

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

**PREPARED REBUTTAL TESTIMONY OF
CONSTANCE E. HEPPENSTALL**

Topics Addressed:

**Cost of Service Allocation
Customer Rate Design**

DATE SERVED: December 2, 2021
DATE ADMITTED: _____

Aqua Statement No. 5-R

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: AQUA PENNSYLVANIA, INC.
DOCKET R-2021-3027385 AND R-2021-3027386

REBUTTAL TESTIMONY OF CONSTANCE E. HEPPENSTALL

1 **Q. Please state your name and address.**

2 A. My name is Constance E. Heppenstall. My business address is 1010 Adams
3 Avenue, Audubon, Pennsylvania.

4 **Q. By whom are you employed?**

5 A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC.

6 **Q. Are you the same Constance E. Heppenstall who submitted direct**
7 **testimony in this case?**

8 A. Yes. I submitted Aqua Statement No. 5 and Exhibit Nos. 5-A, Parts I and II, 5-B,
9 Parts I and II and 5-C.

10 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

11 A. I will address the proposed revenue distribution and rate design issues for both
12 water and wastewater rate filings raised in the direct testimonies and exhibits of
13 Masthope Mountain Community Association (Masthope) witness Robert
14 Rosenthal, Office of Small Business Advocate (OSBA) witness Brian Kalcic,
15 Office of Consumer Advocate (OCA) witnesses Glenn Watkins and Ralph Smith,
16 Bureau of Investigation and Enforcement (I&E) witnesses Ethan Cline and
17 Joseph Kubas and Aqua Large Users Group (Aqua-LUG) witness Richard A.
18 Baudino.

19 **Q. Have you prepared an exhibit related to your rebuttal testimony?**

20 A. Yes, I have prepared Exhibits 5R-A, 5R-B and 5R-C.

1 **Q. Do any witnesses comment on the Company's cost of service study results**
2 **presented in Exhibit 5-A and 5-B?**

3 A. Mr. Watkins reviewed the cost of service studies and made no changes. Mr.
4 Baudino confirmed that I followed the cost of service approach used by the
5 Company in the last rate case. All other witnesses were silent on the cost of
6 service studies.

7 **Q. Do you have any corrections to your exhibits?**

8 A. Yes, during the course of the rate proceeding, certain revenue adjustments came
9 to light.

10 **Q. Please describe the changes and the impact to revenue.**

11 A. In Exhibit 5R-A, Schedule 7A, the 6-inch and 8-inch private fire rates in Superior
12 need to be corrected from \$206.40 and \$174.00 respectively to the Main Division
13 rates of \$260.10 and \$453.70 respectively. This results in additional revenue of
14 \$18,447 under proposed rates. In addition, public fire revenue under proposed
15 rates was corrected in Schedule 1 to \$7,765,762 from \$6,881,139. The public
16 fire proposed revenue calculation was correct in Schedule 7B and the proposed
17 revenue in Schedule A of the cost of service study was also correct.

1 In Exhibit 5R-B, the wastewater rates for Woodloch Pines under proposed
2 rates was adjusted to reflect the correct unmetered charges of \$101.03 under
3 proposed rates. This adjustment produced additional revenue of \$3,434 and is in
4 response to I&E-RS-13-D-WW. The change to revenue is shown on page 17, of
5 Exhibit 5R-B. In addition, as described in response to I&E-RS-18-D-WW, the
6 proposed rate for Southdown Homes was adjusted from \$7.49 per 1000 gallons
7 to \$13.50 per 1000 gallons. This change produces additional revenue of
8 \$67,958. Both adjustments produce additional revenue of \$71,392.

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10 **Rebuttal of Mr. Rosenthal**

11 **Q. Please summarize the rate design testimony presented by Masthope witness**
12 **Robert Rosenthal.**

13 A. On page 5 of his testimony, Mr. Rosenthal states that the proposed tariff rate
14 design for water and wastewater appears consistent with prior rate cases. He has
15 no further discussion regarding rate design.

16
17 **Rebuttal of Mr. Kalcic**

18 **Q. Please describe Mr. Brian Kalcic' recommendation for wastewater rate**
19 **increases.**

20 A. He recommends increasing the revenue from the base (Rate Zones 1 through 6)
21 areas by 24.8% (1.5X the system average increase in water revenues of 16.9%)
22 and the New Garden, Rate Zone 11, revenues by 74.6% (2X the wastewater
23 system average increase). This adjustment to rates would reduce the Act 11

1 subsidy from \$20,839,425 to \$18,580,203. The Company has recommended an
2 increase to Rate Zones 1 through 6 of 19.3% and New Garden, Rate Zone 11 by
3 37.0%.

4 **Q. Do you agree with his recommendation?**

5 A. No, as this additional increase for these rate zones would increase the average bill
6 for a residential customer in Rates Zones 1, 1A, 1B and 2 beyond the Company's
7 proposed level of \$77.49, a 20.2% increase per month, to approximately \$83.00, a
8 30% increase per month. The other rate zones included in the base area, Rate
9 Zones 3 through 6 would not absorb this increase as their rates or their increase
10 are higher than those of Rate Zones 1, 1A, 1B and 2. Therefore, the Company
11 disagrees with this additional increase. In addition, the increase to New Garden
12 would be contrary to the concept of gradualism and, as the present monthly bill for
13 an average residential customer is \$73.03, an increase of 74.6% would increase a
14 residential monthly bill to over \$125.00. ($\$73.03 \times 1.746 = \127.51). Only Rate
15 Zone 5 would have a higher average monthly bill. In contrast, the Company
16 recommends a similar 75% increase to Rate Zone 7, Limerick, as the wastewater
17 present rates are much lower than New Garden's rates.

18 **Q. Please explain Mr. Kalcic' alternative water revenue allocation.**

19 A. Mr. Kalcic disagrees with the revenue allocation recommended by the Company
20 and proposes an alternate method. To determine his revenue allocation, he
21 isolates the proposed revenues not related to Act 11 subsidy and compares those
22 revenues to the cost of service not related to Act 11 subsidy. As such, Mr. Kalcic
23 also incorporates his revised Act 11 subsidy in his proposed revenue allocation.

1 **Q. What is the result of Mr. Kalcic' revised revenue allocation?**

2 A. The resulting allocation raises the proposed increase to the residential class from
 3 17.4% to 19.4%, decreases the proposed increase for the commercial class from
 4 16.0% to 12.3%, decreases the proposed increased for the public authority class
 5 from 15.9% to 4.3% and decreases the proposed increase for the private fire class
 6 from 17.5% to 2.0%.

7 **Q. Do you agree with Mr. Kalcic' methodology.**

8 A. Mr. Kalcic' methodology is a reasonable alternative to revenue allocation.
 9 However, the Company's allocation method is more reasonable as its proposed
 10 allocation views the cost of service as a whole, including Act 11 subsidy, and sets
 11 rates to move each class toward its appropriate percentage of cost of service,
 12 including Act 11 subsidy. The chart below summarizes the difference between Mr.
 13 Kalcic' recommended increase and the Company's recommended increases.

Customer Classification (1)	Company Proposed Increase		OSBA Schedule Proposed Increase		Change in Increase
	Amount (10)	Percent Increase (11)	Amount (12)	Percent Increase (13)	
Residential	\$ 58,198,936	17.4%	\$ 65,505,228	19.6%	\$ 7,306,292
Commercial	19,090,526	16.0%	15,248,036	12.8%	(3,842,490)
Industrial	3,075,729	18.5%	3,082,333	18.5%	6,604
Public	1,362,174	16.0%	387,604	4.6%	(974,570)
Other Water Utilities	2,035	15.9%	-	0.0%	(2,035)
Private Fire Protection	2,822,599	17.5%	328,799	2.0%	(2,493,800)
Public Fire Protection	1,329,034	20.6%	1,329,034	20.6%	\$ 0
14 Total Tariff Sales of Water	85,881,033	17.1%	85,881,034	17.1%	1

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16 I recommend maintaining the Company's proposed revenue allocation.

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Rebuttal of Mr. Watkins

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Q. Please summarize the wastewater increases recommended by OCA witness Mr. Glenn Watkins.

A. In his revised wastewater rate design, Mr. Watkins attempts to reduce Act 11 subsidy by the revenue requirement associated with his described “wastewater acquisition premiums” for the new areas of Limerick, East Bradford, Cheltenham, East Norriton and New Garden, Rate Zones 7 through 11, which he calculates to be \$10,055,979.

Q. Do Section 1329 applications allow for acquisition premiums?

A. No, Section 1329 sets the rate base for the acquisition. There are no premiums, just a fair market value.

Q. Please describe Mr. Watkins’ resulting increase to the wastewater rates.

A. The increase was then allocated to the acquired areas based on their current rate revenues. Due to certain constraints that Mr. Watkins put on rate design; he was only able to add additional revenue of \$5,591,600 from these acquired systems. He then doubled the increase to the legacy systems to produce an additional \$3,473,445, for a total additional wastewater revenue increase of \$9,065,045.

Q. Do you agree with Mr. Watkins’ increases to wastewater revenue?

A. No, for several reasons. One, he increases the revenues for this rate zone by \$833,254 or 83.48%, rather than the 35.90% recommended by the Company. In addition, he arbitrarily doubles the Company’s recommended increase to all rate zones in the legacy system, including those areas that already have high monthly bills, such as Rate Zones 4 and 5, raising their average monthly bills to between

1 \$110.24 and \$187.91 per month (See GAW-4-page 2). By moving revenues
2 toward the cost of service, he ignores the concept of gradualism by recommending
3 large rate increases such as an overall increase of 130.67% for Rate Zone 7,
4 Limerick. Finally, he oddly doubles the decrease to the Pinecrest area. I
5 recommend that the Commission reject Mr. Watkins' wastewater rate design as
6 arbitrary and contrary to the concepts of gradualism.

7 **Q. How does Mr. Watkins allocate his calculated \$9,065,045 reduction to Act 11**
8 **subsidy to water revenue?**

9 A. He allocates the reduction by rate zone and by class based on the Company's
10 proposed revenue increase, less public fire and contract revenue.

11 **Q. Is this correct?**

12 A. No, the proper method of allocation is to review each wastewater cost of service
13 and calculate the difference between the proposed revenue and cost of service by
14 class and then allocate this amount to the same class in the water cost of service.
15 By allocating across the board, Mr. Watkins gives undue credit to classes that
16 received little original allocation of the Act 11 subsidy, such as the industrial class
17 (\$528 or .0027% of the cost of service) and public class (\$93,398 or 1.06% of the
18 cost of service).

19 **Q. What is Mr. Watkins' recommendation for a wastewater rate scale back?**

20 A. He offers two wastewater rate scale back alternatives, one based on rate of return
21 and one based on overall revenue requirement. In each case, it appears that he is
22 recommending a scale back to proposed wastewater rates and reducing the Act 11
23 subsidy. In other words, he recommends a scale back to wastewater rates, even if

1 the water customers are still providing a subsidy. Alternatively, the Company
2 recommends that, in a scale back, that the Act 11 subsidy be reduced first and
3 then proposed rates are reduced only if the Act 11 subsidy is \$0.

4 **Q. Please discuss Mr. Watkins' water revenue scale back.**

5 A. He recommends that his water revenue allocation should be scaled back across
6 divisions and classes.

7 **Q. Do you agree?**

8 A. No, in as much as I disagree with his water revenue allocation, I disagree with his
9 scale back. Also, as the Company is working to consolidate water rates for Rate
10 Zones 1 and 2 (with the exception of Chalfont, Concord Park and Treasure Lake in
11 Rate Zone 2), any scale back should maintain that consolidation.

12 **Q. For the residential water and wastewater customer charges, Mr. Watkins**
13 **claims at page 13 of his testimony that you offered no direct support for the**
14 **proposed increase to the customer charge. Did you supply direct support in**
15 **the filing?**

16 A. Yes, the calculation and support of the proposed water and wastewater customer
17 charges is included as a filing requirement as shown in Appendix A of both Exhibit
18 5-A and 5-B, which include the filing requirement RS1j. However, while Mr.
19 Watkins apparently overlooked Filing requirement RS1j. Mr. Watkins did review
20 my calculations in the Excel spreadsheet included for Exhibits 5-A and 5-B.

21 **Q. In calculating his residential water customer charge, Mr. Watkins disagrees**
22 **with items that you have included in your calculation. Please comment.**

1 A. In his calculation of the residential customer charge, Mr. Watkins excludes items
2 that he categorizes as “overhead costs”. In operation and maintenance, these
3 items include an allocation of office buildings, labor and materials and supplies
4 related to meters and services, contractor services, property rental and
5 transportation. However, these items are essential to maintaining customer
6 facilities. Meters and services cannot be repaired without labor, contractors,
7 transportation to and from job sites, and materials and supplies. He also excludes
8 bad debt expense as a direct customer cost, which is part of the customer
9 accounting function and should be recovered in the customer charge. As to rate
10 base and depreciation expense, Mr. Watkins excludes allocations of office
11 buildings, furniture and equipment, transportation equipment, materials and
12 supplies as “overhead”. Personnel working on customer facilities and customer
13 accounting require office buildings, office furniture and equipment, transportation
14 equipment and materials and supplies to do their job. These items are necessary
15 for the support of customer facilities and customer accounting and should be
16 considered direct costs. In fact, each item included in the Company’s calculation of
17 the customer charge has been approved by the Commission in a 2003 case
18 involving Aqua (formerly Pennsylvania Suburban Water Company) in Docket N. R-
19 00038805 and was reaffirmed in the PPL Electric Utilities Corporation case at
20 Docket No. R-2012-2290597. Therefore, I reject Mr. Watkins analysis and
21 recommendation of no change to the customer charge, and recommend the
22 Commission approve the Company’s calculation of the 5/8-inch customer charge.

1 **Q. Do any other witnesses question the Company's proposed water customer**
2 **charge?**

3 A. No, they do not.

4 **Q. In calculating his wastewater residential customer charge, Mr. Watkins**
5 **asserts that your identified customer costs total \$13.31 per month. Is this**
6 **accurate?**

7 A. No. My analysis of customer costs to be recovered in the wastewater customer
8 charge is shown in Appendix A of Exhibit 5B on page A-10. The costs total \$60.34
9 per month, not the total that Mr. Watkins represents of \$13.31. His costs do not
10 include an allocation of costs related to infiltration and inflow allocated to the
11 customer cost function. The Company recommends that the Commission approve
12 the Company's increases to wastewater customer charges as the weighted
13 average of all customer charges, shown in the chart below, under proposed rates
14 is lower (\$37.87) than the customer charge that the Company can support.

<u>Rate Zone</u>	<u>Metered Bills</u>	<u>Customer Charge Revenue*</u>	<u>Average Customer Charge</u>
RZ 1	\$ 16,897	\$ 660,669	\$ 39.10
RZ1A	26,337	1,146,776	43.54
RZ1B	9,833	384,486	39.10
RZ2	11,663	492,629	42.24
RZ3	27,676	1,607,722	58.09
RZ4	8,085	626,580	77.50
RZ5	6,457	607,967	94.15
RZ5 - NG	588	54,957	93.45
RZ6	16,548	829,074	50.10
RZ7	82,876	3,271,931	39.48
RZ8	14,399	562,999	39.10
RZ9	202,241	5,705,208	28.21
RZ10	56,687	1,834,952	32.37
RZ11	25,392	1,361,551	53.62
Total	\$ 505,680	\$ 19,147,501	\$ 37.86

* Under proposed rates.

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2 **Q. What is Mr. Watkins' recommendation for the customer charge for Rate**
3 **Zones 1 through 6?**

4 A. For Rate Zone 1, he recommends maintaining the current customer charge of
5 \$31.00. He does not discuss the customer charges for Rate Zones 2 through 6.
6 For the reasons I just explained, current customer charges do not recover
7 customer costs and should be increased as proposed by the Company.

8 **Q. Please comment on Mr. Watkins' recommendation for the residential rate**
9 **structure for Rate Zone 7, Limerick.**

10 A. He recommends increasing the customer charge to \$31.00 and eliminating the
11 usage allowance. The Company also recommends eliminating the usage
12 allowance, but recommends a customer charge of \$39.48. The Company's
13 proposed increase is supported by the customer cost study, as explained above.

1 **Q. Please comment on Mr. Watkins' discussion of the Company's rate design**
2 **for Rate Zone 8, East Bradford.**

3 A. Mr. Watkins misunderstands the Company's recommendation for rate design for
4 East Bradford. He criticizes the Company for requesting a customer charge of
5 \$83.42. The Company is not requesting a customer charge of \$83.42. This
6 requested charge represents the Company's requested unmetered charge. The
7 Company is requesting a customer charge for both the single family and
8 townhouse customers of \$39.10, plus a usage charge of \$1.108 per 100 gallons,
9 and an unmetered charge, for the remaining unmetered customers (except
10 Birmingham customers), of \$83.42, which is clearly stated in the Company's
11 wastewater tariff page 10.8. The Birmingham unmetered customers will continue
12 to be billed at the rate of \$68.09 per their existing contract.

13 **Q. What rate structure for Rate Zone 8 does Mr. Watkins recommend?**

14 A. He recommends maintaining the unmetered rate of \$68.09 as a customer charge
15 and adding a usage charge for newly metered customers.

16 **Q. Do you agree?**

17 A. No, the newly metered customers should not pay their current unmetered rate plus
18 a usage charge. This would be an unfair increase for this group of customers. I
19 recommend that the Commission approve the Company's rate design for Rate
20 Zone 8, East Bradford.

21 **Q. What is Mr. Watkins' rate recommendation for Rate Zone 9, Cheltenham?**

22 A. He recommends adopting the Company's customer charge for Cheltenham.

23 **Q. What is Mr. Watkins' rate recommendation for Rate Zone 10, East Norriton?**

1 A. He agrees with the Company's rate structure which removes the allowance of
 2 1,333 gallons per month and recommends a customer charge of \$31.00, rather
 3 than the customer charge recommended by the Company of \$32.37. The
 4 Company disagrees with Mr. Watkins' proposed customer charge, which adopts
 5 the current Rate Zone 1 customer charge, for reasons explained previously.

6 **Q. What is Mr. Watkins' rate recommendation for Rate Zone 11, New Garden?**

7 A. Unlike the Company's proposal, he recommends eliminating the allowance for New
 8 Garden. He also recommends a customer charge of \$37.64, rather than the
 9 Company's recommendation of \$51.71, that includes a usage allowance of 1,667
 10 gallons per month (or 5,000 gallons per quarter). The Company maintained the
 11 usage allowance due to the rate shock of eliminating the allowance for customers
 12 who use just over the minimum. For example, I calculated a rate design that
 13 utilizes Mr. Watkins' customer charge of \$37.64 with no minimum. The rate design
 14 necessitates a first tier volumetric rate of \$2.1874 per 100 gallons. The bill
 15 comparisons are shown below. A customer using 2,000 gallons per month would
 16 experience a 90.66% increase rather than the 37.4% increase recommended by
 17 the Company

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CONSUMPTION GALLONS	BILLS UNDER		INCREASE	
	PRESENT RATES	PROPOSED RATES	AMOUNT	PERCENT
(1)	(2)	(3)	(4)	(5)
0	\$ 37.64	\$ 37.64	\$ 0.00	0.01%
1,000	\$ 37.64	\$ 59.51	\$ 21.88	58.13%
2,000	\$ 42.69	\$ 81.39	\$ 38.70	90.66%
3,000	\$ 57.86	\$ 103.26	\$ 45.40	78.47%
4,000	\$ 73.03	\$ 125.14	\$ 52.11	71.35%
5,000	\$ 88.20	\$ 147.01	\$ 58.81	66.68%

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1 **Q. Do you agree with Mr. Watkins' rate design recommendations for wastewater**
2 **Rate Zones 1 through 11?**

3 A. In as much as Mr. Watkins does not opine as to the customer charge for Rate
4 Zones 2 through 6 or the usage rates for any rate zone, his rate analysis is
5 incomplete. In most cases, he lowers the customer charge from the Company's
6 proposed level, but yet significantly raises the amount of revenues from each rate
7 zone (See Schedule GAW-3). This would necessitate large increases to usage
8 charges to produce his proposed revenue, which he does not address. Due to the
9 incompleteness of Mr. Watkins rate design, I recommend that the Commission
10 reject his wastewater rate design in favor of the Company's proposed wastewater
11 rate design.

12 **Q. Mr. Watkins also discusses the Company's rate design concerning metered**
13 **and unmetered customers. Please discuss.**

14 A. Mr. Watkins notes that, under present rates, the Company's average monthly
15 metered revenue per customer, for all customers, is different than the Company's
16 current unmetered rate. The large difference in Limerick and East Norriton is
17 based on the fact that these are new acquisitions with legacy rates. The Company
18 will rectify this disparity when it sets the rates in this case. For the other rate
19 zones, the unmetered rate is based on an assumed average usage of 4,000
20 gallons per month plus a customer charge. The average usage of 4,000 gallons is
21 substantiated in the Company's prior rate case as the pre-COVID pandemic
22 average residential usage was 4,068 per month for the residential class. For
23 example, in Bridlewood, the calculation of the unmetered rate under present rates

1 equals \$31.00 plus the usage rate of .7600 per 100 gallons at 4000 gallons
2 (\$31.00 + .7600 X 40) or \$61.40. This calculation of the unmetered rate based on
3 average usage is standard in the industry and used by other regulated water and
4 wastewater utilities in Pennsylvania. For example, Pennsylvania American Water
5 Company's unmetered wastewater rate for Zone 1 for 2022 is \$78.41 per month
6 which was designed to equal the metered customer charge plus the usage rate
7 multiplied by an average usage of 3,458 gallons. Mr. Watkins requests that the
8 Company study the reasonableness of its unmetered rates. The Company's
9 position is there is no need to study the reasonableness of its unmetered rates.

10 **Q. Mr. Watkins reviewed your testimony regarding the feasibility of capping**
11 **non-seasonal wastewater rates. Please discuss.**

12 A. Mr. Watkins recommends that the Company further study adjusting wastewater
13 usage for irrigation.

14 **Q. Do you agree that further study is necessary?**

15 A. No, I do not. Mr. Watkins is directing the Company to revise its present analysis
16 regarding sewer usage caps to percentages larger than 100% of winter usage as
17 this would be a simple calculation. However, the result would be similar. As
18 described in my direct testimony, a cap would create higher rates for all
19 wastewater customers, benefiting high water users. In addition, as the wastewater
20 operations benefit from the shift under Act 11 from wastewater to the water
21 operations, it is possible that as wastewater rates rise due to the implementation of
22 the cap, more Act 11 shifting would be needed to mitigate the increase. It is the
23 Company's position that no additional study is needed.

1 **Q. Please explain Mr. Watkins' adjustment to the Company's water rate**
2 **contract revenues.**

3 A. Mr. Watkins proposes an adjustment to the revenues associated with negotiated
4 rate contracts for sales for resale and for end-use Industrial and Public Authority
5 customers. Mr. Watkins notes that certain of the contracts contain annual rate
6 escalation provisions and, therefore, an adjustment to current revenues is
7 appropriate to reflect the contractual escalation rates through March 31, 2023.
8 OCA St. 4 at 23; see *also* HIGHLY CONFIDENTIAL Schedule GAW-9. Mr.
9 Watkins proposes an adjustment to reflect contractual escalation that increases
10 water utility revenue for the FPFTY by \$301,307. OCA St. 4 at 23.

11 **Q. Does the Company agree with Mr. Watkins' proposed adjustment?**

12 A. No, as Mr. Watkins assumes a higher and incorrect rate of CPI. My Exhibit 5R-A
13 is revised to show the rates that the Company is assuming as of March 31, 2023
14 based on the increases allowed in the contracts. A CONFIDENTIAL summary of
15 this information is provided in Ms. Erin Feeney's rebuttal testimony (AP Statement
16 No. 2-R)

17 **Q. Did Mr. Watkins discuss any other rate design issues in his testimony?**

18 A. Yes, he discussed purchased water and energy cost adjustment factors. These
19 issues will be discussed in the rebuttal testimony by Company witnesses Erin
20 Feeney (AP Statement No. 2-R) and Christopher Henkel (AP Statement No. 4-R).

21 **Q. Mr. Watkins submitted Supplemental Direct Testimony on November 19, 2021**
22 **regarding the transcripts from the public input hearing. Please discuss.**

1 A. His supplemental testimony discusses that a small number (8) of the 956
2 residential customers in Lake Harmony voiced concerns over flat or unmetered
3 wastewater rates. Essentially, customers with smaller homes, that also may be
4 used seasonally, are concerned that they pay the same flat rate as much large
5 homes with numerous occupants.

6 **Q. Are flat rates standard practice for a wastewater utility?**

7 A. Yes. Typically, wastewater customers are billed based on metered water usage,
8 as sewer usage is much more difficult, if impossible, to meter. When a wastewater
9 utility does not have access to billed water usage, either because the customer has
10 its own private well or the customer is supplied water by another utility that does
11 not share its monthly metered water usage, the customer is billed a flat rate. As
12 noted previously in my testimony, the flat or unmetered rate is based on the
13 average consumption for a residential customer and is the traditional method of
14 billing a wastewater customer when water usage is unknown.

15 **Q. Mr. Watkins suggests that the Company should implement a pilot program to**
16 **meter the private customer wells on an opt-in basis and meter 10-20% of all**
17 **customer-owned wells in the Lake Harmony service area. Do you agree with**
18 **this proposal?**

19 A. No, I disagree for two reasons. One, the Company does not have the authority to
20 meter a representative sampling of customer-owned private wells. Allowing
21 customers to opt in would only incentivize those customers with low water
22 consumption, not the perceived larger users. Second, there are concerns about
23 the ability to access customers' property to properly install a meter on a well. I

1 understand that Company Witness Todd Duerr will explain the operational issues
2 with this pilot program in his rebuttal testimony (AP Statement No. 9-R). There
3 may be substantial cost involved, and Mr. Watkins' proposal is that the Company
4 bear the cost of such installations. Finally, the lack of authority to meter all
5 privately owned wells means that the "pilot" can never be adopted as a permanent
6 solution. Customers would continually opt for the lesser cost alternative. Mr.
7 Watkins' proposal is unworkable.

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9 **Rebuttal of Mr. Smith**

10 **Q. Please summarize the issue regarding the Company's revenue adjustment**
11 **due to the COVID-19 pandemic raised by OCA witness Mr. Ralph Smith.**

12 A. The Company adjusted revenue based on adjusting residential, commercial and
13 public authority water usage to pre-pandemic levels. Mr. Smith accepts the
14 Company's adjustment for commercial and public authority revenue for metered
15 water sales on the basis that FPTY sales levels would reflect pre-pandemic water
16 sales levels. However, for the residential water sales, he only reflects 75% of the
17 Company's proposed revenue adjustment due to his reasoning that some
18 residential customers are continuing to spend more time at home.

19 **Q. Do you agree?**

20 A. No, Mr. Smith is not being consistent. If commercial and public usage would be
21 back to normal, how could residential usage not be back to normal. If more
22 individuals are staying home and using more water than pre-pandemic, shouldn't
23 that indicate that usage for the commercial and public classes should be lower as a

1 result? In fact, the Company's most recent usage data proves that usage is
 2 moving toward pre-pandemic levels. The chart below compares September and
 3 October usage amounts for 2020 versus 2021.

	Oct-20	Oct-21	Change	Percentage Change
Residential	1,636,326	1,545,471	(90,855)	-5.6%
Commercial	805,189	877,755	72,566	9.0%
Public	43,714	58,915	15,201	34.8%
	2,485,230	2,482,141	(3,089)	-0.1%

	Sep-20	Sep-21	Change	Percentage Change
Residential	1,706,364	1,636,859	(69,505)	-4.1%
Commercial	870,301	935,491	65,190	7.5%
Public	54,027	59,981	5,954	11.0%
	2,630,691	2,632,331	1,639	0.1%

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 6 The Company is seeing between a 4-5% decrease in residential usage and
 7 increases in commercial and public usage. Finally, Mr. Smith shows no empirical
 8 evidence supporting how he chose 75% as a percentage of the residential revenue
 9 adjustment. Further, the data demonstrate that residential declines are
 10 substantially offset by commercial/public increases. This confirms the error in Mr.
 11 Smith's assumption to accept the commercial/public increases in usage, but to
 12 adopt only 75% of the residential usage increase. His adjustment is arbitrary and
 13 inconsistent.

14 **Rebuttal of Mr. Cline**

15 **Q. Please summarize Mr. Cline's position on the scale back of water rates?**

16 A. Mr. Cline rightfully states that the revenue requirements and scale backs of the
 17 wastewater operations must be determined prior to the application of a scale back

1 to the water operations. However, once the wastewater scale back is determined,
2 he recommends that the Company's proposed increases by class are scaled back
3 proportionally. The Company agrees with this recommendation.

4 5 **Rebuttal of Mr. Kubas**

6 **Q. Mr. Joseph Kubas has recommended a number of changes to the Company**
7 **proposed rate design. Please describe his recommended changes to**
8 **wastewater rates in Zones 1 through 6.**

9 A. Mr. Kubas' goal in revising rates in Zones 1 through 6 is to reduce the \$13.453
10 million Act 11 contribution related to the wastewater customers in these rate zones.
11 In Zone 1, Mr. Kubas increases the customer charges, unmetered rates and the
12 volumetric charges by 46.8%. He also recommends raising the Media and Bunker
13 Hill unmetered charges to \$90.00 per month. This rate design increases the
14 average residential wastewater bill (excluding Media Bunker Hill) by approximately
15 39.8% per month. For Zone 1-A and 1-B, he recommends setting these rates
16 equal to Zone 1 rates (eliminating the allowance in Zone 1-B), for an average
17 residential rate increase of 52.2% in Zone 1-A and 42.5% in Zone 1-B. This
18 consolidation of rates was also recommended by the Company, but at lower rate
19 increases.

20 In Zone 2-Main (excluding Pinecrest customers), unlike the Company, Mr.
21 Kubas does not recommend a consolidation with Zone 1 rates. He recommends
22 an across the board increase of 46.2% to tariff rates, for a residential average
23 increase of 39.7%. For Zone 2-Pinecrest, Mr. Kubas recommends maintaining the

1 Company's proposed rate design of no increase due to the currently high rates for
2 this area with a review in the next base rate case. Mr. Kubas' rate design would
3 not consolidate Rate Zone 2 with Rate Zone 1, as recommended by the Company.
4 His rate design maintains all six legacy rate zones, rather than the Company's
5 recommendation of consolidating from six to five rate zones.

6 For Zone 3, Mr. Kubas recommends increasing the customer charges and
7 volumetric charges by 36.6% per month and, similar to the Company's proposal,
8 consolidating the unmetered charges to one charge. The residential average
9 increase is 29.8%. For Woodloch Springs, Mr. Kubas accepts the Company's
10 proposal to increase the monthly charge to \$356.40 but recommends an additional
11 increase to the volumetric charge to \$0.295 per 100 gallons, for an overall average
12 increase of 39.9%.

13 For Zone 4, Mr. Kubas increases rates by 31.1% across the board, for an
14 average residential increase of 24.9%.

15 For Zone 5, he recommends accepting the Company's proposed rates.

16 For Zone 6, Mr. Kubas recommends increasing the customer charge by
17 41.8% and the usage rate by 160%, for an overall increase of 44.6% for an
18 average residential customer.

19 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zones 1 through**
20 **6?**

21 A. No, as the Company believes that the additional increases for this group of
22 customers constitutes rate shock and should not be implemented.

23 **Q. Please describe Mr. Kubas' proposed rate design for Rate Zone 7.**

1 A. Mr. Kubas increases the customer charge by 40.6%, rounding up the Company's
2 proposed customer charge by \$0.02. He increases the volumetric rate by 33.1%
3 and, like the Company's proposal, eliminates the allowance. He also increases the
4 unmetered rate to \$60.00 per month. An average residential customer's bill will
5 increase by 89.2%.

6 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zone 7?**

7 A. As the rate increase is very similar to the Company's proposed increase, the
8 Company will not contest Mr. Kubas' rate design for Rate Zone 7.

9 **Q. Please describe Mr. Kubas' proposed rate design for Rate Zone 8.**

10 A. He recommends a residential customer charge of \$55.00 per month and a
11 volumetric charge of \$1.120 per 100 gallons resulting in an increase of 74.2% to
12 the multi-family or townhouse customers. In addition, Mr. Kubas is recommending
13 a different level for the commercial customer charge of \$39.10.

14 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zone 8?**

15 A. No. An increase for the multi-family or townhouse customers of 74.2% constitutes
16 rate shock for these customers. In addition, Mr. Kubas recommends a different
17 EDU charge for the commercial class than the residential class, which is contrary
18 to the Company's rate structure goal of mostly keeping the EDU charges for
19 residential and commercial customers the same. Finally, Mr. Kubas increases the
20 unmetered charge for the Birmingham Township customers. However, the
21 contract related to these customers limits rate increases to an increase charged by
22 the Borough of West Chester and therefore, the rate cannot be increased in this
23 rate proceeding. See Exhibit 5R-C for the related contract.

1 **Q. Please describe Mr. Kubas' proposed rate design for Rate Zone 9.**

2 A. Mr. Kubas recommends increasing the customer charge to \$30.00 per month and
3 the volumetric charge to \$0.68 per 100 gallons, which equate to an increase to the
4 average residential customer bill of 56%.

5 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zone 9?**

6 A. No, as the Company believes that the additional increase recommended for Rate
7 Zone 9 constitutes rate shock and should not be implemented.

8 **Q. Please describe Mr. Kubas' proposed rate design for Rate Zone 10.**

9 A. For both the Norriton and Whitpain areas, Mr. Kubas recommends increasing the
10 customer charge to \$35.00 per month and the volumetric charge to \$0.76 per 100
11 gallons. Like the Company, he eliminates the allowance. These rate changes
12 produce an increase to the average residential customer bill of 72.6% in Norriton
13 and 99.4% in Whitpain.

14 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zone 10?**

15 A. No, as the Company believes that the additional increase recommended for Rate
16 Zone 10 constitutes rate shock and should not be implemented.

17 **Q. Please describe Mr. Kubas' proposed rate design for Rate Zone 11.**

18 A. Mr. Kubas recommends increasing the customer charge to \$63.00 per month and
19 the volumetric charge to \$1.6250 per 100 gallons for usage up to 5,000 gallons
20 and \$2.600 per 100 gallons for usage over 5,000 gallons per month. Mr. Kubas'
21 rate design eliminates the allowance in Rate Zone 11, which the Company does
22 not propose. These rate changes produce an increase to the average residential
23 customer bill of 79.8%

1 **Q. Do you agree with Mr. Kubas' proposed rate design for Rate Zone 11?**

2 A. No, eliminating the allowance for Rate Zone 11 causes a large increase for
3 customers who use just over the minimum. See chart below that shows bill
4 comparisons under Mr. Kubas' rate design.

5

CONSUMPTION GALLONS	BILLS UNDER		INCREASE	
	PRESENT RATES	PROPOSED RATES	AMOUNT	PERCENT
(1)	(2)	(3)	(4)	(5)
0	\$ 37.64	\$ 63.00	\$ 25.36	67.39%
1,000	\$ 52.81	\$ 79.25	\$ 26.44	50.08%
2,000	\$ 42.69	\$ 95.50	\$ 52.81	123.71%
3,000	\$ 57.86	\$ 111.75	\$ 53.89	93.14%
4,000	\$ 73.03	\$ 128.00	\$ 54.97	75.27%
5,000	\$ 88.20	\$ 144.25	\$ 56.05	63.55%
6,000	\$ 103.37	\$ 170.25	\$ 66.88	64.70%

6

7 In addition, the Company believes that the additional increase recommended for
8 Rate Zone 11 constitutes rate shock and should not be implemented.

9 **Q. Mr. Kubas also increases the rates for Third Party Sales and Other Operating
10 Revenue. Please comment.**

11 A. Company witness Erin Feeney (AP Statement No. 2-R) will be addressing these
12 issues in her rebuttal testimony.

13 **Q. Mr. Kubas recommends that there be no scale back of wastewater rates until
14 the total wastewater subsidy is eliminated, and once the subsidy is
15 eliminated, that the wastewater rates are scaled back from Mr. Kubas'
16 percentages. Do you agree?**

1 A. The Company agrees that no scale back should occur until the total wastewater
2 subsidy is eliminated. However, any scale back after the subsidy is eliminated
3 should be based on the Company's proposed rate increases.

4 **Rebuttal of Mr. Baudino**

5 **Q. Please summarize the revenue allocation issues raised by Aqua-LUG witness**
6 **Mr. Richard Baudino.**

7 A. Mr. Baudino recommends slight changes to the movement toward the relative rate
8 of return by customer class under proposed rates.

9 **Q. Do you agree with Mr. Baudino's recommendation?**

10 A. I have no philosophical problem with Mr. Baudino's recommendation.

11 **Q. Mr. Baudino also recommends a change to the increase in the blocks for the**
12 **commercial and industrial classes. Do you agree?**

13 A. He recommends moving a portion of the industrial class increase to the residential
14 class due to the larger increase to the industrial class blocks 5 and 6. I cannot
15 agree to move revenue from the industrial class to the residential class, as under
16 Mr. Baudino's requested relative rates of return, both RROR would be between .98
17 and .99.

18 **Q. Does this conclude your rebuttal testimony?**

19 A. Yes, it does