BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKET NOS. R-2021-3027385, R-2021-3027386

AQUA PENNSYLVANIA, INC.
AQUA PENNSYLVANIA WASTEWATER, INC.

REBUTTAL TESTIMONY OF CHRISTOPHER E. MANNING

Topics Addressed:

Certain Expense Adjustments

DATE SERVED: December 2, 2021
DATE ADMITTED: _____________

Aqua Statement No. 3-R

I. INTRODUCTION AND SCOPE OF TESTIMONY

Q. What is your name and business address?

A. My name is Christopher. E. Manning. My business address is 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I sponsored AP Statement No. 3.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to various portions of the direct testimony regarding inflation presented by Office of Consumer Advocate ("OCA") Witness Smith; the accounting for rate case expense presented by OCA Witness Smith and Bureau of Investigation & Enforcement ("I&E") Witness Wilson; non-rate case legal expense presented by OCA Witness Smith; and dredging expense presented by I&E Witness Wilson.

Q. Please describe the Company's General Price Level Adjustment.

A. The Company's General Price Level Adjustment reflects the anticipated effect of inflation on operating expenses that were not specifically adjusted in this case. The future test year ending March 31, 2022 ("FTY") adjustment is derived from the total pro forma historic test year ended March 31, 2021 ("HTY") operating expenses, less the amounts specifically adjusted in the Company's filing or not otherwise subject to inflation. The remaining amount which is subject to the effect of inflation is then multiplied by the average GDP chained price index forecast from the second quarter of 2021 through the first quarter of 2022 to arrive at the inflationary increase amount for the twelve months ending March 31, 2022. The fully projected future test year ending March 31, 2023 ("FPFTY") adjustment is derived from the total pro forma FTY operating expenses, less the amounts specifically adjusted in the Company's filing or not otherwise subject to inflation. The remaining amount which is subject to the effect of inflation is then multiplied by the average GDP chained price index forecast from the second quarter of 2022 through the first quarter of 2023 to arrive at the inflationary increase amount for the twelve months ending March 31, 2023.

Q. Please summarize the basis for Mr. Smith's recommendation to disallow the General Inflation Adjustment.

A. Mr. Smith asserts that the adjustment is a blanket inflation adjustment which does not utilize a targeted approach. Mr. Smith cites cases where the Commission disallowed blanket generalized inflation adjustments and also recent cases where they have allowed an inflation adjustment.

Q. Do you agree with OCA Witness Smith's adjustment to remove the Company's use of a General Price Level Adjustment and inflation factor to capture this impact on the Company expenses in the FTY and FPFTY?

A. No, I do not agree with OCA Witness Smith's assertion that the proposed adjustment is a blanket generalized inflation adjustment. The Company's adjustment reflects the anticipated effect of inflation only on operating expenses that were not specifically adjusted in this case or not subject to inflation (i.e., lease expense). The remaining operating expenses subject to inflation make up less than 22% of total operating expenses. This is hardly a blanketed approach as Mr. Smith would suggest. The Company's adjustment, which is consistent with adjustments made in prior cases dating back over 25 years, is conservative based on current economic conditions and completely appropriate. In fact, in the Recommended Decision of the Pa. PUC vs. Philadelphia Suburban Water Company, 2002 Pa. PUC LEXIS 55 (2002), the Administrative Law Judge (ALJ) noted that there are numerous cases in which the Commission has accepted this adjustment. The ALJ, in that case, also noted that the inflation index utilized by the company, the GDP Price Index, which is the same index being utilized in the Company's current case, had been previously accepted by the Commission. Furthermore, the Commission had even categorized this inflation index as "relatively conservative". The ALJ also noted that since the Commonwealth Court's decision in National Fuel Gas Distribution Corporation v. Pa. PUC 677 A.2d 861 (Pa. Cmwlth. 1986), the Commission has consistently accepted inflation adjustments where they are supported by historical data demonstrating that the utility has experienced cost increases that exceed the claimed inflation increase.

The expenses that the Company is requesting be increased under this general inflation adjustment have all historically grown at rates that far exceed the requested inflation factor that the Company is applying to them, which is 1.75% in the FTY and 1.70% in the FPFTY. Supplies expense, which falls under this adjustment, has grown at an average rate of 8.19% over the last three years. Lab Testing expenses, which also fall under this adjustment, have grown at an average rate of 11.13% over the last three years.

Outside accounting expenses, also under this adjustment, have grown at an average rate of 3.38% over the last three years as well.

OCA Witness Smith's assertion that this is a blanket adjustment and too speculative (OCA St. 1 at 5) is off base and does not take into consideration any historical data, nor does it take into account present economic conditions. He fails to address the macro conditions in which the world is currently operating in and fails to make any mention of actual inflation rates seen over the past year or any mention of projected inflation rates over the next few years, all of which far surpass the inflation rates requested by the Company. All of the expenses that the Company are requesting be increased under the general inflation adjustment are directly and adversely impacted by inflation. As a result, the Company rejects OCA Witness Smith's recommendation. The Company will proceed with its conservative and sensible general inflation adjustment as it had been filed.

Q. Has the Company included a General Price Level Adjustment in the past?

A. Yes. In fact, the Company is not aware of any case in the past decades where there was any prior disagreement with this adjustment being made by the Company, both before and after the use of fully projected future test year was utilized. In its last fully-litigated case, R-00072711, the Company proposed and was awarded this adjustment. I do not think this is the time or the case to create divergent precedent regarding inflation.

Q. Has the Company made any adjustments to its General Price Level Adjustment based on new available information?

A. No, the Company has not made any adjustments to its General Price Level Adjustment based on new available information.

Q. Has the Company considered the need to update the inflation factor for the operating expenses not specifically adjusted in this case?

A. Yes. The Company certainly considered this because it has the evidence to support a further increase in inflation. However, assuming the Commission follows its long-standing regulatory precedent of allowing the inclusion of a reasonable inflation adjustment, the Company will not update the inflation factor at this time.

Q. Have you reviewed the cases cited by OCA Witness Smith in regard to this issue?

A. I am not a lawyer, but I have reviewed these cases. Contrary to OCA Witness Smith's claim, the Commission actually has approved inflation adjustments, and that precedent should continue to be followed. As noted earlier, the Commission has approved numerous other general inflation adjustments in which companies utilize the GDP Price Index to account for inflation. The cases, to which OCA Witness Smith points to in an attempt to refute the Company's claim, were not prepared in the same manner in which Aqua PA has prepared its' adjustment and does not reflect the precedent that the Commission has set when it comes to inflation adjustments. OCA Witness Smith even acknowledges that the Commission has accepted such adjustments and cites to a very recent case (Pa. PUC v. PECO Energy Co.- Gas Division, R-2020-3018929) that supports the Company's position.

Q. Has any party proposed an adjustment to the Company's claim for normalized rate case expense?

A. Yes. OCA witness Smith has proposed an adjustment to reduce the Company's claim for normalized rate case expense by $116,667. Mr. Smith's adjustment is based on his proposal that a normalization period of 3.3 years should be used in lieu of the three-year normalization the Company employed (OCA St. No. 1, p. 56). Additionally, he made two further adjustments which result in removing $165,000 from the total rate case expenses projected in this case.

Q. Do you agree with OCA Witnesses Smith's adjustments and comments to the Company's rate case expense claim?

A. I do not agree with OCA Witness Smith's adjustments and comments to the Company's rate case expense claims. OCA Witness Smith made the following two adjustments: 1) removal of $100,000 for Other Consultants and 2) removal of $65,000 for Miscellaneous expense. The Company does not accept these adjustments which would reduce its rate case expense by $165,000. Although the Company had stated that zero costs had been incurred for Other Consultants as of September 30, 2021 in response to OCA-IV-23, there have been invoices processed for Other Consultants, amounting to $40,068, since the filing of that response. As further invoices are processed and other services are provided by the consultants who fall under the categorization of "Other Consultants" throughout the duration of this case, the Company reasonably expects to incur the entire $100,000 amount requested for Other Consultants as part of its' rate case expense request.

With regard to the $65,000 of Miscellaneous expense requested, the Company reasonably expects to incur all of this cost if the case is fully litigated.

The Company does not agree with the averment that Aqua PA's claim may be overstated if these costs were excluded. The Company projected rate case expense assumes a fully litigated case and is based on the complexity of the issues presented in the case. If the case is settled, parties presumably will consider that in the context of any settlement increase.

Furthermore, the current filing and the required separate cost of service studies, in addition to the installation of a new Customer Assistance Program, distinguish this case from prior cases. To date, the Company has received 253 more discovery questions than it did in the prior case, and we continue to answer discovery, draft rebuttal testimony and prepare for possible evidentiary hearings and briefing deadlines.

Q. Mr. Manning, can you please summarize Aqua PA's treatment of rate case expenses?

A. For ratemaking purposes, the Company proposes to normalize the cost recovery of this expense vis-a-vis and amortization that is synchronized with the expected timing of the Company's future rate filing schedule – in this instance, 3 years – which is consistent with treatment in previous cases. For accounting purposes, the actual costs are accumulated in account 186, deferred rate case expense, through the pendency of the rate filing. At the conclusion of a rate case, the balance is reduced on a recurring monthly basis through an expense amortization recorded in account 6668.

Q. Please further elaborate on how rate case expense has and will continue to be treated.

A. The Company has not, nor will it ever, seek to recover unamortized rate case expenses from customers in a future case. For background, most base rate cases in Pennsylvania are settled under a black box settlement. Therefore, there is not bright-line of what rate case expenses were ultimately approved. For accounting purposes, the Company amortizes its per books rate case expense and synchronizes with the number of months as requested in the Company's base rate case filing.

Q. Do you agree with OCA Witness Smith's and I&E Witness Wilson's recommendation to normalize rate case expense?

A. I do not agree. Witnesses Smith and Wilson recommend normalizing rather than amortizing rate case expense. Witness Smith further recommends annualizing rate case over a 3.3-year period.

Q. Why do you disagree?

A. I disagree with the recommendation to normalize rate case expense and maintain that it should be amortized. Per A Guide to Utility Ratemaking (Before the Pennsylvania Public Utility Commission) published in 2018, expenses that will probably occur again, albeit irregularly and infrequently, should be amortized. Rate Case expense appropriately falls under the amortization bucket as it is an expense that will definitely occur again. However, there is no way to determine exactly when the Company will incur these expenses again.

As for how the Company accounts for rate case expense, the Company charges a Regulatory Asset (Deferred Rate Case expenses), to which it amortizes over two or three years due to the fact that the Company does not file rate cases every year. The Company then spreads these costs out over two or three years as this is the Company's best timing estimate.

Q. Do you have any further observation regarding Mr. Smith's proposal for a 3.3-year normalization period?

A. Yes. Mr. Smith's calculated average is distorted by the time period between the Company's 2011 and 2018 rate case. The Company was able to avoid filing a rate case for an extended period after the 2011 rate case due to a provision in that settlement regarding the use of the tax repair deduction for income tax purposes. That situation will not recur in the future.

Q. Do you agree with I&E Witness Wilson's recommended change on pages 20-21 to normalize dredging expense rather than the Company's request to requesting to accrue a reserve exclusively for dredging costs?

A. I do not agree with her recommendation to normalize this expense. The Company has requested to accrue a reserve for dredging costs because it will better align the cost recovery in rate making to the operating expense incursion. As I stated in my direct testimony, this expense is not systematic and can vary upon water quality conditions; the expense will be incurred, it is only a matter of how frequently. This change in operations results in an annual savings to customers of $100,000. For this reason, the Company has requested this treatment. The Company will dredge once every three years on an as needed basis and is seeking special accounting treatment to accrue for the dredging costs each year.

Q. Do you agree with OCA Witness Smith's adjustment to non-rate case legal expense on page 59 of his testimony?

A. I do not agree with OCA Witness Smith's adjustment to non-rate case legal expense. The Company does not agree with Mr. Smith's methodology of calculating legal expense using a two-year average or his assertion that the Company attempted to increase its' legal expense amounts by using a three-year average. Utilizing a three-year average allows for the Company to appropriately account for the ebbs and flows of expense accounts that can fluctuate due to the normal course of business. Such ebbs and flows that will occur, but that have not been specifically adjusted for in the legal expense projections, include union contract negotiations that will occur during the FTY. By only using a two-year average, expenses that normally occur on a two year or more interval may not be captured. The three-year average is consistent with the Company's prior rate case filings and with the Company's calculations of other expenses within its' filing. Witness Smith even proposes that the Company utilize the historical information over a three-year period from 2019 through 2021 in its projection of general insurance expense increases. As the Company intends to proceed with utilizing a three-year average, the Company will not accept this adjustment.

II. CONCLUSION

Q. Does that conclude your testimony at this time?

A. Yes, it does, but I reserve the right to supplement my testimony as needed during this proceeding.