

**I&E Statement No. 3**  
**Witness: Esyan A. Sakaya**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**AQUA PENNSYLVANIA, INC.**

**Docket Nos. R-2021-3027385 (Water)**

**and**

**Docket Nos. R-2021-3027386 (Wastewater)**

**Direct Testimony**

**of**

**Esyan A. Sakaya**

**Bureau of Investigation and Enforcement**

**Concerning:**

**Water-Acquisition Adjustment-Summary**  
**Water-Borough of Phoenixville Acquisition Adjustment**  
**Water-Acquisition Adjustment-Rate Base**  
**Water-Annual Amortization Expense**  
**Purchase Water Adjustment Clause**  
**Energy Cost Adjust Mechanism-Purchased Power Expense**

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1 **INTRODUCTION**

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

3 A. My name is Esyan A. Sakaya. My business address is Pennsylvania Public Utility  
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,  
5 Pennsylvania 17120.

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

8 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in  
9 the Bureau of Investigation and Enforcement (“I&E”) as a Fixed Utility Valuation  
10 Engineer.

11

12 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

13 A. Appendix A, which is attached to my testimony, describes my educational  
14 background and professional experience.

15

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

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

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

2 A. The purpose of my testimony is to address issues related to an acquisition  
3 adjustment for a recently purchased water system, the proposed energy cost  
4 adjustment mechanism (ECAM), and the proposed purchased water adjustment  
5 (PWA) clause as it relates to Aqua Pennsylvania, Inc.'s (Aqua or Company) request  
6 for an additional \$97,685,000 of combined annual revenue. The overall proposed  
7 revenue increase is allocated as follows: \$86,100,000 directed towards water, and the  
8 remaining \$11,585,000 directed towards wastewater (Aqua Volume 2, Sch. Act 11).

9

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

11 A. Yes. I&E Exhibit No. 3 contains schedules related to my testimony.

12

13 **WATER-ACQUISITION ADJUSTMENT-SUMMARY**

14 **Q. WHAT IS AN ACQUISITION ADJUSTMENT?**

15 A. An acquisition adjustment is the ratemaking treatment that occurs in certain cases  
16 when there is a difference between the purchase price of the acquired system and  
17 the value of the depreciated original cost (net plant) on the books of the system  
18 being acquired. If the purchase price is greater than the value of the net plant, the  
19 utility records the value of the net plant acquired on its books and reflects the  
20 difference as a positive acquisition adjustment in rate base. The acquisition  
21 adjustment is amortized over a specific period of time, as an expense, thus  
22 reducing the difference. If the purchase price is less than the value of the net

1 plant, a negative acquisition adjustment may occur, and a negative amortization, as  
2 an offset to expenses occurs.

3  
4 **Q. WHY DOES A UTILITY PLANT ACQUISITION ADJUSTMENT ONLY**  
5 **APPLY IN CERTAIN CASES?**

6 A. A utility plant acquisition adjustment only applies in certain cases because of the  
7 requirements and limitations set forth in Section 1327 (66 Pa. C.S. §1327) of the  
8 Public Utility Code (Code).

9  
10 **Q. WHAT REQUIREMENTS AND LIMITATIONS ARE SET FORTH IN THE**  
11 **CODE REGARDING POSITIVE ACQUISITION ADJUSTMENTS?**

12 A. Subsection (a) of Section 1327 of the Code outlines nine criteria, all of which must  
13 be met by a utility in order to include acquisition adjustments in rate base when the  
14 acquisition cost is greater than the depreciated original cost. These criteria include:

- 15 (1) The property is used and useful in providing water or sewer service;
- 16 (2) the public utility acquired the property from another public utility, a  
17 municipal corporation or a person which had 3,300 or fewer customer  
18 connections or which was nonviable in the absence of the acquisition;
- 19 (3) the public utility, municipal corporation or person from which the property  
20 was acquired was not, at the time of acquisition, furnishing and maintaining  
21 adequate, efficient, safe and reasonable service and facilities, evidence of  
22 which shall include, but not-be limited to, any one or more of the following:

- 1 (i) violation of statutory or regulatory requirements of the Department of  
2 Environmental Resources or the commission concerning the safety,  
3 adequacy, efficiency or reasonableness of service and facilities;
- 4 (ii) a finding by the commission of inadequate financial, managerial or  
5 technical ability of the small water or sewer utility;
- 6 (iii) a finding by the commission that there is a present deficiency  
7 concerning the availability of water, the palatability of water or the  
8 provision of water at adequate volume and pressure;
- 9 (iv) a finding by the commission that the small water or sewer utility,  
10 because of necessary improvements to its plant or distribution system,  
11 cannot reasonably be expected to furnish and maintain adequate  
12 service to its customers in the future at rates equal to or less than those  
13 of the acquiring public utility; or
- 14 (v) any other facts, as the commission may determine, that evidence the  
15 inability of the small water or sewer utility to furnish or maintain  
16 adequate, efficient, safe and reasonable service and facilities;
- 17 (4) reasonable and prudent investments will be made to assure that the customers  
18 served by the property will receive adequate, efficient, safe and reasonable  
19 service;
- 20 (5) the public utility, municipal corporation or person whose property is being  
21 acquired is in agreement with the acquisition and the negotiations which led  
22 to the acquisition were conducted at arm's length;

- 1 (6) The actual purchase price is reasonable;
- 2 (7) neither the acquiring nor the selling public utility, municipal corporation or
- 3 person is an affiliated interest of the other;
- 4 (8) the rates charged by the acquiring public utility to its preacquisition customers
- 5 will not increase unreasonably because of the acquisition; and
- 6 (9) the excess of the acquisition cost over the depreciated original cost will be
- 7 added to the rate base to be amortized as an addition to expense over a
- 8 reasonable period of time with corresponding reductions in the rate base.

9

10 **Q. IS THE COMPANY CLAIMING ANY NEW POSITIVE WATER**

11 **ACQUISITION ADJUSTMENTS IN THE CURRENT PROCEEDING?**

12 A. Yes. The Company is seeking approval of only one recently acquired water

13 distribution system identified as the Borough of Phoenixville (Phoenixville). I will

14 address the proposed positive acquisition adjustment as set forth in the table below

15 and on Aqua Ex. No. 1-A, Sch. G -3 and C-5.1.

16

<b>Water System</b>	<b>Positive Acquisition Adjustment</b>	<b>Depreciated Original Cost at March 31, 2023</b>
<b>Phoenixville Water</b>	\$2,437,305	\$2,315,440

1 **WATER – BOROUGH OF PHOENIXVILLE ACQUISITION ADJUSTMENT**

2 **Q. WHEN DID AQUA ACQUIRE THE PHOENIXVILLE WATER SYSTEM?**

3 A. Aqua acquired the Phoenixville water system on December 4, 2019. (Aqua Ex.1-A,  
4 Sch. C-5.1, line 1 and I&E Ex. No. 3, Sch. 1, column D, line 24).

5

6 **Q. WHEN DID THE COMMISSION APPROVE THIS ACQUISITION?**

7 A. The Commission approved the acquisition on October 24, 2019, at Docket A-2018-  
8 2642837.

9

10 **Q. WHAT POSITIVE ACQUISITION ADJUSTMENT IS AQUA CLAIMING**  
11 **RELATED TO THE PHOENIXVILLE WATER SYSTEM AND WHAT**  
12 **TIME PERIOD IS THE COMPANY REQUESTING THE ACQUISITION**  
13 **ADJUSTMENT BE AMORTIZED OVER?**

14 A. The Company is claiming a positive acquisition adjustment of \$2,437,305. (Aqua  
15 Ex.1-A, Sch. G-3, line 24 and I&E Ex. No. 3, Sch. 1, column C, line 24). The  
16 Company is also proposing to amortize the acquisition adjustment over a period of  
17 twenty (20) years (Aqua Ex.1-A, Sch. C-5.1, line 3 and I&E Ex. No. 3, Sch. 1,  
18 column E, lines 1-24).

19

20 **Q. DO YOU AGREE THAT THE \$2,437,305 ACQUISITION ADJUSTMENT**  
21 **SHOULD BE RECOVERED IN RATES?**

22 A. No. I recommend that the \$2,437,305 acquisition adjustment be denied.

1 **Q. WHY DO YOU BELIEVE THE \$2,437,305 ACQUISITION ADJUSTMENT**  
2 **SHOULD NOT BE RECOVERED IN RATES?**

3 A. For the reasons discussed in detail below, Aqua has not demonstrated that the  
4 Phoenixville acquisition satisfies all of the required Section 1327(a) criteria.  
5 Approval of the underlying acquisition does not entitle Aqua to recovery if the  
6 Section 1327(a) criteria is not met.

7

8 **Q. DID AQUA ATTEMPT TO SUPPORT ITS CLAIM FOR A POSITIVE**  
9 **ACQUISITION ADJUSTMENT RELATED TO ITS ACQUISITION OF THE**  
10 **PHOENIXVILLE WATER SYSTEM?**

11 A. Yes. The attachment to Aqua Statement No. 2, is a list compiled by Aqua that  
12 suggests that the Company's acquisition of the Phoenixville water system assets  
13 satisfies the criteria set forth in Section 1327(a)(3), but no specific details were  
14 provided.

15

16 **Q. HAS AQUA MET ALL NINE OF THE CRITERIA SET FORTH IN**  
17 **SECTION 1327(a) OF THE CODE IN CLAIMING THAT THE RATE BASE**  
18 **AND EXPENSE TREATMENT OF THE POSITIVE ACQUISITION**  
19 **ADJUSTMENT IS REASONABLE IN THIS CASE?**

20 A. No. Aqua has not met all of the nine criteria necessary to support its inclusion of the  
21 positive \$2,437,305 acquisition adjustment associated with the purchase of the

1 Phoenixville water system in this case. Specifically, the conditions set forth in  
2 paragraph (3) of Section 1327(a) have not been met.

3  
4 **Q. HOW DID AQUA ATTEMPT TO SUPPORT ITS CLAIM THAT SECTION**  
5 **1327(a)(3) OF THE CODE IS SATISFIED?**

6 A. The original application filed by Aqua mentions service issues related to  
7 Phoenixville manually reading meters, having non-revenue water approximating  
8 68%, and having to replace 30% of all hydrants in the system.

9  
10 **Q. DO YOU BELIEVE THESE ISSUES SUPPORT AQUA'S CLAIM THAT**  
11 **SECTION 1327(a)(3) OF THE CODE IS SATISFIED?**

12 A. No. Non-revenue water would be a function of the Borough not replacing or  
13 rehabilitating mains and main related plant. The fact that the Borough decided not to  
14 replace meters, hydrants, mains, and main related plant does not indicate the  
15 Borough did not have the expertise or the funds to replace meters and hydrants.

16  
17 **Q. IN THE ACQUISITION PROCEEDING, DID THE COMMISSION'S**  
18 **ORDER ADDRESS ENVIRONMENTAL CONCERNS IN THE**  
19 **PHOENIXVILLE WATER SYSTEMS?**

20 A. No. The Commission did not address any environmental concerns related to Aqua's  
21 acquisition of the Phoenixville water system in the Commission Order entered on

1 October 24, 2019, at Docket Nos. A-2018-2642837, A-2018-2642839, A-2019-  
2 3008980 and U-2019-3009763.

3  
4 **Q. WHY DO YOU BELIEVE SECTION 1327(a)(3) OF THE CODE IS NOT**  
5 **SATISFIED?**

6 A. As described above, the rationale provided by Aqua does provide sufficient evidence  
7 to support the requirement that the Phoenixville system was not, at the time of  
8 acquisition, furnishing and maintaining adequate, efficient, safe, and reasonable  
9 service and facilities. Furthermore, the Commission found no service issues, during  
10 the Application process approving the acquisition by Aqua. Therefore, without such  
11 support, the criterion of Section 1327(a)(3) has not been satisfied.

12  
13 **WATER - ACQUISITION ADJUSTMENT - RATE BASE**

14 **Q. WHAT TOTAL ACQUISITION ADJUSTMENT CLAIM IS AQUA MAKING**  
15 **IN RATE BASE FOR WATER SYSTEMS?**

16 A. Aqua is claiming \$5,918,960 of additional rate base in the fully projected future test  
17 year (FPFTY) as a result of acquisition adjustments (Aqua Ex.1-A, Sch. G-1, line 2).  
18 The \$5,918,960 is summarized on Aqua Ex.1-A, Sch. G-3, line 25.

19  
20 **Q. WHAT ADJUSTMENT TO AQUA'S \$5,918,960 CLAIM FOR UTILITY**  
21 **PLANT ACQUISITION ADJUSTMENT DO YOU RECOMMEND?**

22 A. I recommend that Aqua's \$5,918,960 acquisition adjustment claimed in water rate

1 base be reduced by \$2,315,440. The \$2,315,440 reflects the disallowed Phoenixville  
2 acquisition adjustment.

3  
4 **Q. HOW DID YOU DETERMINE THE \$2,315,440 REDUCTION?**

5 A. I began with the \$2,437,305 total acquisition adjustment described above and  
6 removed one year of annual amortization expense \$121,865 ( $\$2,437,305 / 20$ ) to  
7 arrive at the \$2,315,440 reduction (I&E Ex. No. 3, Sch. 1, column N, line 24).

8  
9 **Q. WHAT EFFECT DOES I&E'S ADJUSTMENT HAVE ON AQUA'S**  
10 **\$5,918,960 CLAIM IN UTILITY PLANT ACQUISITION ADJUSTMENTS?**

11 A. I&E's adjustment reduces Aqua's \$5,918,960 acquisition adjustment claimed for  
12 water rate base by \$2,315,440, resulting in an allowance of \$3,603,520 ( $\$5,918,960 -$   
13  $\$2,315,440$ ) (I&E Ex. No. 3, Sch. 2, column N, line 25).

14  
15 **WATER – ANNUAL AMORTIZATION EXPENSE - ADJUSTMENT**

16 **Q. WHAT ANNUAL AMORTIZATION EXPENSE RELATED TO THE**  
17 **ACQUISITION ADJUSTMENTS DID AQUA CLAIM IN THIS CASE?**

18 A. Aqua claimed \$530,879 of amortization expense related to the acquisition  
19 adjustments (Aqua Ex. 1-A, Sch. G-3, line 25).

1 **Q. WHAT ADJUSTMENT TO AQUA’S WATER ANNUAL AMORTIZATION**  
2 **EXPENSE DO YOU RECOMMEND?**

3 A. I recommend that Aqua’s \$530,879 annual amortization expense claimed in the  
4 water operating expenses be reduced by \$121,865 to \$409,015. The \$121,865  
5 reduction is the annual amortized expense related to the \$2,437,305 acquisition  
6 adjustment related to the acquisition of the Phoenixville system I&E Ex. No. 3, Sch.  
7 1, column M, line 25).

8  
9 **Q. WHY DO YOU BELIEVE THE \$121,865 SHOULD BE DISALLOWED AS**  
10 **AN AMORTIZATION EXPENSE REGARDING THE PHOENIXVILLE**  
11 **SYSTEM?**

12 A. For the reasons stated above, Aqua has not demonstrated that the Phoenixville  
13 acquisition satisfies all of the required Section 1327(a) criteria. Approval of the  
14 underlying acquisition does not entitle Aqua to recovery if the Section 1327 criteria  
15 is not met.

16  
17 **PURCHASED WATER ADJUSTMENT CLAUSE**

18 **Q. WHAT IS A PURCHASED WATER ADJUSTMENT CLAUSE?**

19 A. A purchased water adjustment is a supplement to a water Company’s tariff that  
20 allows a utility the ability to recover the difference between the cost of purchased  
21 water from suppliers reflected in the most recent base rate, against any future  
22 increases or decreases in the purchased water rate of a suppliers.

1 **Q. IS AQUA REQUESTING APPROVAL FOR THIS ADJUSTMENT?**

2 A. Yes. Aqua is proposing a tariff provision that would allow it to pass onto tariff rate  
3 customers a Purchased Water Adjustment (PWA) (Aqua St. No. 4, pp. 2-5, and  
4 Tariff Water P.U.C. No. 3 pp. 37-38). The PWA would not apply to contract or rider  
5 rate customers. The proposed tariff states:

6 Purpose: The purpose of the Purchased Water Adjustment  
7 (“PWA”) is to adjust customers’ bills to reflect changes in the  
8 Company’s cost to purchase water.

9 Eligible Cost Changes: Eligible cost changes are changes in the  
10 Company’s cost of purchased water that are caused by changes  
11 in the rates of non-affiliated suppliers from which the Company  
12 purchases water for resale to its customers.  
13

14 **Q. HOW WILL THE PROPOSED PWA WORK?**

15 A. The Company’s proposed purchased water expense will be established as a baseline  
16 cost of water in each base rate case and the PWA will be reset at zero. The  
17 Company’s proposed PWA will allow the Company to adjust a tariff rate customer’s  
18 bill to capture all increases and decreases above and below the baseline cost of  
19 purchased water. The Company states that the PWA will exclude purchased water  
20 from its affiliate Aqua Ohio. The PWA will be subject to annual reconciliation to the  
21 baseline cost.

22  
23 **Q. WHY DOES AQUA WISH TO IMPLEMENT A PWA?**

24 A. Aqua states that most of the water it purchases is from municipal authorities that can  
25 increase rates quicker and more frequently than regulated utilities. This leaves a  
26 significant lag between the time Aqua incurs higher expense for purchased water and

1 its ability to recover the cost in base rates (Aqua St. No. 4, pp. 3-5). Therefore, with  
2 a PWA, the Company will be able to quickly pass on the cost of higher purchased  
3 water to tariff rate customers without filing a base rate case.

4  
5 **Q. WHY WOULD A COMPANY WANT TO QUICKLY RECOVER THE**  
6 **CHANGE IN A SINGLE EXPENSE FROM TARIFF RATE CUSTOMERS?**

7 A. Typically, a utility is required to file a base rate case before any rates are increased.  
8 With a recovery mechanism like the proposed PWA, Aqua would be able to quickly  
9 recover that single expense from tariff rate customers without filing a base rate case.  
10 This is advantageous to the Company because in a base rate case, the Company  
11 would also be required to reflect capital and expense items that may have decreased  
12 since the last base rate case, reflect increases in the number of customers, or  
13 increased usage, all of which would tend to lower customer rates.

14  
15 **Q. IS THE COMPANY REFLECTING A DECREASE IN PURCHASED**  
16 **WATER EXPENSE IN THIS CASE?**

17 A. Yes. For the FPFTY ending March 31, 2023, the Company is projecting a total  
18 purchase water expense of \$3,837,472, which is an decrease of \$636,496 over the  
19 total purchased water expense of \$4,473,968 for the historic test year ending March  
20 31, 2021, excluding purchases from Aqua Ohio (Aqua Ex. 1-A, Sch. C-7.1.i).

1 **Q. WHAT DO YOU RECOMMEND CONCERNING THE PWA?**

2 A. I recommend that the PWA be rejected.

3

4 **Q. WHY DO YOU RECOMMEND THE REJECTION OF THE PWA?**

5 A. I recommend that the proposed PWA be rejected because it is not supported by the  
6 facts, it circumvents the normal rate case procedure, and purchased water expense is  
7 not volatile and is minimal compared to all other expenses. Also, since the proposed  
8 PWA would only apply to tariff rate customers and not rider rate customers, the  
9 proposed PWA is discriminatory to tariff rate customers as only tariff rate customers  
10 would pay for any actual increase in purchased water costs, including the cost  
11 increase directly related to purchased water delivered to rider rate customers.

12

13 **Q. WHY IS THE PWA NOT SUPPORTED BY THE FACTS IN THIS CASE?**

14 A. The Company has requested an exception to the normal rate making treatment for  
15 purchased water expense by requesting that future increases be automatically  
16 recovered through a reconcilable surcharge. In the past, the Commission has granted  
17 surcharge treatment when it has been demonstrated that the expense in question was  
18 volatile or unpredictable and the level of the expense is significant when compared to  
19 total O&M expenses including depreciation expense. Consequently, such surcharges  
20 were designed to decrease the frequency of base rate cases driven by this expense.  
21 An appropriate example would be the Purchase Gas Cost (PGC) mechanism

1 designed to address the volatile nature of natural gas costs, which typically account  
2 for 24% - 70% of costs for natural gas distribution companies.

3  
4 **Q. IS PURCHASED WATER EXPENSE VOLATILE?**

5 A. No. Aqua has not demonstrated that purchased water expenses increase and  
6 decrease frequently. A properly designed natural gas surcharge protects both  
7 ratepayers and the Company from fluctuations in volatile expense levels. For  
8 example, if volatile purchased gas costs were included in base rates at elevated  
9 expense levels and gas prices were to drop, the utility would receive a windfall and  
10 ratepayers would be harmed. If natural gas prices increase without the PGC  
11 mechanism, the Company would be harmed. Therefore, the PGC surcharge protects  
12 all parties. That is not the situation for the proposed PWA. The cost of purchased  
13 water on a cost per unit basis generally increases from rate case to rate case like  
14 many other expenses, such as payroll and benefits. It is not volatile and subject to  
15 large unanticipated increases or decreases.

16  
17 **Q. DOES IT MATTER THAT FUTURE PURCHASED WATER EXPENSE  
18 MAY BE UNPREDICTABLE?**

19 A. No. Future purchased water expenses may or may not be predictable but no more so  
20 than future increases in pension and benefit costs, or the future rate of inflation or  
21 deflation, or the cost of debt. The fact that water costs are increasing or may increase  
22 in the near term is insufficient justification for different regulatory treatment than

1 provided for all other O&M expense and debt items. The Company has stated its  
2 intention to file base rate case every three years and will have the opportunity in  
3 those proceedings to recover its prudently incurred costs and capture anticipated  
4 increases in costs through use of the FPFTY. Furthermore, the Company has not  
5 shown that implementing the PWA will result in the filing of fewer rate cases.

6  
7 **Q. IS THE COMPANY'S PURCHASED WATER EXPENSE A SIGNIFICANT**  
8 **PORTION OF TOTAL EXPENSES?**

9 A. No. The total proposed purchased water expense claim is \$4,135,311 (Aqua Ex. No.  
10 3, Sch. C-7 1.i). Subtracting the affiliated purchases of \$297,839 leaves \$3,837,472  
11 (\$4,135,311 - \$297,839) of non-affiliated purchase water expense. The total  
12 Operating, Maintenance and Depreciation expense for the Company is  
13 approximately \$272,527,954 (Aqua Ex. 5-A, Sch. C, column 2, line 4, p. 9).  
14 Therefore, non-affiliated purchased water expense is only 1.4% (\$3,837,472 /  
15 \$272,527,954) of total operating, maintenance and depreciation expenses. This 1.4%  
16 is minimal compared to the 24% - 70% of purchased gas costs that is typical for a  
17 natural gas utilities with a PGC adjustment.

18  
19 **Q. IS THE COMPANY'S PURCHASED WATER VOLUMES A SIGNIFICANT**  
20 **PORTION OF TOTAL WATER SOLD?**

21 A. No. The Company is projecting it will purchase 777,481,476 (815,476,376 -  
22 37,994,900) gallons of water from non-affiliated suppliers in the FPFTY (Aqua Ex.

1 No. 1-A, Sch C-7.1.i, p. 1). The Company is projecting to sell a total of  
2 31,603,525,000 (865,850 X 365 days X 100) gallons of water in the FPFTY (Aqua  
3 Ex. No. 5-A, Part II, Sch. E, p. 1). Therefore, the Company only purchases 2.46%  
4 (777,481,476 / 31,603,525,000) of water sold.

5  
6 **Q. WHY IS THE EXCLUSION OF CONTRACT RATE CUSTOMERS FROM**  
7 **THE PWA DISCRIMINATORY AND THEREFORE PROBLEMATIC?**

8 A. It is discriminatory because purchased water is being used to supply at least one  
9 contract customer. The Company purchases some water from the City of  
10 Philadelphia to supply all of Liberty Power's needs. Since this contract customer  
11 only pays Aqua the rate stated in their respective rider contracts for water, the added  
12 expense of purchasing water for these rider rate customers over and above their  
13 respective contract rates will be borne only by tariff rate customers. Therefore, the  
14 proposed PWA unfairly shifts costs from contract customers to tariff rate customers.  
15 The proposed PWA will require tariff rate customers to pay for all increases in the  
16 cost of purchased water, when some of that purchased water is being used to supply  
17 contract customers, who will not be subject to the proposed PWA.

18  
19 **Q. COULD THE PWA ALSO ALLOW AQUA TO OVER RECOVER THE**  
20 **COST OF PURCHASED WATER?**

21 A. Yes. Since rider rate customer's rates increase over time to supposedly capture  
22 inflation including the higher cost of purchased water expense, Aqua could over

1 recover some of its purchased water costs. The higher purchased water costs would  
2 be captured from tariff rate customer through the PWA surcharge, which directly  
3 captures changes in purchased water costs, and possibly again through the higher  
4 rider rates as a result of the inflation provisions contained in rider contracts.

5  
6 **Q. WHAT IF INCREASED COSTS IN PURCHASED WATER ARE NOT**  
7 **COVERED BY THE RIDER CUSTOMER CONTRACT RATE?**

8 A. Aqua should absorb the revenue shortfall until it can re-negotiate the contract. Tariff  
9 rate customers should not be charged for this additional cost to further subsidize  
10 reduced rates for rider customers.

11  
12 **Q. HAS THE COMMISSION PREVIOUSLY APPROVED A PWA FOR**  
13 **CERTAIN UTILITIES?**

14 A. Yes. The Commission has approved a PWA for Newtown Artesian Water Company  
15 (Newtown). However, unlike Aqua's situation, Newtown purchased approximately  
16 52% of the water sold in the first half of 2009 from the Bucks County Water  
17 Authority (I&E Exhibit. No. 3, Sch. 3, p. 1). The purchased water expense was over  
18 29% of total O&M and depreciation expense for the same period (I&E Ex. No. 3  
19 Sch. 3, p. 2).

1 **Q. DOES THE COMMISSION APPROVAL OF A PWA FOR NEWTOWN**  
2 **JUSTIFY THE APPROVAL OF PWA FOR AQUA?**

3 A. No. The Commission approved the Newtown PWA because Newtown purchased  
4 over 50% of its water from other sources. However, as described above, Aqua only  
5 purchases approximately 2.46% of its water sold. Therefore, I do not believe such a  
6 small percentage of water purchases by Aqua supports establishing a PWA.

7

8 **ENERGY COST ADJUSTMENT MECHANISM**

9 **Q. WHAT IS THE PROPOSED ENERGY COST ADJUSTMENT MECHANISM**  
10 **(ECAM)?**

11 A. The proposed ECAM is an adjustment clause the Company proposes to capture  
12 changes in its energy costs (gas and electric) (Aqua St. No. 4, p. 5).

13

14 **Q. WHAT TARIFF RIDER IS THE COMPANY PROPOSING IN THIS**  
15 **PROCEEDING?**

16 A. Aqua is proposing a tariff provision that would allow it to pass onto tariff rate Water  
17 customers an energy cost adjustment (Aqua St. No. 4, pp. 5-6, and Tariff Water  
18 P.U.C. No. 3 pp. 35-36). The ECAM would not apply to contract or rider rate  
19 customers and there is no similar proposed rider in the Wastewater tariff. The  
20 proposed tariff states:

21 Purpose: The purpose of the Energy Cost Adjustment  
22 Mechanism (“ECAM”) is to recover changes in energy costs  
23 used to provide water to customers.

1                    Calculation: At the time that the Company files its annual  
2 reconciliation, the application will include a reconciliation of  
3 the actual energy costs to the amount recovered in base rates  
4 per actual thousand gallons sold as established in the last rate  
5 case.  
6

7 **Q.    HOW WOULD THE PROPOSED ECAM WORK?**

8 A.    The Company’s proposed ECAM would capture changes in its purchased power  
9 costs and would allow the Company to adjust a tariff rate customer’s bill to capture  
10 all increases and decreases above and below the baseline cost (expense claim) of  
11 purchased power. The ECAM would be subject to annual reconciliation to the  
12 baseline cost (Aqua St. No. 4, p. 6) and period review by the Commission's Bureau  
13 of Audits (Tariff Water P.U.C. No. 3 p. 36).

14  
15 **Q.    WHY IS AQUA PROPOSING TO IMPLEMENT AN ECAM?**

16 A.    Aqua is proposing to create an ECAM to capture changes in purchased power  
17 expense. Such a mechanism would protect the Company from any increase in  
18 purchased power expense and would refund excess recoveries of such expense to  
19 ratepayers. Therefore, with an ECAM, the Company would be able to quickly pass  
20 on the cost of higher purchased power expense to tariff rate customers without filing  
21 a base rate case (Aqua St. No. 4, p. 6).

22  
23 **Q.    WHAT DO YOU RECOMMEND CONCERNING THE ECAM?**

24 A.    I recommend that the ECAM be rejected.

1 **Q. WHY DO YOU RECOMMEND REJECTION OF THE PROPOSED ECAM?**

2 A. The proposed ECAM is not supported by the facts, and it circumvents normal rate  
3 case procedure for routine operating and maintenance expenses as discussed by I&E  
4 witness Christine Wilson.<sup>1</sup> Also, since the proposed ECAM would only apply to  
5 tariff rate customers and not rider rate customers, the proposed ECAM is  
6 discriminatory to tariff rate customers. Furthermore, the Company has not shown  
7 that implementing the ECAM will result in the filing of fewer rate cases.

8  
9 **Q. WHY WOULD A COMPANY WANT PERMISSION TO QUICKLY  
10 RECOVER THE CHANGE IN A SINGLE EXPENSE FROM TARIFF RATE  
11 CUSTOMERS?**

12 A. Typically, a utility is required to file a base rate case before any rates are increased.  
13 With a single expense recovery mechanism like the proposed ECAM, Aqua would  
14 quickly recover that single expense from tariff rate customers without filing a base  
15 rate case. This is advantageous to the Company because in a base rate case, the  
16 Company would also be required to reflect capital and expense items that may have  
17 decreased since the last base rate case, reflect increases in the number of customers,  
18 or increased usage, all of which would tend to lower customer rates.

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<sup>1</sup> I&E Statement No. 1.

1 **Q. WHAT ARE THE COMPONENTS OF THE COMPANY'S ECAM AS IT**  
2 **RELATES TO PURCHASED POWER EXPENSE?**

3 A. Aqua's ECA includes two purchased power expenses, one is related to electric, the  
4 other to gas.

5  
6 **Q. WHAT PURCHASED POWER EXPENSE IS THE COMPANY CLAIMING**  
7 **IN THE FPFTY?**

8 A. The Company is projecting \$8,182,196 of purchased power expense for the FPFTY  
9 (AP Ex. No. 1-A, Sch. C-6.1, line 7). Of this total, approximately 96.5%  
10 (\$7,892,623 / \$8,182,196) was for purchased electric expense, and the remaining  
11 3.5% (\$285,573 / \$8,182,196) was for purchased gas expense (AP Ex. No. 1-A, Sch.  
12 C-6.1, line 8).

13  
14 **Q. PREVIOUSLY YOU STATED THAT THE ECAM IS NOT SUPPORTED BY**  
15 **THE FACTS IN THIS CASE. WOULD YOU PLEASE ELABORATE?**

16 A. Yes. The Company has requested an exception to the normal ratemaking treatment  
17 for purchased power expense by requesting that future increases be automatically  
18 recovered through a reconcilable surcharge. In the past, the Commission has granted  
19 surcharge treatment when it has been demonstrated that the expense in question was  
20 volatile or unpredictable and the expense level significant when compared to total  
21 O&M expenses. Consequently, instituting such surcharges would decrease the  
22 frequency of base rate cases driven by this expense. As previously discussed, an

1 example is the Purchase Gas Cost mechanism that is designed to address the volatile  
2 nature of natural gas costs, which typically account for 24%-70% of costs for natural  
3 gas distribution companies.  
4

5 **Q. IS THE COMPANY'S PURCHASED POWER EXPENSE A SIGNIFICANT**  
6 **PORTION OF TOTAL EXPENSES?**

7 A. No. As described above, the total proposed purchased power expense, projected for  
8 the FPFTY ending March 31, 2023 is \$8,182,196 (AP Ex. No. 1-A, Sch. C-6.1, line  
9 3). The total Operating, Maintenance and Depreciation expense for the Company is  
10 approximately \$272,527,954 (AP Ex. 5-A, Sch. C, column 2, line 4, p. 9).

11 Therefore, purchased power expense is only 3.0% ( $\$8,182,196 / \$272,527,954$ ) of  
12 total Operating, Maintenance and Depreciation expenses. This 3.0% is nowhere near  
13 the 24% - 70% that is typical for gas utilities with a PGC adjustment. Even large  
14 variations in an expense of this size would not represent an extraordinary impact to  
15 the Company's operational outlook.  
16

17 **Q. WHY IS THE EXCLUSION OF CONTRACT RATE CUSTOMERS**  
18 **DISCRIMINATORY?**

19 A. It is discriminatory because electricity is being used to supply contract customers.  
20 Since contract customers only pay Aqua the rate stated in their respective rider  
21 contracts for water, the added purchased power expense would not apply to rider  
22 customers over and above their respective contract rates. This cost will be borne

1           only by tariff rate customers. Therefore, the proposed ECAM unfairly shifts costs  
2           from contract customers to tariff rate customers. The proposed ECAM will require  
3           tariff rate customers to pay for all increases in purchased power expense, when some  
4           of this higher cost purchased power is being used to supply contract customers who  
5           will not be subject to the proposed ECAM.

6

7   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8   **A.    Yes.**

**Esyan A. Sakaya**

**THE PENNSYLVANIA PUBLIC UTILITY COMMISSION  
400 North Street  
HARRISBURG, PA 17120**

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**Education:**

National Association of Regulatory Utility Commissioners, Clearwater, FL  
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA  
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA  
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA  
Associate of Applied Science; Major in Construction Management Technology, 2011

Island School of Building Arts, Gabriola Island, BC-Canada  
Certificate Graduate: Heavy Timber Construction Aug 2002-Nov 2002

Solar Energy International, Carbondale, CO  
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

**Experience:**

12/2018-Present

**Pennsylvania Public Utility Commission-Harrisburg, PA**

Fixed Utility Valuation Engineer- Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute in evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

**Pennsylvania Department of Transportation-Harrisburg, PA**

Photogrammetry Technician I- Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

**Pennoni and Associates. Consulting Engineers-King of Prussia, PA**

Construction Inspector-Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors and clients.

**TESTIMONY SUBMITTED:**

I have assisted and/or submitted testimony in the following proceedings:

- | <u>NO.</u> | <u>Case</u>   |
|------------|---|
| 1.         | UGI Gas Utilities - Gas Division, Docket Number: R-2018-3006814   |
| 2.         | Newtown Artesian Water Company, Docket Number: R-2018-3006904     |
| 3.         | Pittsburgh Wastewater, Docket Number: M-2018-2640803              |
| 4.         | PAWC Purchase of Steelton, Docket Number: A-2019-3006814          |
| 5.         | Philadelphia Gas Works, Docket Number: R-2019-3009016 - 3007636   |
| 6.         | Community Utilities Water, Docket Number: R-2019-3008947          |
| 7.         | Aqua Purchase of Cheltenham, Docket Number: A-2019-3008491        |
| 8.         | UGI NORTH, Docket Number: R-2019-3009647                          |
| 9.         | UGI CENTRAL, Docket Number: R-2019-3009647                        |
| 10.        | UGI SOUTH, Docket Number: R-2019-3009647                          |
| 11.        | Twin Lakes Utilities, Docket Number: R-2019-3010958               |
| 12.        | Penn Power Company, Docket: P-2019-3012628                        |
| 13.        | UGI Gas Utilities, Docket Number: R-2019-3015162                  |
| 14.        | National Fuel and Gas Distribution, Docket Number: R-2020-3015251 |
| 15.        | Columbia Gas of Pennsylvania, Docket: R-2020-3018993 -3018835     |

16. Duquesne Light Company, Docket Number: P-2020-3019522
17. PA American Water Company, Docket R-2020-3019369 – 310937
18. Bethlehem Water Company, Docket R-2020-3020256
19. Audubon Water Company, Docket: R-2020-3020919
20. Twin Lakes Utilities, Docket: P-2020-3020914
21. Pike County Light and Power-Gas, Docket: R-2020-3022134
22. Pike County Light and Power-Electric, Docket: R-2020-3022135
23. Duquesne Light Company, Docket Number: R-2021-3024750
24. Community Utilities Water, Docket Number: R-2021-3025206
25. Community Utilities Wastewater, Docket Number: R-2021-3025206
26. Hanover Municipal Water Works, Docket Number: R-2021-3026116