,327	3,178,413
Income Available	404,704	290	404,994	1,603,355	2,008,349
Measure of Value	30,246,226	0	30,246,226	0	30,246,226
Rate of Return	1.34%		1.34%		6.64%

1

2

3 **Q. SUMMARIZE I&E'S COMBINED UPDATED RECOMMENDED**  
4 **REVENUE REQUIREMENT INCLUDING THE I&E RECOMMENDED**  
5 **ACT 11 ALLOCATION.**

6 A. I&E's total recommendation for all Aqua revenue requirements combined is  
7 \$584,241,297. This recommended revenue requirement represents an increase of  
8 \$33,909,310<sup>1</sup> to the I&E-adjusted present rate revenues of \$550,331,987.<sup>2</sup> This  
9 total recommended allowance incorporates my adjustments made in this testimony  
10 to O&M expenses and cash working capital, and those recommended adjustments

<sup>1</sup> Compared to Aqua's Total Company requested increase of \$97,605,183, per AP Exhibit 1-A(a) Water, Schedule Act 11.

<sup>2</sup> See Table II below.



made in the testimony of I&E witnesses Anthony Spadaccio (I&E Statement No. 2-SR), Esyan Sakaya (I&E Statement No. 3-SR), Ethan Cline (I&E Statement No. 4-SR), and Joseph Kubas (I&E Statement No. 5-SR).

**Q. PLEASE SHOW THE CALCULATION FOR I&E’S PROPOSED ACT 11 REVENUE ALLOCATION AS SUPPORTED BY I&E WITNESS JOSEPH KUBAS IN I&E STATEMENT NO. 5-SR.**

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

	Total Company	Water	WW - Base	Limerick	E Bradford	Cheltenham	E Norriton	New Garden
Present Rate Revenue	\$550,331,987	\$513,255,494	\$19,011,761	3,978,573	1,014,569	7,258,740	2,923,770	2,889,080
Additional Revenue Requirement*	33,909,310	6,783,252	14,073,406	5,112,610	738,982	2,366,685	2,536,693	2,297,682
Act 11 Allocation	0	10,439,352	(7,976,384)	(2,130,466)	(128,217)	1,718,148	(1,008,297)	(914,136)
Proposed Revenues	\$584,241,297	\$530,478,098	\$25,108,783	\$6,960,717	\$1,625,334	\$11,343,573	\$4,452,166	\$4,272,626
Rate Increase/(Decrease) - \$	\$33,909,310	\$17,222,604	\$6,097,022	\$2,982,144	\$610,765	\$4,084,833	\$1,528,396	\$1,383,546
Rate Increase/(Decrease) - %	6.16%	3.36%	32.07%	74.96%	60.20%	56.27%	52.27%	47.89%

**I&E RECOMMENDED ADJUSTMENTS TO OPERATING AND MAINTENANCE EXPENSES AND CASH WORKING CAPITAL**

**Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS TO OPERATING AND MAINTENANCE (O&M) EXPENSES AND CASH WORKING CAPITAL.**

A. The following tables summarize my recommended adjustments as updated in this

1 surrebuttal testimony:

<u>Water</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$4,915,277	\$4,574,332	(\$340,945)
Purchased Water Expense	\$4,135,311	\$3,968,516	(\$166,795)
<b>Total O&amp;M Adjustments</b>			<b><u>(\$507,740)</u></b>
<b>Rate Base:</b>			
Cash Working Capital	\$1,736,000	\$1,679,000	(\$57,000)
<b>Total Rate Base Adjustments</b>			<b><u>(\$57,000)</u></b>

2

<u>Wastewater Base</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$16,327	\$34,967	\$18,640
<b>Total O&amp;M Expense Adjustments</b>			<b><u>\$18,640</u></b>

3

<u>Limerick Wastewater</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$5,613	\$9,146	\$3,533
<b>Total O&amp;M Expense Adjustments</b>			<b><u>\$3,533</u></b>

4

<u>East Bradford Wastewater</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$1,232	\$2,021	\$789
<b>Total O&amp;M Expense Adjustments</b>			<b><u>\$789</u></b>

5

<u>Cheltenham Wastewater</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$9,814	\$16,113	\$6,299
<b>Total O&amp;M Expense Adjustments</b>			<b><u>\$6,299</u></b>

6

<u>East Norriton Wastewater</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$4,915	\$6,297	<u>\$1,382</u>
<b>Total O&amp;M Expense Adjustments</b>			<u><b>\$1,382</b></u>

1

<u>New Garden Wastewater</u>	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&amp;E Adjustment</u>
<b>O&amp;M Expenses:</b>			
Insurance	\$1,952	\$1,276	<u>(\$676)</u>
<b>Total O&amp;M Expense Adjustments</b>			<u><b>(\$676)</b></u>

2

3

4 **RATE CASE EXPENSE**

5 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
6 **FOR RATE CASE EXPENSE.**

7 A. I accepted the Company’s 36-month rate case period but recommended that the  
8 Company’s rate case expense be normalized over that period and not amortized.<sup>3</sup>  
9 This recommendation was made because Aqua’s claim is an ongoing expense that  
10 recurs at irregular intervals, representing the precise circumstance under which  
11 normalization treatment should occur.<sup>4</sup>

12

13 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

14 A. Yes. AP witness Christopher Manning disagrees with my recommendation that  
15 rate case expense should be normalized (as opposed to amortized) for ratemaking

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<sup>3</sup> I&E Statement No. 1, p. 12.

<sup>4</sup> I&E Statement No. 1, p. 13.

1 purposes.<sup>5</sup> He asserts that the Company will never request recovery of  
2 unamortized rate case expense in a subsequent base rate filing but references  
3 A Guide to Utility Ratemaking (2018 Edition) by James H. Cawley and Norman J.  
4 Kennard<sup>6</sup> (herein referred to as Ratemaking Guide) as support for his argument.

5  
6 **Q. DO YOU AGREE WITH MR. MANNING’S ASSERTION THAT THE**  
7 **RATEMAKING GUIDE SUPPORTS HIS ARGUMENT FOR**  
8 **AMORTIZATION OF RATE CASE EXPENSE?**

9 A. No. Page 112 of the Ratemaking Guide specifically discusses rate case expense  
10 and the example cited specifically states that rate case expense should be  
11 normalized as follows,

12 The Commission’s practice is to recognize all prudently-  
13 incurred rate case expense and set a normalization period based  
14 upon historic filing frequency. So, if Typical Utility’s history  
15 in the 2018 filed case shows previous base case filings in 2013,  
16 2008, and 2003, then the normalized rate case expense for a  
17 case costing Typical Utility a total of \$100,000 would be  
18 \$20,000 per year (\$100,000/5 years).

19 As explained in my direct testimony, amortization is used when the period over  
20 which the item is extinguished may overlap rate case filings, that is, any remaining  
21 balance may be recovered in a subsequent rate filing.<sup>7</sup> In contrast, normalization  
22 is appropriate for expenses such as rate case expense that are ongoing expenses,

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<sup>5</sup> AP Statement No. 3-R, p. 8.

<sup>6</sup> [https://www.puc.pa.gov/General/publications\\_reports/pdf/Ratemaking\\_Guide2018.pdf](https://www.puc.pa.gov/General/publications_reports/pdf/Ratemaking_Guide2018.pdf), accessed on December 3, 2021.

<sup>7</sup> I&E Statement No. 1, pp. 12-13.

1 occurring at irregular intervals. It is unclear to what page of the Ratemaking  
2 Guide Mr. Manning refers (quite possibly page 86); however, his interpretation is  
3 incorrect. If he is referring to page 86, the example provided for amortization of  
4 storm expense is not comparable to rate case expense. That same page of the  
5 Ratemaking Guide states that regularly recurring expenses should be  
6 “normalized.” While rate cases are filed at irregular intervals over the years, the  
7 expense is regularly occurring and should be normalized. While some companies  
8 tend to go for many years between rate cases, the filing of future cases is relatively  
9 certain, thus, a comparison to damages caused by a hurricane (as discussed in the  
10 Ratemaking Guide wherein a reference to amortization of non-routine expenses is  
11 discussed) is not appropriate.

12  
13 **Q. WHAT IS THE DIFFERENCE BETWEEN RATE CASE EXPENSE AND**  
14 **THE STORM EXPENSE EXAMPLE TO WHICH MR. MANNING**  
15 **LOOSELY REFERS?**

16 A. An event that will *probably* occur again (irregularly and infrequently) such as  
17 storm expense is fully amortized, meaning the remaining balance is fully expensed  
18 regardless of whether it overlaps more than one rate case filing period. Such  
19 expenses are generally granted approval via a request for deferral via a petition  
20 filed with the Commission, unlike rate case expense. Additionally, Mr. Manning

1 equating rate case expense to something that will “probably occur again”<sup>8</sup> is  
2 entirely misplaced, because he specifically states the Company intends to file its  
3 next case in three years.<sup>9</sup> Whether Aqua “amortizes” its rate case expense *for*  
4 *accounting purposes* has no bearing on how it should be treated for ratemaking  
5 purposes and such treatment should be rejected.

6  
7 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?**

8 A. No. I continue to recommend that rate case expense be normalized as opposed to  
9 amortized for ratemaking purposes.

10  
11 **INSURANCE EXPENSE**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
13 **FOR INSURANCE EXPENSE.**

14 A. I recommended an allowance of \$6,478,778, or a reduction of \$298,499  
15 (\$6,777,277 - \$6,478,778) to the Company’s claim for Water; an allowance of  
16 \$49,525 or a reduction of \$17,825 (\$67,350 - \$49,525) to the Company’s claim for  
17 Wastewater Base; an allowance of \$12,954, or a reduction of \$10,201 (\$23,155 -  
18 \$12,954) to the Company’s claim for Limerick Wastewater; an allowance of  
19 \$2,863, or a reduction of \$2,218 (\$5,081 - \$2,863) to the Company’s claim for  
20 East Bradford Wastewater; an allowance of \$22,821, or a reduction of \$17,661

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<sup>8</sup> AP Statement No. 3-R, p. 8.

<sup>9</sup> AP Statement No. 3-R, p. 7.

1 (\$40,482 - \$22,821) to the Company's claim for Cheltenham Wastewater; an  
2 allowance of \$8,919, or a reduction of \$11,355 (\$20,274 - \$8,919) to the  
3 Company's claim for East Norriton Wastewater; and an allowance of \$1,806, or a  
4 reduction of \$6,245 (\$8,051 - \$1,806) to the Company's claim for New Garden  
5 Wastewater.<sup>10</sup> My recommended allowances were based on the historic test year  
6 (HTY) insurance expense, applying a year-over-year three-year average increase  
7 of 4.38%  $((-5.44\% + 7.06\% + 11.53\%) \div 3)$ <sup>11</sup> to calculate future test year (FTY)  
8 and fully projected future test year (FPFTY) allowances. Using a three-year  
9 average instead of the Company's five-year average allows for consideration of  
10 more recent experience and is consistent with the Company's method for  
11 calculating uncollectible expense<sup>12</sup> and legal expense.<sup>13</sup>

12  
13 **Q. DID YOU NOTICE ANY ERRORS IN YOUR RECOMMENDATION AS**  
14 **YOU WERE PREPARING TO ADDRESS THIS ISSUE IN SURREBUTTAL**  
15 **TESTIMONY?**

16 A. Yes. Total insurance expense was addressed improperly in direct testimony rather  
17 than the expense amounts net of capitalization. Any change to the capitalized  
18 amounts would be immaterial and thus not subject to a recommended adjustment  
19 to rate base.

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<sup>10</sup> I&E Statement No. 1, pp. 14-15.

<sup>11</sup> I&E Exhibit No. 1, Schedule 2, p. 2.

<sup>12</sup> AP Exhibit 1-A, Schedules C-4.2 and C-4.2.i.

<sup>13</sup> AP Exhibit 1-A, Schedule C-9.1 and I&E Exhibit No. 1, Schedule 2, p. 3.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. Aqua witness Christopher Henkel disagrees with my recommended three-  
3 year average to determine increases for the FTY and FPFTY even though he  
4 applies that three-year average increase of 4.38% to update the Company's  
5 monthly insurance premiums for the last three months of the FPFTY (January  
6 through March 2023).<sup>14</sup> He further explains that the Company has recorded its  
7 calendar year 2022 insurance expense for accounting purposes, similarly updating  
8 the claim for ratemaking purposes, and on a consolidated basis the accrual  
9 produces a year-over-year increase of 8.49% between calendar year 2021 and 2022  
10 based on premiums the Company will pay in 2022.<sup>15</sup> Thus, the Company has  
11 updated its entire FTY claim for insurance and the first nine months of the FPFTY  
12 (April 1, 2022 through December 31, 2022) based on the recently determined  
13 accruals, and as Mr. Henkel states, the final three months of the FPFTY  
14 (January 1, 2023 through March 31, 2023) were inflated using a 4.38% increase to  
15 the FTY result.

16  
17 **Q. BASED ON MR. HENKEL'S TESTIMONY, WHAT ARE THE**  
18 **COMPANY'S UPDATED INSURANCE EXPENSE CLAIMS?**

19 A. Although not directly stated in his testimony, the updated expense portion of the

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<sup>14</sup> AP Statement No. 4-R, p. 6.

<sup>15</sup> AP Statement No. 4-R, p. 6.



1 insurance claims are as follows:<sup>16</sup>  
2 Water – \$4,915,277 (compared to the original claim of \$4,744,094);<sup>17</sup>  
3 Wastewater Base – \$16,327 (compared to the original claim of \$47,145);<sup>18</sup>  
4 Limerick Wastewater – \$5,613 (compared to the original claim of \$16,208);<sup>19</sup>  
5 East Bradford Wastewater – \$1,232 (compared to the original claim of \$3,556);<sup>20</sup>  
6 Cheltenham Wastewater – \$9,814 (compared to the original claim of \$28,337);<sup>21</sup>  
7 East Norriton Wastewater – \$4,915 (compared to the original claim of \$14,192);<sup>22</sup>  
8 New Garden Wastewater – \$1,952 (compared to the original claim of \$5,636).<sup>23</sup>

9  
10 **Q. DO YOU AGREE WITH MR. HENKEL’S REVISED CLAIMS?**

11 A. No. His revised claims for all the wastewater revenue requirements as shown  
12 above have decreased from direct testimony to rebuttal testimony with no  
13 explanation for that directional change. Furthermore, Mr. Henkel has provided no  
14 documentation for the recent 2022 accruals to support his changes in rebuttal  
15 testimony. I question the reliability of the amounts stated on the schedules  
16 presented by Mr. Henkel in rebuttal testimony for these reasons and continue to  
17 recommend that insurance expense be increased by 4.83% per year from the HTY

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<sup>16</sup> Note: The original claims as noted here are different than what I&E used (in error) in direct testimony as explained above.

<sup>17</sup> AP Exhibit 1-A Revised, Schedule C-4.6 and AP Exhibit 1-A, Schedule C-4.6.

<sup>18</sup> AP Exhibit 1-B(b) Revised, Schedule C-4.6 and AP Exhibit 1-B, Schedule C-4.6.

<sup>19</sup> AP Exhibit 1-C Revised, Schedule C-4.6 and AP Exhibit 1-C, Schedule C-4.6.

<sup>20</sup> AP Exhibit 1-D(d) Revised, Schedule C-4.6 and AP Exhibit 1-D, Schedule C-4.6.

<sup>21</sup> AP Exhibit 1-E(e) Revised, Schedule C-4.6 and AP Exhibit 1-E, Schedule C-4.6.

<sup>22</sup> AP Exhibit 1-F(f), Schedule C-4.6 and AP Exhibit 1-F, Schedule C-4.6.

<sup>23</sup> AP Exhibit 1-G(g) Revised, Schedule C-4.6 and AP Exhibit 1-G, Schedule C-4.6.

1 to the FTY, and from the FTY to the FPFTY based on a three-year average trend.  
2 However, I must update my recommended allowance amounts based on my  
3 explanation above about the recently discovered discrepancy in my direct  
4 testimony where the total amounts were adjusted rather than the amounts charged  
5 to O&M expense.

6  
7 **Q. WHAT IS YOUR UPDATED RECOMMENDATION?**

8 A. I recommend the following allowance amounts for insurance expense:

9 Water - \$4,574,332 or a reduction of \$340,945 (\$4,915,277 - \$4,574,332) to the  
10 Company's updated claim.

11 Wastewater Base - \$34,967 or an increase of \$18,640 (\$34,967 - \$16,327) to the  
12 Company's updated claim.

13 Limerick Wastewater - \$9,146 or an increase of \$3,533 (\$9,146 - \$5,613) to the  
14 Company's updated claim.

15 East Bradford Wastewater - \$2,021 or an increase of \$789 (\$2,021 - \$1,232) to the  
16 Company's updated claim.

17 Cheltenham Wastewater - \$16,113 or an increase of \$6,299 (\$16,113 - \$9,814) to  
18 the Company's updated claim.

19 East Norriton Wastewater - \$6,297 or an increase of \$1,382 (\$6,297 - \$4,915) to  
20 the Company's updated claim.

21 New Garden Wastewater - \$1,276 or a decrease of \$676 (\$1,952 - \$1,276) to the  
22 Company's updated claim.

1 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?**

2 A. I question the reliability of the amounts stated on the schedules presented by Mr.  
 3 Henkel in rebuttal testimony for the reasons explained above and continue to  
 4 recommend that insurance expense be increased by 4.83% per year from the HTY  
 5 to the FTY, and by 4.83% from the FTY to the FPFTY based on a three-year  
 6 average trend as calculated below:

		<u>I&amp;E Calculated</u>				
		(HTY x 1.0483)	(FTY x 1.0483)	Company		
			I&E Recommended	FPFTY		I&E
	<u>HTY</u>	<u>FTY</u>	<u>FPFTY</u>	<u>Claim</u>		<u>Adjustment</u>
Water	\$ 4,162,522	\$ 4,363,572	\$ 4,574,332	\$4,915,277		\$ (340,945)
Wastwater Base	\$ 31,819	\$ 33,356	\$ 34,967	16,327		\$ 18,640
Limerick WW	\$ 8,323	\$ 8,725	\$ 9,146	5,613		\$ 3,533
East Bradford WW	\$ 1,839	\$ 1,928	\$ 2,021	1,232		\$ 789
Cheltenham WW	\$ 14,662	\$ 15,370	\$ 16,113	9,814		\$ 6,299
East Norriton WW	\$ 5,730	\$ 6,007	\$ 6,297	4,915		\$ 1,382
New Garden WW	\$ 1,161	\$ 1,217	\$ 1,276	1,952		\$ (676)
HTY Claims per Schedules C-4.6						

7

8

9 **PUBLIC UTILITY REALTY TAX**

10 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
 11 **FOR PUBLIC UTILITY REALTY TAX (PURTA).**

12 A. I recommended an allowance for Water of \$4,603,341, or a reduction of \$196,659  
 13 (\$4,800,000 - \$4,603,341) to the Company’s claim, based on the most recent  
 14 PURTA notice of determination since it is more prudent to rely on the most up-to-  
 15 date data for PURTA than to rely on the Company’s increase with no stated basis

1 or calculation.<sup>24</sup> Further, I emphasized that the Company's tax amount is currently  
2 under appeal and may be reduced.<sup>25</sup> Thus, I stated that the Company's claim is  
3 unsupported, and my recommendation should be adopted.<sup>26</sup>

4 Additionally, I concurred with the Company that no allocation is  
5 appropriate for Wastewater Base or the other wastewater acquisitions, because,  
6 according to the Pennsylvania Department of Revenue's website, sewer companies  
7 are exempt from PURTA.<sup>27</sup>

8  
9 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

10 A. Yes. Aqua witness Erin Feeney disagrees with my recommendation by stating the  
11 Company's most recent data estimates PURTA tax at \$4.8 million, that the  
12 estimate of \$4.8 million was actually paid in May 2021, and as of November 30,  
13 2021, the estimated amount is approximately \$4.9 million.<sup>28</sup> Additionally, she  
14 stated that even though the amount is anticipated to be \$4.9 million, the Company  
15 is not increasing its claim in rebuttal testimony.<sup>29</sup> Finally, she argues that my  
16 comment about the Company's tax being under appeal is irrelevant since a  
17 successful appeal would only avoid *an increase* to the tax but would not reduce it

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<sup>24</sup> I&E Exhibit No. 1, Schedule 3, p. 2.

<sup>25</sup> I&E Exhibit No. 1, Schedule 3, p. 1.

<sup>26</sup> I&E Statement No. 1, pp. 17-18.

<sup>27</sup> I&E Statement No. 1, p. 17 and

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

<sup>28</sup> AP Statement No. 2-R, p. 41.

<sup>29</sup> AP Statement No. 2-R, p. 41.

1 below the Company's claim.<sup>30</sup>

2  
3 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?**

4 A. Yes. Based on the information provided in rebuttal testimony by Ms. Feeney as  
5 summarized above, I am withdrawing my recommended adjustment to PURTA.

6  
7 **PURCHASED WATER EXPENSE**

8 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
9 **FOR PURCHASED WATER EXPENSE.**

10 A. I recommended that that Commission only allow Aqua to reflect water purchases  
11 from Aqua Ohio at \$0.3449 per hundred gallons.<sup>31</sup> My recommendation was  
12 based on the Sales for Resale Contract – Masury Water Company implied rate  
13 (calculated composite rate including customer charges) of \$0.3449 ( $\$302,907 \div$   
14  $878,333$  hundred gallons).<sup>32</sup> If the Commission adopts my recommendation, the  
15 Aqua Ohio-related purchased water expense would decrease from \$297,839 to  
16 \$131,044 which is an annual savings of \$166,795 for Pennsylvania ratepayers that  
17 would make the expense more reasonable.<sup>33</sup> In summary, I recommended an  
18 allowance of \$3,968,516 or a reduction of \$166,795 ( $\$4,135,311 - \$3,968,516$ ) to  
19 the Company's claim for Aqua Water.

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<sup>30</sup> AP Statement No. 2-R, p. 42.

<sup>31</sup> I&E Statement No. 1, p. 19.

<sup>32</sup> AP Exhibit 5-A, Part II, Schedule 5, p. 23.

<sup>33</sup> I&E Statement No. 1, pp. 19-20 and I&E Exhibit No. 1, Schedule 4.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. AP witness Erin Feeney disagrees with my recommendation. First, she  
3 asserts that “it appears that I&E’s witnesses appear to testify that the rate  
4 established for service by Aqua Ohio should be made equal to the tariff rate of  
5 Aqua PA for service to Aqua Ohio.”<sup>34</sup> Next, she asserts that I want to make the  
6 tariff rate for Aqua Ohio – Struthers Division equal to the tariff rate of AP for  
7 service to Masury.<sup>35</sup> In short, she says since the two systems are in separate  
8 geographic locations based on separately determined costs of service, making the  
9 charges equal is inappropriate.

10

11 **Q. ARE YOU SUGGESTING THAT AQUA OHIO CHANGE ITS TARIFF**  
12 **RATES?**

13 A. No. Ms. Feeney is mischaracterizing my direct testimony. My recommendation is  
14 based on the premise that the cost of purchased water should be the same as the  
15 rate Aqua Pennsylvania receives when it sells water to that same affiliate for  
16 ratemaking purposes so that Pennsylvania customers are not harmed. The Ohio  
17 rate is not guaranteed full recovery when that tariff rate is being claimed by a  
18 Pennsylvania affiliate in a Pennsylvania rate filing.

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<sup>34</sup> AP Statement No. 2-R, p. 25.

<sup>35</sup> AP Statement No. 2-R, pp. 32-33.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?**

2 A. No. Based on the rationale explained above, I have no changes to my  
3 recommendation.

4

5 **DREDGING EXPENSE**

6 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
7 **FOR DREDGING EXPENSE.**

8 A. I had no recommended dollar adjustment to the Company's claim; however, I  
9 recommended that dredging expense be normalized and that the Company's  
10 proposed use of a reserve account and regulatory liability be rejected.<sup>36</sup> I  
11 explained that this routine operating expense is more appropriately normalized for  
12 ratemaking purposes and accrual treatment via a regulatory liability should be  
13 rejected because dredging expense is not extraordinary in nature and regulatory  
14 liability treatment should not be granted. Finally, I stated that normalized  
15 dredging expenses are no different than any other O&M expense in that a  
16 company is given the opportunity to achieve full recovery.<sup>37</sup>

17

18 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION FOR**  
19 **DREDGING EXPENSE?**

20 A. Yes. Aqua witness Christopher Manning disagrees with my recommendation. He

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<sup>36</sup> I&E Statement No. 1, p. 21.

<sup>37</sup> I&E Statement No. 1, p. 21.

1 states that Aqua has requested to accrue a reserve for dredging costs which would  
2 better align the cost for ratemaking to operating expenses actually incurred. He  
3 asserts this expense is not systematic and can vary, but it will be incurred, and it is  
4 only a matter of how frequently.<sup>38</sup>

5  
6 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION IN**  
7 **RESPONSE TO MR. MANNING’S REBUTTAL TESTIMONY?**

8 A. No. His description of an operating expense that does not occur on precise regular  
9 intervals lays out the perfect scenario for an expense that should be normalized for  
10 ratemaking purposes. I disagree with the Company’s proposal “to accrue a  
11 reserve” for this routine operating expense and recommend that the Commission  
12 reject this treatment and require Aqua to normalize its dredging expense for  
13 ratemaking.

14  
15 **LABOR EXPENSE**

16 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
17 **FOR LABOR EXPENSE.**

18 A. I recommended the following allowance amounts for labor expense in direct  
19 testimony:<sup>39</sup>

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<sup>38</sup> AP Statement No. 3-R, p. 9.

<sup>39</sup> I&E Statement No. 1, p. 23.



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. PLEASE CONTINUE.**

15 A. My recommendation was 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.

20 My recommended payroll, employee benefits, and federal and state payroll  
21 tax expense reductions were based on a vacancy percentage of 6.83%. Based on

1 the Company's response to I&E-RE-20-D,<sup>40</sup> I used the current complement of  
2 actual full-time employees of 559 in the HTY to carry forward into the FPFTY  
3 and calculated 41 vacant positions given the 600 authorized/budgeted full-time  
4 positions in the FPFTY. Thus, I calculated the vacancy percentage of 6.83% by  
5 dividing 41 by 600 (i.e.,  $41 \div 600 = 6.83\%$ ). Subsequently, I multiplied 6.83% by  
6 the claims for labor expense for each rate division except East Bradford  
7 Wastewater to calculate my adjustment to labor expense since an adjustment to  
8 East Bradford would be immaterial.<sup>41</sup>

9  
10 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

11 A. Yes. Aqua witness Erin Feeney disagrees with my recommendation for several  
12 reasons. First, Ms. Feeney points out the lack of consideration of a vacancy rate  
13 already reflected in the Company's filing.<sup>42</sup> Next, she takes issue with using the  
14 actual HTY headcount in the calculation for a vacancy rate and disagrees with the  
15 use of a single quarter of the HTY to calculate the rate. Lastly, she points out a  
16 mismatch of employee categories in the calculation.<sup>43</sup>

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<sup>40</sup> I&E Exhibit No. 1, Schedule 5.

<sup>41</sup> I&E Statement No. 1, pp. 24-25.

<sup>42</sup> AP Statement No. 2-R, p. 36.

<sup>43</sup> AP Statement No. 2-R, p. 37.

1 **Q. DO YOU AGREE WITH MS. FEENEY THAT YOUR CALCUATION**  
2 **REQUIRES MODIFICATION?**

3 A. Yes. I had intended to update my calculation in surrebuttal testimony when I  
4 realized upon receipt of the Company's response to OCA-XIII-8 that a vacancy  
5 rate of 2.5% was already applied to total regular full-time payroll projected for the  
6 FTY and FPFTY.<sup>44</sup>

7  
8 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?**

9 A. Yes. Updated headcount detail was provided in response to I&E-RE-82-D and  
10 I&E-RE-97 on November 29, 2021, that shows vacancy information through  
11 September 30, 2021, and when I compute a quarterly average of all full-time  
12 vacancies on I&E-RE-82 – Attachment 1, I have determined that an appropriate  
13 modified vacancy level would be 2.7% considering an average of quarterly  
14 vacancy percentages from March 2019 through September 2021. However, since  
15 Ms. Feeney has accepted the OCA recommended full-time vacancy rate of 2.88%  
16 in her rebuttal testimony, I am withdrawing my recommended adjustment for labor  
17 expense.<sup>45</sup>

18  
19 **Q. HOW DID YOU CALCULATE YOUR 2.7% VACANCY RATE?**

20 A. That percentage was calculated as shown below based on information provided in

---

<sup>44</sup> I&E Exhibit No. 1-SR, Schedule 1.

<sup>45</sup> I&E Exhibit No. 1-SR, Schedule 2, p. 2 and AP Statement No. 2-R, p. 37.

1 response to I&E-RE-82 and I&E-RE-97:<sup>46</sup>

	Full-time Vacancies per I&E-RE-82*	Full-time Auth Headcount per I&E-RE-97*	Vacancies as % of Total Authorized Headcount
03/31/19	6	569	1.1%
06/30/19	9	569	1.6%
09/30/19	14	569	2.5%
12/31/19	4	575	0.7%
03/31/20	10	579	1.7%
06/30/20	9	581	1.5%
09/30/20	20	581	3.4%
12/31/20	15	581	2.6%
03/31/21	26	585	4.4%
06/30/21	28	585	4.8%
09/30/21	31	585	5.3%
		Average Vacancy Rate	2.7%

2 \*Response revised by Company on 11/29/2021

3

4 **EMPLOYEE BENEFITS**

5 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
6 **FOR EMPLOYEE BENEFITS.**

7 A. In direct testimony, I recommended the following for employee benefits:<sup>47</sup>

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

10 Wastewater Base: \$1,158,507 or a reduction of \$84,926 (\$1,243,433 -  
11 \$1,158,507) to the Company's claim.

---

<sup>46</sup> I&E Exhibit No. 1-SR, Schedule 2.

<sup>47</sup> I&E Statement No. 1, pp. 26-27.

1 Limerick Wastewater: \$259,453, or a reduction of \$19,020 (\$278,473 -  
2 \$259,453) to the Company's claim.

3 Cheltenham Wastewater: \$194,906, or a reduction of \$14,288 (\$209,194 -  
4 \$194,906) to the Company's claim.

5 East Norriton Wastewater: \$71,879, or a reduction of \$5,269 (\$77,148 -  
6 \$71,879) to the Company's claim.

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

9  
10 **Q. PLEASE CONTINUE.**

11 A. My recommendation was based on an employee vacancy adjustment like what was  
12 done for labor expense, and I applied the same vacancy rate of 6.83% to the  
13 Company's claims for employee benefits for each revenue requirement except East  
14 Bradford (as explained above) to calculate my adjustment to employee benefits.<sup>48</sup>

15  
16 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

17 A. Yes. Aqua witness Erin Feeney disagrees with my employee benefits adjustment  
18 for the same reasons she argued against my labor expense adjustment.<sup>49</sup>

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<sup>48</sup> I&E Statement No. 1, pp. 27-28.

<sup>49</sup> AP Statement No. 2-R, p. 38.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**  
2 **EMPLOYEE BENEFITS?**

3 A. I am withdrawing my recommendation for employee benefits due to acceptance of  
4 the Company's modified vacancy rate of 2.88%<sup>50</sup> as explained above in the labor  
5 expense section.

6

7 **FEDERAL AND STATE PAYROLL TAX**

8 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
9 **FOR FEDERAL AND STATE PAYROLL TAX.**

10 A. While I was not disputing the Company's calculation method, it was necessary to  
11 make an adjustment to the Company's federal and state payroll tax claim in line  
12 with my labor recommendation as discussed above.

13

14 **Q. WHAT WAS YOUR RECOMMENDATION FOR FEDERAL AND STATE**  
15 **PAYROLL TAX?**

16 A. I recommended a federal and state payroll tax expense allowance of \$2,947,577 or  
17 a reduction of \$216,078 (\$3,163,655 - \$2,947,577) to the Company's claim based  
18 on an employee vacancy adjustment as noted in the labor expense and employee  
19 benefits sections above. As a result, I applied the vacancy rate of 6.83% to the

---

<sup>50</sup> AP Statement No. 2-R, p. 37.

1 Company's Water claim for federal and state payroll tax of \$3,163,655 for an  
2 adjustment of \$216,078 ( $\$3,163,655 \times 6.83\%$ ).<sup>51</sup>

3 As explained in direct testimony, I did not have a corresponding adjustment  
4 to Wastewater Base or the other wastewater acquisitions, because it appeared that  
5 the Company allocated payroll taxes to Wastewater Base and the wastewater  
6 acquisitions in its employee benefits allocation where it states that employee  
7 benefits and other related overheads are allocated.<sup>52</sup> In short, the Company made  
8 no clearly identified claims for payroll taxes in these wastewater revenue  
9 requirements.<sup>53</sup>

10  
11 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. Aqua witness Erin Feeney disagrees with my recommendation based on her  
13 disagreement with my adjustment to labor expense as explained above.<sup>54</sup>

14  
15 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR  
16 FEDERAL AND STATE PAYROLL TAX?**

17 A. Yes. I am withdrawing my recommendation due to my acceptance of the  
18 Company's modified vacancy rate of 2.88%<sup>55</sup> as explained in the labor expense  
19 section above.

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<sup>51</sup> I&E Statement No. 1, pp. 28-29.

<sup>52</sup> AP Exhibit 1-A, Schedule C-8.5.

<sup>53</sup> I&E Statement No. 1, p. 29.

<sup>54</sup> AP Statement No. 2-R, p. 40.

<sup>55</sup> AP Statement No. 2-R, pp. 38-39.

1 **CASH WORKING CAPITAL**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
3 **FOR CASH WORKING CAPITAL (CWC).**

4 A. My recommended CWC allowance for Aqua Water was \$1,360,000, or a reduction  
5 of \$216,000 (\$1,576,000 - \$1,360,000) to the Company's claim. This  
6 recommended allowance was based on my recommended O&M expense and tax  
7 adjustments as explained above. Additionally, I did not recommend an adjustment  
8 to CWC for Wastewater Base or the other wastewater acquisitions due to a lack of  
9 materiality that would result in those adjustments.<sup>56</sup>

10

11 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. Aqua witness William Packer disagrees with my resulting CWC  
13 recommendation due to the Company witnesses disagreeing with my  
14 corresponding recommended O&M adjustments.<sup>57</sup>

15

16 **Q. DID THE COMPANY UPDATE ITS CWC CLAIMS?**

17 A. Yes. The Company updated its claims for changes made to expense claims.  
18 However, I am only addressing the Water claim (as mentioned above).

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<sup>56</sup> I&E Statement No. 1, p. 31.

<sup>57</sup> AP Statement No. 1-R, p. 11.



1 **Q. WHAT IS THE COMPANY'S UPDATED CWC CLAIM FOR WATER?**

2 A. The updated claim for Water is \$1,736,000.<sup>58</sup>

3

4 **Q. DO YOU AGREE WITH THE COMPANY'S UPDATED CLAIM?**

5 A. No.

6

7 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?**

8 A. Yes. Due to changes related to the Company's acceptance of the OCA's payroll  
9 and related adjustments, and modifications to my recommended adjustments as  
10 explained above, it is necessary to update to my recommended CWC allowance.

11

12 **Q. WHAT IS YOUR UPDATED RECOMMENDATION?**

13 A. My updated recommended CWC allowance for Water, based on my recommended  
14 expense adjustments as explained above, is \$1,679,000, or a reduction of \$57,000  
15 (\$1,736,000 - \$1,679,000). My updated recommendation was determined by  
16 using the Company's workpapers as reflected on I&E Exhibit No. 1-SR,  
17 Schedule 3.

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<sup>58</sup> AP Exhibit 1-A Revised, Schedule G-1.

1 **Q. IS YOUR UPDATED RECOMMENDED CWC ALLOWANCE A FINAL**  
2 **RECOMMENDATION?**

3 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and  
4 rate base must be continually brought together separately for each operating unit in  
5 the Administrative Law Judge’s Recommended Decision and again in the  
6 Commission’s Final Order. This process, known as iteration, effectively prevents  
7 the determination of a precise calculation until all adjustments have been made to  
8 the Company’s claims.

9

10 **FEDERAL TAX ADJUSTMENT SURCHARGE RIDER**

11 **Summary of Your Recommendation in Direct Testimony**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
13 **FOR THE FEDERAL TAX ADJUSTMENT SURCHARGE (FTAS) RIDER.**

14 A. I recommended disallowance of the Company’s proposed FTAS rider in its  
15 entirety since the Company cannot say with certainty if or when an increase to the  
16 federal corporate income tax rate might ever take effect. Furthermore, I stated that  
17 the Commission and its advisory staff have very recently dealt with this issue in  
18 response to the reduction in the federal corporate income tax rate that took effect  
19 starting January 1, 2018 because of the Tax Cuts and Jobs Act (TCJA). Due to  
20 these recent changes, I indicated my belief that the Commission would provide  
21 adequate and timely guidance on a statewide basis to affected regulated utility if  
22 such a tax rate change occurs. Finally, I recommended that Aqua should await

1 such guidance, particularly since a tax rate change is merely speculative at this  
2 time.<sup>59</sup>

3  
4 **Q. DID YOU HAVE ANY ADDITIONAL SUGGESTIONS, IF THE**  
5 **COMMISSION DECIDES TO ALLOW THE FTAS?**

6 A. Yes. I mentioned, as a secondary recommendation, that it would be important for  
7 the Commission not to allow rate adjustments in a surcharge mechanism for  
8 excess accumulated deferred income tax (excess ADIT) changes as the Company  
9 has proposed.<sup>60</sup> I stated that those changes should only be allowed to occur in the  
10 Company's future base rate case after any potential future tax rate changes take  
11 effect like how TCJA changes were handled in base rate cases due to the absence  
12 of instruction on excess ADIT by the Commission in the Temporary Rates Orders  
13 at Docket No. M-2018-2641242 (Orders Entered March 15, 2018 and May 17,  
14 2018). This is because of the subjectivity of time periods for amortization of non-  
15 protected assets and the fact that they are not subject to the same IRS  
16 normalization rules as protected assets and that subjectivity is involved in  
17 determining periods to use for non-protected assets. However, I indicated that I  
18 strongly recommend the Company be required to await instructions from the  
19 Commission on a statewide basis if/when any potential future income tax rate  
20 changes occur.<sup>61</sup>

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<sup>59</sup> I&E Statement No. 1, p. 35.

<sup>60</sup> I&E Statement No. 1, p. 35 and AP Statement No. 8, pp. 16-17.

<sup>61</sup> I&E Statement No. 1, p. 36.

1            **Recent Relevant Commission Orders**

2    **Q.    HAVE THERE BEEN ANY RECENT COMMISSION ORDERS THAT**  
3            **COULD BE INTERPRETED TO CONTRADICT YOUR SECONDARY**  
4            **RECOMMENDATION AS STATED ABOVE?**

5    A.    Yes. There are a handful of recent Orders that could be interpreted to contradict  
6            my recommendation about handling excess ADIT in a base rate case and not in a  
7            surcharge mechanism. The associated utility names and docket numbers are as  
8            follows: Peoples Gas Company LLC (Peoples Gas) – Docket No. P-2021-  
9            3025898; Pennsylvania Power Company – Docket No. P-2021-3025904;  
10          Metropolitan Edison Company – Docket No. P-2021-3025905; Pennsylvania  
11          Electric Company – Docket No. P-2021-3025906; and West Penn Power  
12          Company – Docket No. P-2021-3025908.

13                 There is a common theme throughout the Orders for these regulated utilities  
14                 that have not filed a rate case within three years of the disposition of the  
15                 Temporary Rates Order.<sup>62</sup> That Order required such utilities to file a petition to  
16                 propose a just and reasonable disposition of the accumulated funds in the deferred  
17                 regulatory liability, and I will reference just one of the cases as an example since  
18                 the situations are identical as far as excess ADIT is concerned. The Commission  
19                 has recently stated that,

20                         Peoples Gas has not included tax savings associated with  
21                         excess accumulated deferred income taxes (EADIT) for the  
22                         January 1, 2018 to June 30, 2018 period. The Commission

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<sup>62</sup> Temporary Rates Order (Order Entered May 17, 2018), p. 24.

1 notes that it has previously approved petitions to refund TCJA-  
2 related tax savings for the period prior to July 1, 2018. The  
3 previous approvals included the flowback of EADIT. *See, e.g.,*  
4 *Petition of PPL Electric Utilities Corporation to Establish a*  
5 *Mechanism to Distribute the Tax Savings Associated with the*  
6 *TCJA for the Period Between January 1, 2018, and June 30,*  
7 *2018*, Docket No. P-2019-3013366 (Order entered Nov. 14,  
8 2019) (approving a proposal to distribute the tax savings  
9 associated with the 2018 Period utilizing the utility’s existing  
10 TCJA temporary surcharge mechanism) and *Petition of*  
11 *National Fuel Gas Distribution Corporation To Establish a*  
12 *Mechanism to Distribute the Tax Savings Associated with the*  
13 *TCJA for the Period Between October 1, 2017, and June 30,*  
14 *2018*, Docket No. P-2021-3025909 (Order Entered August 26,  
15 2021) (approving a proposal to distribute the tax savings  
16 associated with the 2018 Period utilizing the utility’s existing  
17 TCJA temporary surcharge mechanism).<sup>63</sup>

18 That same Peoples Gas Order further states that,

19 Peoples Gas states it has not flowed back EADIT to customers  
20 at this time as EADIT has not been part of the Company’s  
21 calculation of Rider TCJA since its inception. The Peoples  
22 Compliance Order did not specify that the Company should  
23 flow back EADIT to customers resulting from TCJA. As a  
24 result, Peoples Gas established a deferred regulatory liability  
25 related to the stub period.<sup>64</sup> It is the Company's position that  
26 because the TCJA mechanism approved by the Commission  
27 did not determine the treatment of excess deferred income tax  
28 balances, then the treatment of excess deferred income tax  
29 balances should be determined in the Company's next base rate  
30 case.<sup>65</sup>

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<sup>63</sup> *Petition of Peoples Gas Company LLC To Establish a Mechanism to Distribute the Tax Savings Associated with the TCJA for the Period Between January 1, 2018, and June 30, 2018* (Peoples Gas Order), Docket No. P-2021-3025898, Order Entered November 18, 2021, p. 4.

<sup>64</sup> *See* response to data request TUS-3 in that proceeding.

<sup>65</sup> Peoples Gas Order, p. 5, and *see* response to TUS-12 in that proceeding.

1 **Q. WHAT POINT IS MOST NECESSARY TO HIGHLIGHT RELATED TO**  
2 **THIS PEOPLES GAS ORDER?**

3 A. The Commission disagreed with Peoples Gas on this point stating that “tax savings  
4 should be flowed back to consumers on a current basis.”<sup>66</sup>

5  
6 **Q. DO YOU AGREE THAT EXCESS ADIT SHOULD ALWAYS BE FLOWED**  
7 **BACK THROUGH A RECONCILING SURCHARGE MECHANISM AS**  
8 **THE COMMISSION HAS MOST RECENTLY INDICATED?**

9 A. No. Neither of the Temporary Rates Orders at Docket No. M-2018-2641242  
10 (Orders Entered March 15, 2018 and May 17, 2018) or the referenced Order in the  
11 PPL Electric Utilities Corporation petition<sup>67</sup> instructed regulated utilities to handle  
12 excess ADIT as such, and every base rate case I have reviewed since January 1,  
13 2018 has handled excess ADIT determinations in the base rate proceeding,  
14 including ensuring that the period covered is January 1, 2018 onward, and that the  
15 appropriate periods are used to amortize protected and non-protected assets, since  
16 non-protected assets are not subject to the same IRS normalization rules as  
17 protected assets. Thus, companies are not required to use the Average Rate  
18 Assumption Method (ARAM) (or the Reverse South Georgia Method in the  
19 absence of necessary records to use ARAM) when determining ratemaking

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<sup>66</sup> Peoples Gas Order, p. 5.

<sup>67</sup> *Petition of PPL Electric Utilities Corporation to Establish a Mechanism to Distribute the Tax Savings Associated with the TCJA for the Period Between January 1, 2018, and June 30, 2018* (PPL Order), Docket No. P-2019-3013366 (Order Entered Nov. 14, 2019).

1 amortization periods for non-protected assets. In short, non-protected assets can  
2 be amortized over shorter (or longer) time periods and those time periods are  
3 subjective, not always matching from one regulated utility to the next, although  
4 periods used are commonly different than the expected useful remaining life of the  
5 assets depending on the situation.

6  
7 **Q. WHAT IS A DISTINGUISHING FACTOR BETWEEN THE CASES**  
8 **HIGHLIGHTED ABOVE AND THE CASES THAT CLAIMED EXCESS**  
9 **ADIT IN RATE FILINGS?**

10 A. The companies that have not filed rate cases within three years of the disposition  
11 of the May 17, 2018 Temporary Rates Order are different in that the Commission  
12 does not know when the next rate case will be filed. Thus, in those limited  
13 instances, I accept that the Commission wanted those companies to begin flowing  
14 back excess ADIT amounts to ratepayers; however, the Commission should be  
15 aware that this is not an ideal situation unless those companies specifically state  
16 how they determined the breakdown and number of years over which they  
17 amortize non-protected assets (for Commission advisory staff to determine  
18 reasonableness of such claims).

1 **Q. DO YOU BELIEVE THE MAJORITY OF REGULATED UTILITIES**  
2 **SHOULD HANDLE EXCESS ADIT AS THE COMMISSION SUGGESTS**  
3 **IN THE RECENT PEOPLES GAS ORDER AND THE OTHER SIMILAR**  
4 **ORDERS?**

5 A. No. For the statutory parties to examine the claims of the utilities, excess ADIT is  
6 best handled via claiming such amounts in a base rate proceeding, that is, unless  
7 the companies exceed a set reasonable timeframe for filing the next base rate case  
8 as the limited number of companies above have done.

9  
10 **Q. IS THERE ANOTHER POINT IN THE PEOPLES GAS ORDER THAT**  
11 **CONFLICTS WITH HOW EXCESS ADIT HAS BEEN HANDLED IN**  
12 **BASE RATE CASE PROCEEDINGS SINCE JANUARY 1, 2018?**

13 A. Yes. In the Peoples Gas Order the Commission states, “Furthermore, the  
14 Commission finds no plain language indicating that EADIT should be flowed back  
15 to customers at a different time.”<sup>68</sup>

16  
17 **Q. WHAT IS YOUR COMMENT REGARDING THE POINT QUOTED**  
18 **ABOVE?**

19 A. The absence of instructions in the Temporary Rates Orders related to the flow-

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<sup>68</sup> Peoples Gas Order, p. 6.



1 back of excess ADIT caused most affected utilities to address this issue in base  
2 rate filings.

3  
4 **Q. ARE THERE FURTHER INSTRUCTIONS IN RECENT COMMISSION**  
5 **ORDERS THAT CONFLICT WITH HOW EXCESS ADIT HAS BEEN**  
6 **HANDLED IN RATE PROCEEDINGS SINCE THE TCJA TOOK**  
7 **EFFECT?**

8 A. For companies (named above) that have not filed base rate cases within three years  
9 of the adoption of the May 17, 2018 Temporary Rates Order, the Commission is  
10 requiring “EADIT shall also accrue interest at the residential mortgage lending  
11 rate specified by the Secretary of Banking in accordance with the Loan Interest  
12 and Protection Law.”<sup>69</sup>

13 In contrast, the base rate cases filed with the Commission since January 1,  
14 2018, did not include an interest calculation in the return of excess ADIT to  
15 ratepayers.

16  
17 **Q. DO YOU HAVE ANY SUGGESTIONS ABOUT AN INTEREST**  
18 **COMPONENT FOR A POTENTIAL FTAS?**

19 A. Yes. An interest component for a reconcilable rider should be one-sided, if  
20 required at all. That is, the Commission should only require utilities to pay

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<sup>69</sup> Peoples Gas Order, p. 7.

1 interest to ratepayers for excess tax amounts due to be refunded to ratepayers to  
2 encourage companies to pass back refunds in the shortest timespan, practically  
3 speaking. However, such incentive is not needed when the situation is reversed,  
4 and if corporate federal income tax rates increase at some point in the future, I  
5 recommend that companies not be entitled to receive interest from ratepayers.

6 In the instant proceeding, it is my understanding that Aqua has not  
7 requested an interest component.

8  
9 **Company's Response to Your Direct Testimony**

10 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATIONS?**

11 A. Yes. AP witness Christine Saball responds with the following arguments:

12 (1) She disagrees with my assertion that a federal corporate tax rate increase is  
13 speculative/uncertain because President Biden and his administration include this  
14 as a part of Biden's agenda.

15 (2) She asserts that all Pennsylvania utilities would be affected which could make  
16 some rates no longer just and reasonable. She opines that the FTAS would  
17 function as a temporary mechanism if/when a federal income tax changes causes  
18 rates to no longer be just and reasonable.<sup>70</sup>

19 (3) She states that even if a tax rate change was highly unlikely, it would not be a  
20 reason to reject the proposed FTAS.<sup>71</sup>

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<sup>70</sup> AP Statement No. 8-R, p. 9.

<sup>71</sup> AP Statement No. 8-R, pp. 9-10.

1 (4) She expresses the opinion that different utilities experience different  
2 circumstances, and thus, a generic order could not accurately adjust rates for all  
3 utilities.<sup>72</sup>

4 (5) She expresses concern that the 2018 federal income tax rate change under the  
5 TCJA was a decrease, and that the Commission may view a tax rate increase  
6 differently, allowing only forward-looking recovery of increased tax amounts and  
7 causing the Company to file a subsequent rate case earlier than previously  
8 planned.<sup>73</sup>

9 (6) She argues with my recommendation that excess ADIT be handled via a future  
10 base rate proceeding by expressing concern about timing differences and the  
11 potential violation of federal tax requirements that require the return of deferred  
12 taxes via the ARAM method. However, she accepts that unprotected items could  
13 be addressed in a future proceeding.<sup>74</sup>

14  
15 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL'S FIRST POINT THAT A**  
16 **FEDERAL INCOME TAX RATE CHANGE IS NOT SPECULATIVE OR**  
17 **UNCERTAIN BECAUSE PRESIDENT BIDEN AND HIS**  
18 **ADMINISTRATION INCLUDE THIS AS A PART OF THE PRESIDENT'S**  
19 **AGENDA?**

20 **A.** Given the difficulties presented on a day-to-day basis between progressive and

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<sup>72</sup> AP Statement No. 8-R, pp. 9-10.

<sup>73</sup> AP Statement No. 8-R, p. 10.

<sup>74</sup> AP Statement No. 8-R, p. 11.

1 moderate Democrats and the challenges they encounter working together, not to  
2 mention lack of support by Republicans in the U.S. House and Senate, a federal  
3 income tax rate increase seems questionable at best.

4  
5 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL’S ASSERTION THAT**  
6 **ALL PENNSYLVANIA UTILITIES WOULD BE AFFECTED WHICH**  
7 **COULD MAKE SOME RATES NO LONGER JUST AND REASONABLE**  
8 **AND THAT THE PROPOSED FTAS WOULD BE UTILIZED AS A**  
9 **TEMPORARY MECHANISM IF/WHEN A FEDERAL INCOME TAX**  
10 **CHANGES CAUSES RATES TO NO LONGER BE JUST AND**  
11 **REASONABLE?**

12 A. I disagree with Ms. Saball’s assertion that the Company would only use the FTAS  
13 under limited circumstances if tax rates change. Furthermore, her point ignores  
14 the fact that the Commission’s 2018 Orders addressed the recent federal tax rate  
15 change timely and sufficiently without an FTAS being in place at regulated  
16 utilities, and I have confidence that the Commission would not act with bias if the  
17 situation reverses itself and the federal income tax rate increases.

18  
19 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL’S THIRD POINT THAT**  
20 **EVEN IF A TAX RATE CHANGE WAS HIGHLY UNLIKELY, IT WOULD**  
21 **NOT BE A REASON TO REJECT THE PROPOSED FTAS?**

22 A. I disagree with this point, because under those circumstances, an FTAS is simply

1 unnecessary.

2 Furthermore, Ms. Saball fails to acknowledge the differences between the  
3 handling of federal and state income taxes for ratemaking purposes. Utilities are  
4 generally required to use flow through treatment for state income tax purposes  
5 which aligns more appropriately to the availability of a permanent state tax  
6 adjustment surcharge mechanism since flow through treatment allows tax benefit  
7 items (such as accelerated bonus depreciation) to be reflected immediately in  
8 determining utility rates. In contrast, federal income taxes are claimed via  
9 normalization accounting for ratemaking which allows for more taxes to be  
10 claimed in rates than a utility will pay in a year when deferred income taxes are  
11 recorded for amounts to be paid in the future. Thus, regardless of whether a tax  
12 rate change is highly unlikely or not, the proposed FTAS should be rejected.

13

14 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL’S FOURTH POINT THAT**  
15 **DIFFERENT UTILITIES EXPERIENCE DIFFERENT**  
16 **CIRCUMSTANCES, AND THUS, A GENERIC ORDER COULD NOT**  
17 **ACCURATELY ADJUST RATES FOR ALL UTILITIES?**

18 A. This opinion is flawed, because the Commission has in fact very recently  
19 addressed major tax reform via statewide “generic orders.”

1 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL’S FIFTH POINT THAT**  
2 **THE 2018 FEDERAL INCOME TAX RATE CHANGE UNDER THE TCJA**  
3 **WAS A DECREASE, AND THAT THE COMMISSION MAY VIEW A TAX**  
4 **RATE INCREASE DIFFERENTLY?**

5 A. It seems that Ms. Saball is concerned that the Commission may not allow  
6 companies similar treatment to its prior TCJA-related orders, capturing differences  
7 back to the effective date of any tax rate change. I believe the Commission would  
8 act in a consistent manner, allowing such treatment, and that Ms. Saball’s  
9 concerns are unsupported and unfounded.

10 In contrast, I would argue that the Company is proposing inconsistent  
11 treatment for its proposed FTAS since it has over recent years been using flow  
12 through treatment for ratemaking purposes for its repairs deduction<sup>75</sup> and is not  
13 volunteering to flow those federal tax benefits back through its proposed FTAS  
14 between rate cases. If the Commission decides to allow an FTAS mechanism in  
15 this proceeding, handling of the repairs deduction benefit should also be flowed  
16 back to ratepayers through the FTAS between cases.

---

<sup>75</sup> AP Statement No. 8-R, p. 2.

1 **Q. WHAT IS YOUR RESPONSE TO MS. SABALL’S SIXTH POINT**  
2 **RELATED TO A CONCERN ABOUT TIMING DIFFERENCES AND THE**  
3 **POTENTIAL VIOLATION OF FEDERAL TAX REQUIREMENTS THAT**  
4 **REQUIRE THE RETURN OF DEFERRED TAXES VIA THE ARAM**  
5 **METHOD?**

6 A. If what Ms. Saball is suggesting is accurate, that ratemaking and tax treatment  
7 must match in every instance, the Commission would not have allowed the prior  
8 delays for ratemaking treatment of the TCJA-related income tax rate change. To  
9 the contrary, a delay in recovery of tax amounts in rates or a delay in returning  
10 previously collected excess tax amounts (as was the case with the TCJA) does not  
11 cause income tax filing violations. However, as I explained above, the  
12 Commission’s initial handling of excess ADIT in the 2018 Orders was different  
13 than the recently issued orders related to utilities that have not yet filed rate cases  
14 since the TCJA was enacted. This is a moot point if the Commission decides to  
15 adopt my recommendation to deny the Company’s proposed FTAS in its entirety.

16  
17 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION AS**  
18 **STATED IN DIRECT TESTIMONY?**

19 A. No. I continue to recommend disallowance of the Company’s proposed FTAS.  
20 However, if the Commission decides against my recommendation and allows the  
21 claimed FTAS, it should require that excess ADIT be addressed in future rate

1 filings and that the Company be required to routinely flow its repair deduction  
2 benefits through the FTAS between base rate filings.

3  
4 **REGULATORY ASSET TREATMENT FOR COVID-19 RELATED**

5 **UNCOLLECTIBLES**

6 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
7 **FOR REGULATORY ASSET TREATMENT OF COVID-19 RELATED**  
8 **UNCOLLECTIBLES WITH NO DEFINITIVE END DATE FOR THE**  
9 **DEFERRAL PRIOR TO THE FILING OF A SUBSEQUENT BASE RATE**  
10 **CASE.**

11 A. I recommended that the Company provide support for its regulatory asset amount  
12 accumulated to date in rebuttal testimony and that the Company begin amortizing  
13 the balance in the instant proceeding over a three-year period consistent with its  
14 rate case expense frequency and in line with Aqua's intention to file its next base  
15 rate case in 2024. Since the Company refused to provide a meaningful response to  
16 I&E-RE-57-D, I could not verify the underlying support for its accumulated  
17 balance of \$5,695,030. Furthermore, I stated, the Company needs to provide a  
18 breakdown for the requested deferral *for all separate revenue requirements*  
19 presented in this proceeding. Until adequate supporting documentation is  
20 provided, I recommended that the Company's request be denied in its entirety.  
21 Furthermore, regardless of what support the Company may provide in rebuttal  
22 testimony, I recommended that the Company be required to discontinue recording



1 a regulatory asset for COVID-19 related incremental uncollectible expense after  
2 the effective date of new rates for this proceeding. Upon the effective date of new  
3 rates for this proceeding, the Company has the information available to have a new  
4 uncollectible percentage built into the rate formula that incorporates recent  
5 changes due to COVID-19.<sup>76</sup>

6  
7 **Q. WHAT WAS THE BASIS OF YOUR RECOMMENDATION?**

8 A. First, as stated above, the Company declined to provide support for its stated  
9 \$5,695,030 regulatory asset balance including but not limited to a breakdown  
10 between the different revenue requirements in this proceeding.<sup>77</sup> Secondly, the  
11 continued tracking of incremental uncollectible expense beyond the effective date  
12 of new rates in this proceeding is not appropriate and should not be necessary  
13 since the Company has multiple years of actual historic experience that could  
14 incorporate the higher COVID-19 related year of 2020 into a routine uncollectible  
15 expense claims.<sup>78</sup>

16 Finally, I mentioned the Commission's Order in the Pennsylvania-American  
17 Water Company (PAWC) petition case at Docket No. P-2020-3022426 (Order  
18 Entered September 15, 2021) where the Commission did not set a hard cutoff date  
19 for the accumulation of COVID-19 pandemic-related deferrals, distinguishing the  
20 difference between that utility and Aqua. The difference is that PAWC has not yet

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<sup>76</sup> I&E Statement No. 1, p. 39.

<sup>77</sup> I&E Exhibit No. 1, Schedule 7.

<sup>78</sup> I&E Statement No. 1, pp. 39-40.

1 filed a base rate case since its request for deferral treatment; thus, a cutoff of the  
2 effective date of new rates in this proceeding is the appropriate cutoff.<sup>79</sup> Such a  
3 cutoff may potentially even be overstated due to the proposed implementation of a  
4 Universal Service Plan in this proceeding.<sup>80</sup>

5  
6 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

7 A. Yes. Aqua witness William Packer disagrees with my recommendation to cease  
8 accrual of the regulatory asset upon the effective date of new rates in this  
9 proceeding. Instead, he says the Company wants to allow more time for  
10 uncollectibles realized in 2020 to stabilize and return to normal in 2021 and  
11 possibly fully mitigate with a slower recovery.<sup>81</sup> He states that the Company is  
12 looking for no time value of money related to the deferrals, thus, shareholders are  
13 funding these cash needs currently. He also states that I mentioned Aqua will  
14 have an unmitigated, ever-growing deferral.

15  
16 **Q. IN YOUR DIRECT TESTIMONY DID YOU EXPRESS BELIEF**  
17 **CONCERNING AN UNMITIGATED AND EVER-GROWING DEFERRAL**  
18 **AS STATED BY MR. PACKER?**

19 A. No. He is exaggerating my position. In direct testimony I simply recommended  
20 discontinuation of the deferral upon the effective date of new rates in this

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<sup>79</sup> I&E Statement No. 1, pp. 39-42.

<sup>80</sup> I&E Statement No. 1, p. 42.

<sup>81</sup> AP Statement No. 1-R, p 7.

1 proceeding to maintain the ability to see the impact of the pandemic on  
2 uncollectibles moving forward and to allow the Company to begin recovery of the  
3 deferral in a timely manner.  
4

5 **Q. ARE THERE ANY REASONS WHY YOU CANNOT COMPUTE AN**  
6 **ACCURATE AMOUNT TO BEGIN DEFERRING ON BEHALF OF THE**  
7 **COMPANY?**

8 A. Yes. I have no way to compute an accurate uncollectibles rate for what would be  
9 routine uncollectibles that reflects a higher percentage of uncollectibles for 2020  
10 and possibly 2021 (allowing for a higher FPFTY claim for uncollectibles) since  
11 the Company has reflected an unrealistic uncollectible percentage of 0.51224% in  
12 its filing.<sup>82</sup> Thus, there is no way to see the true impact of the pandemic when  
13 looking at the three-year historic percentages for uncollectibles. Additionally, as  
14 stated in direct testimony, the Company has refused to provide a breakdown for  
15 the requested deferral for all separate revenue requirements in this proceeding<sup>83</sup>  
16 (i.e., Water, Wastewater Base, Limerick Wastewater, East Bradford Wastewater,  
17 Cheltenham Wastewater, East Norriton Wastewater, and New Garden  
18 Wastewater), and the breakdown he provided in rebuttal testimony only breaks  
19 down the amounts by Water and Wastewater which is not sufficient for me to  
20 make a recommendation.<sup>84</sup>

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<sup>82</sup> AP Exhibit No. 1-A, Schedule C-4.2.

<sup>83</sup> I&E Statement No. 1, p. 39.

<sup>84</sup> AP Exhibit WCP-1-R.

1 **Q. WHAT WOULD YOUR RECOMMENDATION BE FOR**  
2 **AMORTIZATION OF THE COVID-19 RELATED UNCOLLECTIBLES**  
3 **DEFERRAL BASED ON THE INFORMATION MR. PACKER WAS**  
4 **WILLING TO PROVIDE?**

5 A. My recommended amortization of the deferred balance through September 2021<sup>85</sup>  
6 would be \$1,567,547 (4,702,640 ÷ 3 years) for Water and \$38,404 (\$115,212 ÷  
7 3 years) for Wastewater Base, based on a three-year amortization consistent with  
8 the Company's rate case normalization period. The balance that would  
9 accumulate from October 1, 2021 through the effective date of new rates would  
10 need to be amortized in the next base rate proceeding. However, after further  
11 consideration due to the lack of a breakdown for all revenue requirements, I am  
12 not recommending amortization begin at this time.

13  
14 **Q. WHY ARE YOU RECOMMENDING THAT THE COVID-19 RELATED**  
15 **DEFERRAL OF AQUA'S UNCOLLECTIBLES BE DELAYED?**

16 A. Upon further consideration, based on Mr. Packer's assertion that the COVID-19  
17 related uncollectibles are declining since the Company has been permitted to  
18 resume collection activities, and that the Company expects this declining trend to  
19 continue which would reduce the impact on ratepayers,<sup>86</sup> I withdraw my original  
20 recommendation as presented in direct testimony.

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<sup>85</sup> AP Exhibit WCP-1-R.

<sup>86</sup> AP Statement No. 1-R, pp. 7-8.

1 **Q. WHAT ARE YOU RECOMMENDING?**

2 A. I recommend that the Company be required to track further COVID-19 related  
3 reductions to uncollectibles by Water and the individual Wastewater revenue  
4 requirements and that the balances be claimed in the next rate filing which is  
5 anticipated to be filed in 2024, that the Company propose amortization of the  
6 balance at that time over a period of years to be claimed in the next rate  
7 proceeding, and that the Company be allowed to claim no interest or any time  
8 value of money component associated with the delay. Also, I recommend that the  
9 Company be allowed to claim no increases to COVID-19 related uncollectibles  
10 beyond the effective date of new rates in this proceeding, particularly since Aqua  
11 has expressed that its motivation in delaying the amortization of the balance is to  
12 mitigate the impact on ratepayers.<sup>87</sup> Any new increases to the COVID-19 related  
13 uncollectibles should not be recoverable in a future proceeding. The Company  
14 had an opportunity to true up its uncollectible percentage in this proceeding, which  
15 is the first base rate case the Company has filed since the Commission instructed  
16 utilities to track the COVID-19 related uncollectible balance in a regulatory asset,  
17 but it did not.

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<sup>87</sup> AP Statement No. 1-R, pp. 8-9.

1 **Q. IS MR. PACKER’S COMPARISON TO PAWC RELEVANT IN THIS**  
2 **PROCEEDING?**

3 A. No. The Commission issued a recent order stating it would not require a hard cut-  
4 off date for uncollectibles in that proceeding,<sup>88</sup> but as explained in my direct  
5 testimony,<sup>89</sup> PAWC has not filed a rate case yet since it was required to begin  
6 tracking the COVID-19 related uncollectibles in a regulatory asset. Comparing  
7 PAWC to Aqua at this point is like comparing apples to oranges since Aqua is  
8 now involved in a base rate proceeding. Therefore, I recommend that Aqua not be  
9 allowed to continue deferring COVID-19 related uncollectible increases after the  
10 effective date of new rates in this proceeding as explained in my recommendation  
11 above.

12  
13 **UNIVERSAL SERVICE PLAN**

14 **Q. SUMMARIZE YOUR RECOMMENDATIONS MADE IN DIRECT**  
15 **TESTIMONY FOR THE COMPANY’S PROPOSED UNIVERSAL**  
16 **SERVICE PLAN.**

17 A. First, I recommended that the Company be required to perform income  
18 verifications to admit participants into the programs to ensure legitimacy of

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<sup>88</sup> Petition of Pennsylvania-American Water Company for Authorization to Defer, and Record as a 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 entered September 15, 2021).

<sup>89</sup> I&E Statement No. 1, p. 41.

1 applicants and minimize misuse. Even though another company (PAWC) might  
2 not require income verification, that does not justify Aqua's request. In contrast,  
3 the Peoples companies do require income verification and are commonly owned  
4 by Essential Utilities. To minimize abuse of the Plan and to minimize harm to  
5 ratepayers who fund it, I recommended that income verification be required.<sup>90</sup>

6 Secondly, I recommended that the Company be required to demonstrate  
7 effort is made to encourage participants to take advantage of the Federal Low-  
8 Income Household Water Assistance Program (LIHWAP) funds made available  
9 via the American Rescue Plan.<sup>91</sup> My recommendation was that the Commission  
10 require the Company to track funds by year on a per-customer level through the  
11 end of the program to ensure funds are properly applied and to avoid duplicating  
12 reductions in the Helping Hand program. I recommended that this information be  
13 reported in the Company's next base rate case filing.<sup>92</sup> This will be necessary to  
14 show that ratepayers are encouraged to participate in the program and that  
15 duplicate charges to customer-funded programs do not occur.<sup>93</sup>

16  
17 **Q. DID YOU MAKE ANY OTHER RECOMMENDATIONS IN YOUR**  
18 **DIRECT TESTIMONY?**

19 **A.** Yes. Consistent with the Motion of Vice Chairman John F. Coleman, Jr. made

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<sup>90</sup> I&E Statement No. 1, pp. 45-57.

<sup>91</sup> I&E Statement No. 1, p. 45.

<sup>92</sup> I&E Statement No. 1, p. 48.

<sup>93</sup> I&E Statement No. 1, pp. 48-49.

1 recently at the October 28, 2021 Public Meeting, I recommended that Aqua  
2 “...should monitor available federal and state assistance programs and notify  
3 customers of all available sources of aid.”<sup>94</sup> I stated that all utilities should agree  
4 to do so to maximize ratepayers’ participation in state and federal programs and  
5 minimize the burden of increased rates due to the proposed Universal Service  
6 Plan.<sup>95</sup>

7  
8 **Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION?**

9 A. Yes. CAUSE-PA witness Harry Geller (CAUSE-PA Statement No. 1-R) and  
10 Aqua witness Rita Black (AP Statement No. 10-R) disagree with my  
11 recommendation for income verification requirements if Aqua’s proposed  
12 customer assistance plan (CAP) is approved.

13  
14 **CAUSE-PA Witness Geller’s Response**

15 **Q. SUMMARIZE MR. GELLER’S DISAGREEMENT WITH INCOME**  
16 **VERIFICATION REQUIREMENTS.**

17 A. Mr. Geller asserts that providing income documentation will hamper low-income  
18 customers’ ability to successfully enroll and remain in CAP.<sup>96</sup> He further  
19 expresses concern that such requirements will get in the way of successful

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<sup>94</sup> 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.

<sup>95</sup> I&E Statement No. 1, p. 49.

<sup>96</sup> CAUSE-PA Statement No. 1-R, pp. 3 and 5.



1 implementation of the plan and prevent low-income customers from achieving bill  
2 affordability.<sup>97</sup>

3 He asserts that the Company has proposed to use self-declared income to  
4 verify eligibility and in line with the Helping Hand program, CAP participants  
5 would not have to recertify income by submitting documentation.<sup>98</sup> Additionally,  
6 he asserts that I have not presented evidence that the program would be abused  
7 without income verification.<sup>99</sup>

8  
9 **Q. WHAT IS YOUR RESPONSE TO MR. GELLER'S REBUTTAL**  
10 **TESTIMONY IN INCOME VERIFICATION?**

11 A. The existing Helping Hand program has not historically been funded (until this  
12 current proposal) via involuntary ratepayer funding. The proposed significant  
13 changes to the Helping Hand program in this proceeding, making it a ratepayer  
14 funded benefit under the USP should require the Commission to address necessary  
15 changes to that program to ensure that ratepayers are not harmed by abuse of the  
16 program. Similarly, I continue to recommend that income verification for the USP  
17 be required. The Company would not roll out a CAP without sufficient outreach  
18 to customers about its availability; thus, I believe comparing participation rates in  
19 the smaller scale existing Helping Hand program is ill advised. Furthermore, in  
20 contrast to his assertion that I have not presented evidence of abuse of a plan that

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<sup>97</sup> CAUSE-PA Statement No. 1-R, p. 3.

<sup>98</sup> CAUSE-PA Statement No. 1-R, pp. 4-5.

<sup>99</sup> CAUSE-PA Statement No. 1-R, p. 4.

1 is not even rolled out yet, Mr. Geller has not presented evidence that without  
2 proper income verification the proposed CAP will *not* be abused. Income  
3 verification is a valid method to ensure that the ratepayers who qualify for the  
4 assistance are the ones that receive it.

5 In summary, I continue to recommend that income verification be required  
6 for this proposed electric/gas equivalent full-scale plan, and that Mr. Geller's  
7 proposed "Helping Hand Collaborative"<sup>100</sup> be rejected.

8  
9 **Aqua Witness Black's Response**

10 **Q. SUMMARIZE MS. BLACK'S RESPONSE TO YOUR**  
11 **RECOMMENDATION.**

12 A. Ms. Black stated the Company's proposed USP does not require income  
13 verification because discount water programs typically do not require income  
14 documentation for participation which she asserts is a barrier enrollment. She  
15 states that Dollar Energy Fund (DEF) will administer Aqua's CAP if approved,  
16 that DEF also administers the Peoples Companies' (Peoples) CAP but that Peoples  
17 does require income verification. She also states that the cost of DEF's  
18 administration will increase if income verification is required.<sup>101</sup>

19 She disagrees that abuse of the program will occur if no income verification  
20 is required, pointing to steps taken during the pandemic by the Commission to

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<sup>100</sup> CAUSE-PA Statement No. 1-R, pp. 6-7.

<sup>101</sup> AP Statement No. 10-R, pp. 3-4.

1 reduce barriers to participation, for example, encouraging self-attestation of  
2 income for enrollment and encouraging utilities to halt the process of removing  
3 customers for failure to recertify income.<sup>102</sup>

4 Finally, she says that fraud happens sometimes regardless, but she believes  
5 that the number of individuals who would illegitimately enroll would be very  
6 small (providing no specific support for this belief), mentioning that people can  
7 also withhold certain income documentation to avoid ineligibility. However,  
8 Aqua would continue to review and monitor necessary requirements for  
9 participation.<sup>103</sup>

10  
11 **Q. WHAT IS YOUR RESPONSE TO MS. BLACK’S ASSERTION THAT**  
12 **DISCOUNT WATER PROGRAMS TYPICALLY DO NOT REQUIRE**  
13 **INCOME DOCUMENTATION FOR PARTICIPATION WHICH SHE**  
14 **ASSERTS IS A BARRIER ENROLLMENT?**

15 A. In the words of Ms. Black, “other water utilities ... have not implemented  
16 programs as robust as energy utility CAPs or Aqua PA’s proposal.”<sup>104</sup> I  
17 personally know of no other water or wastewater company in the Commonwealth  
18 that has a low-income program of this proposed scope or size. The proposed USP  
19 in this proceeding is neither comparable to nor should be compared to other  
20 Pennsylvania water/wastewater low-income assistance program for this reason.

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<sup>102</sup> AP Statement No. 10-R, p. 4.

<sup>103</sup> AP Statement No. 10-R, p. 4.

<sup>104</sup> AP Statement No. 10-R, p. 13.

1 Since she implies there is a significant increase in cost for income verification,  
2 Ms. Black should be required to provide approximate cost detail to the  
3 Commission prior to any approval of the proposed plan but before the close of the  
4 record in this proceeding.

5  
6 **Q. WHAT IS YOUR RESPONSE TO MS. BLACK’S POINT MADE**  
7 **REGARDING STEPS TAKEN DURING THE PANDEMIC BY THE**  
8 **COMMISSION TO REDUCE BARRIERS TO PARTICIPATION?**

9 A. My understanding was that relaxation of those requirements by the Commission  
10 was temporary and never intended to be a permanent change. For example, UGI  
11 Utilities, Inc. – Gas Division had the first base rate case in house when the  
12 COVID-19 pandemic started in 2020, and a temporary Emergency Relief Program  
13 (ERP) was agreed to by the parties in settlement. As a part of that settlement, the  
14 parties agreed and the Commission allowed the ERP “to provide billing relief  
15 and/or payment relief for customers who need temporary relief measures during  
16 the pendency, and for a limited time following, the termination of the PUC  
17 Emergency Order....”<sup>105</sup>

18 Additionally, in a related UGI Utilities Inc. – Gas and Electric Divisions  
19 proceeding, Chairman Gladys Brown Dutrieuille noted the *expiration of lifting*  
20 *such restrictions on April 30, 2021*, for “[a]ccepting self-verification of income for

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<sup>105</sup> PA Public Utility Commission et. al. vs. UGI Utilities, Inc. – Gas Division at Docket No. R-2019-3015162, Commission Order, Paragraph 17 (Order Entered October 8, 2020).

1 customer assistance program (CAP) eligibility and CAP payment determinations”  
2 and “[s]uspending CAP recertification requirements through April 30, 2021.”<sup>106</sup>

3 Ms. Black has cited no instances where the Commission has lifted such  
4 restrictions on a permanent nature for CAP programs. Therefore, her assertion  
5 should be disregarded.

6  
7 **Q. PLEASE CONTINUE.**

8 A. In response to Ms. Black’s assertion that “[t]he Peoples Companies allowed  
9 customers to enroll in its CAP without providing income documentation during  
10 the pandemic protection period and allowed them to remain without removal for  
11 failure to provide income documentation to recertify eligibility”, she clearly  
12 indicates in her own rebuttal testimony that this lifting of the income verification  
13 requirement was temporary.<sup>107</sup>

14  
15 **Q. SUMMARIZE MS. BLACK’S RESPONSE RELATED TO THE**  
16 **UPCOMING AVAILABILITY OF LIHWAP FUNDS.**

17 A. Ms. Black states that Aqua will reach out to customers to let them know about  
18 LIHWAP and to encourage participation, and that it will apply the payments as  
19 necessary to customers’ bills.<sup>108</sup>

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<sup>106</sup> UGI Utilities, Inc. – Gas Division and UGI Utilities, Inc. – Electric Division, Docket Nos. P-2021-3023839, P-2021-3023992, and M-2019-3014966, Statement of Chairman Gladys Brown Dutrieuille, p. 1, October 28, 2021.

<sup>107</sup> AP Statement No. 10-R, p. 4.

<sup>108</sup> AP Statement No. 10-R, p. 15.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION**  
2 **FROM DIRECT TESTIMONY RELATED TO THE COMPANY’S**  
3 **PROPOSED USP?**

4 A. Yes. I have one slight modification, and that is the Company should be required  
5 to estimate additional costs and provide support for such costs associated with  
6 income verification as mentioned above and any additional program or  
7 administrative costs associated with recommendations made by the OCA and/or  
8 CAUSE-PA to which the Company is agreeing in rebuttal testimony. The  
9 Company should be required to show a list of costs (identifying whether they are  
10 intended to be recovered via the USP rider or in base rates) as claimed in the rate  
11 filing and a corresponding list of costs with a similar breakdown showing updated  
12 projected costs as they now stand, before the close of the record in this proceeding  
13 so the Commission can make an informed decision.

14 Other than that additional recommendation, my recommendation conveyed  
15 in direct testimony has not changed. I continue to recommend that the Company  
16 be required to perform income verifications to admit participants into the  
17 programs to ensure legitimacy of applicants and minimize misuse, and I continue  
18 to recommend that the Company be required to demonstrate effort is made to  
19 encourage participants to take advantage of the Federal Low-Income Household  
20 Water Assistance Program (LIHWAP) funds made available via the American  
21 Rescue Plan and any other new or existing funding that may reduce the burden on  
22 ratepayers.

1 **ENERGY COST ADJUSTMENT MECHANISM**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**  
3 **FOR THE COMPANY’S PROPOSED ENERGY COST ADJUSTMENT**  
4 **MECHANISM (ECAM).**

5 A. I disagreed with the proposed ECAM and recommended that the reconciling rider  
6 for routine O&M expenses (gas and electric expenses for a water company) be  
7 disallowed.<sup>109</sup> I explained that allowing such recovery would reduce the incentive  
8 for a company to control costs, regardless of Mr. Henkel’s assertion to the  
9 contrary,<sup>110</sup> and stated that an ECAM would reduce incentive for the Company to  
10 minimize its energy usage and minimize costs via shopping/negotiating for lower  
11 rates. I also noted that no other water or wastewater company in Pennsylvania to  
12 my knowledge has been granted similar recovery. Furthermore, I mentioned that  
13 I&E witness Esyan Sakaya also disagreed with the Company’s request for an  
14 ECAM.<sup>111</sup>

15  
16 **Q. WHAT OTHER POINTS DID YOU MAKE TO DEFEND YOUR**  
17 **RECOMMENDATION?**

18 A. First, I refuted Mr. Henkel’s comparison to gas and electric companies which have  
19 reconcilable riders for purchased energy costs and his assertion that these

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<sup>109</sup> I&E Statement No. 1, pp. 50-51.

<sup>110</sup> AP Statement No. 4, p. 6.

<sup>111</sup> I&E Statement No. 3, pp. 19-26.

1 companies continue to focus on controlling their energy costs<sup>112</sup> by stating that gas  
2 and electric companies purchase gas and electric commodities for resale to their  
3 customers as pass-through charges on which the Company earns no profit and no  
4 base rate recovery. This purchase and cost recovery mechanism is substantially  
5 different from Aqua’s proposal where the energy costs subject to the proposed  
6 rider are simply O&M expenses that the Company incurs while providing water  
7 and wastewater service to customers. These are two very different situations and  
8 Mr. Henkel’s attempt to use gas and electric distribution companies’ commodity  
9 purchase and reconciliation requirements to support his claim for reconciliation of  
10 an ordinary O&M expense is unsupported.

11 Secondly, I disagreed with Company witness Henkel’s assertion that the use  
12 of an ECAM for Aqua is encouraged by the Commission under Section 1307(e) by  
13 stating I am not aware of the Commission encouraging water companies to use  
14 Section 1307(e) for recovery of routine O&M expenses.<sup>113</sup>

15 Third, I mentioned that Company witness Christopher Henkel indicated  
16 that, “[a]ccording to the PUC website, the Bureau of Audits currently verifies the  
17 energy costs of gas, steam-heat, and certain electric utilities...”<sup>114</sup> Likewise,  
18 Aqua proposes to add to the workload of the Commission’s Bureau of Audits by  
19 adding verification of the rider addressing these routine O&M expenses (i.e., gas

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<sup>112</sup> I&E Exhibit No. 1, Schedule 12.

<sup>113</sup> I&E Statement No. 1, p. 52.

<sup>114</sup> I&E Exhibit No. 1, Schedule 12.



1 and electric expense).<sup>115</sup> Not only would it add to the Bureau of Audits' workload,  
2 it would change the way claimed gas and electric expenses are reviewed and  
3 verified in Aqua's rate filings, making the process more complicated.

4 Finally, I explained that the Company's request for an ECAM is not  
5 consistent between the water and wastewater filings.<sup>116</sup> The proposed ECAM  
6 would only apply to the Water tariff.<sup>117</sup> I stated that the difference in treatment  
7 between water and wastewater customers in this proceeding is problematic in that  
8 either the Company will inappropriately use the Water Tariff to reconcile  
9 wastewater expenses, or the Company will simply treat water and wastewater  
10 customers unequally.

11  
12 **Q. WHAT WAS YOUR MAIN CONCERN POINTED OUT IN DIRECT**  
13 **TESTIMONY WITH RESPECT TO THE PROPOSED ECAM?**

14 A. I explained that my main concern is the proposal to recover routine O&M  
15 expenses via a reconcilable rider. I asserted this is inappropriate and that the  
16 proposed ECAM should be rejected in its entirety.<sup>118</sup>

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<sup>115</sup> I&E Statement No. 1, pp. 52-53 and Tariff Water-PA P.U.C. No. 3, p. 36, Issued: August 20, 2021, Effective: October 19, 2021.

<sup>116</sup> I&E Statement No. 1, p. 53.

<sup>117</sup> Tariff Water-PA P.U.C. No. 3, pp. 35-36, Issued: August 20, 2021, Effective: October 19, 2021.

<sup>118</sup> I&E Statement No. 1, p. 53.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION THAT**  
2 **THE ECAM BE DISALLOWED?**

3 A. Yes. Aqua witness Christopher Henkel disagrees with my recommended  
4 disallowance of the proposed ECAM.

5  
6 **Q. WHAT ARE THE POINTS MR. HENKEL MAKES RELATED TO THE**  
7 **PROPOSED ECAM TO WHICH YOU ARE RESPONDING HEREIN.**

8 A. He argues that the proposed ECAM should qualify as an exception to the general  
9 prohibition of single-issue ratemaking, he points to the state tax adjustment  
10 surcharge mechanism and recent similar mechanisms used by utilities to flow back  
11 money associated with tax reductions due to enactment of the TCJA to support his  
12 claim, he opines that the approval of an ECAM would cause greater Commission  
13 review and not a deprivation of the Commission's authority to assure costs are  
14 prudently incurred, and he points to quarterly earnings reports that Aqua submits  
15 to the Commission as a mechanism to ensure the Company is not over-earning.<sup>119</sup>

16  
17 **Q. PLEASE EXPAND UPON MR. HENKEL'S ASSERTION THAT THE**  
18 **COMPANY'S PROPOSAL WOULD NOT VIOLATE THE PRINCIPAL OF**  
19 **SINGLE-ISSUE RATEMAKING.**

20 A. He argues that it does not violate the principal of single-issue ratemaking because

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<sup>119</sup> AP Statement No. 4-R, pp. 2-4.

1           there are instances where other utilities are permitted to pass certain costs through  
2           a rider or surcharge, he is advised by Aqua counsel that such mechanisms are  
3           authorized under Section 1307 of the Public Utility Code as exceptions to the  
4           prohibition of single-issue ratemaking, and that the Company believes it has  
5           established the criteria typically considered to allow such a mechanism.<sup>120</sup>

6  
7   **Q.   WHAT IS YOUR RESPONSE TO MR. HENKEL’S ARGUMENT**  
8   **RELATED TO SINGLE-ISSUE RATEMAKING?**

9   A.   Mr. Henkel fails to clearly explain how his claim for recovery of a routine  
10   operating expense would be appropriate. He ignores the fact that the other utilities  
11   to which he referred in direct testimony are energy companies, and those energy  
12   costs are pass-through gas and electric commodity costs, not expenses for energy  
13   consumed by those utilities in routine operations. If the Commission approves the  
14   ECAM, it will likely be faced with future claims for adjustment mechanisms for  
15   additional operating expenses that are subject to normal fluctuations like all  
16   expenses that are a part of routine operations for the Company. As for any  
17   violation of the principal of single-issue ratemaking, I&E counsel will respond to  
18   issues of legality in brief.

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<sup>120</sup> AP Statement No. 4-R, p. 2.

1 **Q. WHAT IS YOUR RESPONSE TO USE OF THE STATE TAX**  
2 **ADJUSTMENT SURCHARGE (STAS) AND RECENT SIMILAR**  
3 **MECHANISMS USED TO FLOW BACK MONEY ASSOCIATED WITH**  
4 **TCJA-RELATED TAX REDUCTIONS AS SUPPORT FOR AN ECAM?**

5 A. Mr. Henkel’s reference to tax adjustments is misplaced in that the Commission  
6 determined TCJA-related tax changes were extraordinary. Further, when the  
7 STAS was codified, it was in response to tax changes that were implemented with  
8 retroactive impact in 1969 and 1970;<sup>121</sup> these changes were deemed to be of a  
9 substantive and volatile nature with potential impact to utilities’ ability to earn a  
10 fair return, so it, also, was historically based on an event that was considered  
11 extraordinary at the time. Additionally, tax rate changes differ substantially from  
12 gas and electric expense incurred during routine business operations in that  
13 utilities can shop for or negotiate contracts with gas and electric providers to  
14 obtain the lowest available rates thus there is some element of control over the  
15 cost.

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<sup>121</sup> <http://www.pacodeandbulletin.gov/Display/pacode?file=/secure/pacode/data/052/chapter69/s69.52.html&d=reduce>,  
accessed December 13, 2021.

1 **Q. PLEASE RESPOND TO THE ASSERTION THAT THE APPROVAL OF**  
2 **AN ECAM WOULD CAUSE GREATER COMMISSION REVIEW AND**  
3 **NOT A DEPRIVATION OF THE COMMISSION’S AUTHORITY TO**  
4 **ASSURE COSTS ARE PRUDENTLY INCURRED.**

5 A. It is unclear how reviewing a single O&M expense without the context of other  
6 expenses that may be simultaneously increasing or decreasing constitutes greater  
7 Commission review and oversight. If the Commission agrees that routine gas and  
8 electric expenses incurred by a water/wastewater utility are, in fact, so volatile that  
9 these individual expenses should be reconcilable and allows the proposed ECAM,  
10 it would have to set the standards for review and reconciliation with the Bureau of  
11 Audits and it would have to reconcile how the ECAM is treated for base rate  
12 purposes. However, Aqua is asking the Commission to undertake a substantive  
13 audit and implementation task for a routine O&M expense that has been  
14 demonstrated by I&E witness Eryan Sakaya to represent a minimal portion of the  
15 overall O&M expenses incurred by the Company.<sup>122</sup>

16  
17 **Q. PLEASE RESPOND TO MR. HENKEL’S REFERENCE TO QUARTERLY**  
18 **EARNINGS REPORTS AS A WAY TO CONTROL COSTS FLOWED**  
19 **THROUGH AN ECAM.**

20 A. Even the mere mention of quarterly earnings reports that Aqua submits to the

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<sup>122</sup> I&E Statement No. 3, p. 23.

1 Commission as a mechanism to ensure the Company is not over-earning suggests  
2 that Mr. Henkel may believe this mechanism serves to inflate earnings.

3 Additionally, I am not aware of any recent instance where the Commission has  
4 called a regulated utility in for a rate proceeding due to over-earning.

5

6 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**  
7 **THE PROPOSED ECAM?**

8 A. No. Operating expenses fluctuate between rate cases. Some are lower at times  
9 than what were claimed in a prior rate filing and some are higher. The isolation of  
10 this one type of operating expense for dollar-for-dollar recovery via a reconciling  
11 surcharge is inappropriate and should be disallowed.

12

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes.