

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

AQUA PENNSYLVANIA, INC.

Docket No. R-2021-3027385 (Water)

Docket No. R-2021-3027386 (Wastewater)

Surrebuttal 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

Purchased Water Adjustment Clause

Energy Cost Adjustment Mechanism - Purchased Power Expense

TABLE OF CONTENTS

INTRODUCTION 1

WATER - ACQUISITION ADJUSTMENT - SUMMARY 2

WATER - BOROUGH OF PHOENIXVILLE ACQUISITION ADJUSTMENT 3

WATER - PURCHASED WATER ADJUSTMENT CLAUSE..... 7

WATER - ENERGY COST ADJUSTMENT MECHANISM 8

COMPANY REBUTTAL - PWA AND ECAM..... 9

1 **INTRODUCTION**

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

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

6

7 **Q. ARE YOU THE SAME ERYAN A. SAKAYA THAT SUBMITTED DIRECT**
8 **TESTIMONY ON NOVEMBER 9, 2021?**

9 A. Yes.

10

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

12 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
13 Erin M. Feeney and Christopher M. Henkel submitted on behalf of Aqua
14 Pennsylvania, Inc's - Water and Wastewater (Aqua or Company) request for an
15 additional \$97,685,000 of combined annual revenue. My surrebuttal testimony
16 regarding Aqua's request will focus on the acquisition adjustment claimed for the
17 recently purchased Phoenixville water system, the proposed energy cost
18 adjustment mechanism (ECAM), and the proposed purchased water adjustment
19 (PWA).

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

2 A. No. However, I will refer to my direct testimony in this surrebuttal testimony (I&E
3 Statement No. 3).
4

5 **WATER - ACQUISITION ADJUSTMENT - SUMMARY**

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

7 A. An acquisition adjustment is the ratemaking treatment that occurs in certain cases
8 when there is a difference between the purchase price of an acquired system and
9 the depreciated original cost (net plant) on the books of that system being. If the
10 purchase price is greater than the net plant, the utility records the net plant
11 acquired on its books and reflects the difference as a positive acquisition
12 adjustment in rate base. The acquisition adjustment is amortized over a specific
13 period of time, as an expense, thus reducing the difference. If the purchase price is
14 less than the value of the net plant, a negative acquisition adjustment may occur,
15 and a negative amortization, as an offset to expenses, occurs.
16

17 **Q. WHY DOES A UTILITY PLANT ACQUISITION ADJUSTMENT ONLY
18 APPLY IN CERTAIN CASES?**

19 A. A utility plant acquisition adjustment only applies in certain cases because of the
20 requirements and limitations set forth in Section 1327 (66 Pa. C.S. §1327) of the
21 Public Utility Code (Code) and summarized on pages 3 through 5 of my direct
22 testimony.

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

6
7 **Q. WHAT POSITIVE ACQUISITION ADJUSTMENT DID AQUA CLAIM
8 RELATED TO THE PHOENIXVILLE WATER SYSTEM?**

9 A. The Company claimed a positive acquisition adjustment of \$2,437,305 (Aqua Ex.1-
10 A, Sch. G-3, line 24. The Company also proposed to amortize the acquisition
11 adjustment over a period of twenty (20) years (Aqua Ex.1-A, Sch. C-5.1, line 3).

12
13 **Q. DID YOU AGREE THAT THE \$2,437,305 ACQUISITION ADJUSTMENT
14 CLAIM FOR PHOENIXVILLE BE RECOVERED IN RATES?**

15 A. No. I recommended that the \$2,437,305 acquisition adjustment be denied (I&E St.
16 No. 3, p. 6).

17
18 **Q. WHY DO YOU BELIEVE THE \$2,437,305 ACQUISITION ADJUSTMENT
19 SHOULD NOT BE RECOVERED IN RATES?**

20 A. Aqua did not demonstrate that the Phoenixville acquisition satisfied all of the
21 required Section 1327(a) criteria. Approval of the underlying acquisition does not

1 entitle Aqua to recovery if the Section 1327(a) criteria is not met (I&E St. No. 3, pp.
2 8-9).

3
4 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION TO DENY**
5 **THE ACQUISITION ADJUSTMENT RELATED TO BOROUGH OF**
6 **PHOENIXVILLE IN REBUTTAL TESTIMONY?**

7 A. Yes. In Aqua Statement No. 2-R, the Company claims that the Borough of
8 Phoenixville system is a troubled system for several reasons. First, the Company
9 disputes the application of the criteria set forth in Section 1327(a). Second, the
10 Company claims that the condition at acquisition of 30% of fire hydrants requiring
11 replacement and 68% non-revenue water does show that the Borough of
12 Phoenixville was a troubled system. Third, the Company claims Phoenixville
13 wanted to exit the water business outside the borough. Finally, the Company claims
14 the argument that Phoenixville could have provided adequate service applies to any
15 troubled system under Section 1327(a) (Aqua St. No. 2-R, pp. 8-9).

16
17 **Q. DO YOU AGREE WITH THE COMPANY'S ARGUMENT THAT ALL**
18 **PARTS OF SECTION 1327(a) DO NOT HAVE TO BE MET FOR THE**
19 **ACQUISITION ADJUSTMENT TO BE APPROVED?**

20 A. No. I am advised by counsel that all subparts of Section 1327(a) must be met before
21 the acquisition adjustment is approved.

1 **Q. DOES THE COMPANY’S PLANS TO REPLACE HYDRANTS SUPPORT**
2 **THE COMPANY’S CLAIM THAT PHOENIXVILLE WAS A TROUBLED**
3 **SYSTEM?**

4 A. No. Hydrants are utility plant that do require periodic replacement based on service
5 life, and the Company would have known of these hydrants that were at end of
6 service life and due for replacement from the Borough of Phoenixville’s plant
7 records at acquisition. Acquiring plant that was known to be due for replacement
8 and paying an above book value price for that system does not prove that the system
9 was troubled.

10
11 **Q. DOES THE COMPANY’S PLANS TO TAKE ACTION TO MITIGATE**
12 **NON-REVENUE WATER SUPPORT THE COMPANY’S CLAIM THAT**
13 **PHOENIXVILLE WAS A TROUBLED SYSTEM?**

14 A. No. The Company provided no detail to indicate that there were substantial service
15 issues or failed systems causing the 68% non-revenue water. Accordingly, much of
16 this non-revenue water could be due to other end-of-service plant issues, such as old
17 and potentially faulty meters, that was known at acquisition. The Company claim
18 that Phoenixville needs maintenance does not make the system troubled because all
19 systems need maintenance and routine replacement of end-of-life plant. Acquiring a
20 system at an amount greater than depreciated original cost, with full understanding of
21 what a low value of depreciated original cost implies for existing plant with respect

1 to imminent replacement needs, does not make the system troubled under the criteria
2 of Section 1327(a).

3
4 **Q. IS THE COMPANY’S CLAIM THAT PHOENIXVILLE WANTED TO EXIT**
5 **THE WATER BUSINESS OUTSIDE THE BOROUGH SUPPORT ITS**
6 **CLAIM THAT PHOENIXVILLE WAS A TROUBLED SYSTEM?**

7 A. No. The motivation of an owner to sell is not listed in the Section 1327(a) criteria.
8 Therefore, the alleged desires of Phoenixville do not support the claim that
9 Phoenixville was a troubled system.

10
11 **Q. IS THE COMPANY’S CLAIM THAT ANY SYSTEM COULD MAKE**
12 **IMPROVEMENTS AND THEREFORE NO SYSTEM WOULD EVER**
13 **COMPLY WITH SECTION 1327(a) VALID?**

14 A. No. Small, private water and wastewater systems do not have the ability to increase
15 taxes and issue bonds that municipalities such as Phoenixville have, so not every
16 troubled system has the capability of funding necessary repairs. Phoenixville’s status
17 as a municipality provides much more opportunity to generate revenue and effectuate
18 repairs. All factors must be considered including the fact that Phoenixville was a
19 municipality.

1 **Q. DID THE COMPANY PROVIDE ANY VALID ARGUMENTS FOR**
2 **INCLUSION OF THE EXCESS COST OF THE PHOENIXVILLE**
3 **ACQUISITION IN RATE BASE?**

4 A. No. For the reasons stated above and in my direct testimony, Aqua has not
5 demonstrated that inclusion of the excess cost of the Phoenixville system should be
6 included in Aqua's rate base because the Phoenixville acquisition does not satisfy all
7 of the required Section 1327(a) criteria. Approval of the underlying acquisition does
8 not entitle Aqua to recovery if the Section 1327(a) criteria are not met. Therefore,
9 the acquisition adjustment should be denied. This recommendation reduces rate base
10 by \$2,315,440 and reduces the annual amortization expense by \$121,865 (I&E St.
11 No. 3, pp. 10-11).

12
13 **WATER - PURCHASED WATER ADJUSTMENT CLAUSE**

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
17 customers a Purchased Water Adjustment (PWA) (Aqua St. No. 4, pp. 2-5, and
18 Tariff Water P.U.C. No. 3 pp. 37-38). The PWA would not apply to contract or rider
19 rate customers. The proposed tariff states:

20 Purpose: The purpose of the Purchased Water Adjustment ("PWA") is to
21 adjust customers' bills to reflect changes in the Company's cost to
22 purchase water.

23 Eligible Cost Changes: Eligible cost changes are changes in the
24 Company's cost of purchased water that are caused by changes in the

1 rates of non-affiliated suppliers from which the Company purchases water
2 for resale to its customers.
3

4 **Q. WHAT DID YOU RECOMMEND CONCERNING THE PWA?**

5 A. I recommended that the PWA be rejected (I&E St. No. 3, p. 14).
6

7 **Q. WHY DID YOU RECOMMEND THE REJECTION OF THE PWA?**

8 A. As described in my direct testimony, I recommend that the proposed PWA be
9 rejected because it is not supported by the facts, it circumvents the normal rate case
10 procedure, and purchased water expense is not volatile and is minimal compared to
11 all other expenses. Also, since the proposed PWA would only apply to tariff rate
12 customers and not rider rate customers, the proposed PWA is discriminatory to tariff
13 rate customers as only tariff rate customers would pay for any actual increase in
14 purchased water costs, including the cost increase directly related to purchased water
15 delivered to rider rate customers (I&E St. No. 3, pp. 13-14).
16

17 **WATER - ENERGY COST ADJUSTMENT MECHANISM**

18 **Q. WHAT TARIFF RIDER IS THE COMPANY PROPOSING IN THIS**
19 **PROCEEDING?**

20 A. Aqua is proposing a tariff provision that would allow it to pass on to tariff rate Water
21 customers an energy cost adjustment (Aqua St. No. 4, pp. 5-6, and Tariff Water
22 P.U.C. No. 3 pp. 35-36). The ECAM would not apply to contract or rider rate

1 customers and there is no similar proposed rider in the Wastewater tariff. The
2 proposed tariff states:

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

6 Calculation: At the time that the Company files its annual reconciliation,
7 the application will include a reconciliation of the actual energy costs to
8 the amount recovered in base rates per actual thousand gallons sold as
9 established in the last rate case (I&E St. No. 3, pp. 19-20).
10

11 **Q. WHY DID YOU RECOMMEND THE REJECTION OF THE ECAM?**

12 A. The proposed ECAM is not supported by the facts, and it circumvents normal rate
13 case procedure for routine operating and maintenance expenses as discussed by I&E
14 witness Christine Wilson.¹ Also, since the proposed ECAM would only apply to
15 tariff rate customers and not rider rate customers, the proposed ECAM is
16 discriminatory to tariff rate customers. Furthermore, the Company has not shown
17 that implementing the ECAM will result in the filing of fewer rate cases.
18

19 **COMPANY REBUTTAL - PWA AND ECAM**

20 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATIONS TO DENY**
21 **THE PWA AND ECA?**

22 A. Yes. In Aqua Statement No. 2-R, the Company combined the response to the PWA
23 and ECA in its rebuttal testimony. The Company believes that the Commission

¹ I&E Statement No. 1.

1 should not be concerned that the PWA and Energy Cost Adjustment (ECA)
2 constitutes single issue ratemaking because the Company files quarterly earnings
3 reports (QER) that would identify any over-earning position by the Company. The
4 Company also believes that the PWA and ECA are not discriminatory because
5 Competitive Rate Riders (CRRs) have contracts and the contract price would not
6 change if the PWA and ECA are approved. The Company de-emphasized the need
7 for this type of adjustment to be volatile, unpredictable, or significant citing the State
8 Tax Adjustment Surcharge (STAS), and other alleged expenses that it claims do not
9 meet these requirements. The Company attempts to claim that purchased water
10 expense is volatile, citing Aqua's water purchases from municipalities or municipal
11 authorities that are not subject to PUC regulations. Because of this, those
12 municipal entities have the authority to change rates as they deem necessary (Aqua
13 St. No. 2-R, pp. 2-5).

14
15 **Q. IS THE COMPANY CORRECT THAT THE COMMISSION SHOULD NOT**
16 **BE CONCERNED WITH THE SINGLE-ISSUE RATEMAKING NATURE**
17 **OF THE PWA AND ECAM?**

18 A. No. The Company's rationale that it reports earnings on a quarterly basis does not
19 negate the single-issue nature of the PWA and ECA. according to the Company, it
20 would implement the PWA and ECA riders, subject to an over-earnings
21 investigation. However, any overearnings would need to take into account all
22 aspects of the Company's operations, not just the purchased water and purchased

1 power expenses, and other expenses would have to fall dramatically or revenues
2 would have to increase dramatically to have an impact on the QER that would reflect
3 over-earnings. Surcharges benefit companies by increasing revenue in lockstep with
4 expense increases for specific individual expenses without allowing the full
5 examination of all expenses and revenues as occurs in a base rate case; these
6 proposed surcharges should not be permitted as they circumvent the normal rate case
7 process that allows all changes to be evaluated simultaneously.

8
9 **Q. DID THE COMPANY PROPERLY ADDRESS THE DISCRIMINATORY**
10 **NATURE OF THE PWA AND ECAM THAT YOU RAISED CONCERNING**
11 **CRR CUSTOMERS?**

12 A. No. As described in my direct testimony, the fact that CRR customers won't be
13 paying the PWA and ECAM surcharges is important because at least one CRR
14 customer is supplied with purchased water (I&E St. No. 3, pp. 18-22). The
15 Company's justification that this is acceptable because these customers allegedly
16 contribute to the fixed costs of the system is not relevant. Tariff rate customers also
17 contribute to the fixed costs of the system, yet the Company believes it is proper to
18 apply the surcharges to them. The Company failed to adequately address my
19 testimony describing how Aqua could collect the same additional expense twice,
20 once through the surcharge and again through the inflation provision contained in the
21 CRR rates. This potential double collection of the same expense is the most obvious
22 discriminatory nature of the PWA and ECAM surcharges.

1 **Q. ARE THE COMPANY’S CLAIMS THAT THE COMMISSION APPROVED**
2 **OTHER SURCHARGES THAT DO NOT APPLY TO CRR CUSTOMERS**
3 **JUSTIFY APPROVING THESE RIDERS AND ALSO EXCLUDING CRR**
4 **CUSTOMERS?**

5 A. No. When the DSIC was established in the 1990’s, the Company claimed that DSIC
6 improvements would not generally be made to benefit CRR customers. Therefore,
7 the Commission allowed Aqua to exclude rider customers from the DSIC. However,
8 if DSIC improvements benefited CRR customers, the cost was shifted to tariff rate
9 customers. This type of inequity will exist if the PWA and ECAM are approved.
10 Therefore, the PWA or ECAM should be rejected because tariff rate customers
11 would make the Company whole for all revenue shortfalls caused by CRR customers
12 not paying the PWA or ECAM, and the Company cannot rely on the argument
13 utilized for DSIC improvements for these surcharges as CRR customers do utilize
14 purchased water and do contribute to purchased power costs.

15
16 **Q. IS THE COMPANY CORRECT THAT A SURCHARGE CAN BE**
17 **CREATED AT ANY TIME AND DOES NOT HAVE TO BE VOLATILE,**
18 **UNPREDICTABLE, OR SIGNIFICANT TO BE APPROVED?**

19 A. No. Mr. Henkel compares the PWA to other adjustment clauses in Section 1307 of
20 the Public Utility Code, including the State Tax Adjustment Surcharge (STAS).
21 (Aqua St. No. 4-R, pp. 2-3). However, the PGC, STAS and DSIC mechanisms are
22 authorized by statute while the PWA and ECA are not, and, furthermore, the

1 establishment of the PGC and STAS were specifically related to historic volatility.

2 There is no provision for the PWA or ECA in Section 1307.

3
4 **Q. DO YOU AGREE WITH THE COMPANY REGARDING WATER**
5 **PURCHASES FROM MUNICIPAL AUTHORITIES BEING VOLATILE?**

6 A. No. Aqua Exhibit 1-A(a), Sch. C-7.1.I shows no significant price volatility from
7 municipal water suppliers from 2019 to 2023.

8
9 **Q. SHOULD THE PWA BE APPROVED BECAUSE THE COMPANY**
10 **PURCHASES MOST OF ITS WATER FROM MUNICIPAL**
11 **AUTHORITIES?**

12 A. No. As previously stated, there is no evidence that municipalities have historically
13 imposed large increases in purchased water charges between rate cases; therefore,
14 there is no historical basis indicating a need for the PWA.

15
16 **Q. HAS YOUR RECOMMENDATION CHANGED REGARDING THE PWA**
17 **AND ECAM?**

18 A. No. I recommend that both the PWA and ECAM be denied.

19
20 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

21 A. Yes.