

**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
ERIN M. FEENEY**

Topics Addressed:

**Rate Base Adjustments; Operating Revenues Adjustments; Operating and Maintenance
Expense Adjustments**

DATE SERVED: December 2, 2021
DATE ADMITTED: _____

Aqua Statement No. 2-R

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Erin M. Feeney. My business address is 762 W. Lancaster Avenue, Bryn Mawr,
4 Pennsylvania 19010.

5
6 **Q. Did you previously submit testimony in this proceeding on behalf of Aqua
7 Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. (“Aqua PA”, “AP”, or
8 the “Company”)?**

9 A. Yes. I submitted my direct testimony, AP Statement No. 2, on August 20, 2021.

10

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. My testimony responds to certain portions of the direct testimony submitted by the
13 Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Investigation and
14 Enforcement (“I&E”), and the Office of Consumer Advocate (“OCA”).

15 Specifically, I will be responding to the following pieces of testimony and the
16 identified issues raised therein:

- 17
- 18 • I&E Statement No. 1, the direct testimony of Ms. Christine Wilson, regarding certain
19 of her proposed adjustments to the Company’s overall requested revenue
20 requirement, and certain of her adjustments to the Company’s claimed operating and
21 maintenance (“O&M”) expenses;
 - 22 • I&E Statement No. 3, the direct testimony of Mr. Esyan A. Sakaya, regarding I&E’s
23 proposed rate base and O&M adjustments related to the acquisition of the Borough
of Phoenixville’s water system;

- 1 • I&E Statement No. 4, the direct testimony of Mr. Ethan Cline regarding his
2 adjustments to the Company’s claimed operating revenues and certain water-resale
3 rider contracts;
- 4 • I&E Statement No. 5, the direct testimony of Mr. Joseph Kubas regarding his
5 adjustments to the Company’s claimed wastewater operating revenues;
- 6 • OCA Statement No. 1, the direct testimony of Mr. Ralph Smith, regarding certain of
7 Mr. Smith’s adjustments to the Company’s rate base and O&M expense claims;
- 8 • OCA Statement No. 2, the direct testimony of Ms. Morgan DeAngelo, regarding
9 OCA’s proposed adjustment related to the acquisition of the Borough of
10 Phoenixville’s water system; and
- 11 • OCA Statement No. 4, the direct testimony of Mr. Glenn Watkins, regarding his
12 adjustments for certain water-resale rider contracts.

13 In addition, my rebuttal testimony addresses certain updates and corrections to the
14 Company’s initial claim, which were identified during the discovery phase of this
15 proceeding.

16
17 **Q. Are you sponsoring any exhibits associated with your rebuttal testimony?**

18 A. Yes. I am sponsoring HIGHLY CONFIDENTIAL Aqua Exhibit EMF-1-R.

19
20 **II. REBUTTAL TO OTHER PARTIES’ RATE BASE ADJUSTMENTS**

21 **A. PHOENIXVILLE WATER ACQUISITION**

22 **Q. Does the Company’s claim in this case include a positive acquisition adjustment**
23 **pursuant to Section 1327 of the Public Utility Code related to its acquisition of the**

1 **Borough of Phoenixville water system?**

2 A. Yes. Aqua PA proposed a positive acquisition adjustment related to its acquisition of the
3 Phoenixville water system, as described in my direct testimony AP Statement No. 2 at 16-
4 17.

6 **Q. Did any of the other parties oppose Aqua PA’s proposed positive acquisition
7 adjustment related to the Phoenixville water system?**

8 A. Yes, both I&E and OCA opposed this adjustment and recommended that the Company’s
9 claim for a positive acquisition adjustment to rate base of \$2,437,305 be denied.¹

10

11 **Q. Before addressing I&E’s and OCA’s arguments Ms. Feeney, what does Section
12 1327(a) provide?**

13 A. Section 1327(a) provides that if a public utility acquires property from another public
14 utility, a municipal corporation or a person at a cost which is in excess of the original cost
15 of the property when first devoted to the public service less the applicable accrued
16 depreciation, it shall be a rebuttable presumption that the excess is reasonable and that
17 excess shall be included in the rate base of the acquiring public utility, provided that the
18 acquiring public utility proves that:

- 19 (1) the property is used and useful in providing water or sewer service;
- 20 (2) the public utility acquired the property from another public utility, a municipal
21 corporation or a person which had 3,300 or fewer customer connections or which
22 was nonviable in the absence of the acquisition;

¹ Both I&E and OCA also proposed a related adjustment to amortization expense associated with this acquisition. I address these arguments in Section IV.A. below.

1 (3) the public utility, municipal corporation or person from which the property was
2 acquired was not, at the time of acquisition, furnishing and maintaining adequate,
3 efficient, safe and reasonable service and facilities, evidence of which shall include,
4 but not be limited to, any one or more of the following:

5 (i) violation of statutory or regulatory requirements of the Department of
6 Environmental Resources or the commission concerning the safety,
7 adequacy, efficiency or reasonableness of service and facilities;

8 (ii) a finding by the commission of inadequate financial, managerial or
9 technical ability of the small water or sewer utility;

10 (iii) a finding by the commission that there is a present deficiency
11 concerning the availability of water, the palatability of water or the
12 provision of water at adequate volume and pressure;

13 (iv) a finding by the commission that the small water or sewer utility,
14 because of necessary improvements to its plant or distribution system,
15 cannot reasonably be expected to furnish and maintain adequate service to
16 its customers in the future at rates equal to or less than those of the acquiring
17 public utility; or

18 (v) any other facts, as the commission may determine, that evidence the
19 inability of the small water or sewer utility to furnish or maintain adequate,
20 efficient, safe and reasonable service and facilities;

21 (4) reasonable and prudent investments will be made to assure that the customers
22 served by the property will receive adequate, efficient, safe and reasonable service;

23 (5) the public utility, municipal corporation or person whose property is being

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

11
12 **Q. What are criteria relevant to Mr. Sakaya's and Ms. DeAngelo's proposals to disallow**
13 **the Company's claimed acquisition adjustment for the Phoenixville water system?**

14 A. Mr. Sakaya and Ms. DeAngelo appear to be making the assertion that the Company must
15 satisfy all five sub-sections under 66 Pa. C.S. Section 1327(a)(3). Section 1327(a)(3) of
16 the Public Utility Code states that "the public utility, municipal corporation or person from
17 which the property was acquired was not, at the time of acquisition, furnishing and
18 maintaining adequate, efficient, safe and reasonable service and facilities, evidence of
19 which shall include, but not be limited to, *any one or more of the following*:". In the
20 Company's experience, the Commission has never interpreted Section 1327 to require all
21 five subsections of Section 1327(a)(3) to be satisfied in order to obtain recovery of an
22 acquisition adjustment. Moreover, I am advised by counsel that the five subsections of
23 Section 1327(a)(3) are listed in the disjunctive (i.e., the list utilizes the word "or" between

1 the fourth and fifth subsections).

2

3 **Q. Has the Commission articulated its policy regarding the acquisition of small, troubled**
4 **or non-viable water systems by larger viable utilities?**

5 A. Yes. The Commission’s policy statement encourages regionalization of small and troubled
6 water systems as set forth in 52 Pa. Code § 69.711.

7

8 **Q. Please describe the Phoenixville water system.**

9 A. The Phoenixville water system serves approximately 550 customers that are outside the
10 municipal boundaries of the Borough of Phoenixville in Upper Providence, East Pikeland,
11 and Schuylkill Townships. The system includes 6.36 miles of distribution main and 56 fire
12 hydrants. Water is supplied by the Phoenixville Borough Water Department to the system.

13

14 **Q. Why did I&E and OCA recommend that the positive acquisition adjustment related**
15 **to the Phoenixville water system be disallowed?**

16 A. Both I&E witness Mr. Sakaya and OCA witness Ms. DeAngelo make the same basic
17 argument that the Company did not present sufficient evidence to satisfy the criteria of
18 Section 1327(a) because it did not demonstrate at the time of the acquisition the
19 Phoenixville system was “not furnishing and maintaining adequate, efficient safe and
20 reasonable service and facilities.”

21

22 **Q. Please summarize I&E witness Mr. Sakaya’s arguments.**

23 A. I&E witness Mr. Sakaya argues that “Aqua has not demonstrated that the Phoenixville

1 acquisition satisfies all of the required Section 1327(a) criteria.” I&E St. 3 at 7. He
2 specifically asserts that the conditions set forth in subparagraph 3 of Section 1327(a) have
3 not been met, and claims that the service issues identified in Aqua PA’s application to
4 acquire the system related to manually reading meters, having non-revenue water
5 approximating 68%, and having to replace 30% of all hydrants in the system are not
6 sufficient to satisfy Section 1327(a)(3). I&E St. 3 at 7-8. He further claims the
7 Commission did not address any environmental issues related to this system in the
8 acquisition order. I&E St. 3 at 8-9.

9
10 **Q. Please summarize OCA witness Ms. DeAngelo’s arguments.**

11 A. OCA witness Ms. DeAngelo makes similar claims. OCA St. 2 at 11.² She argues that
12 Aqua PA has not shown the Borough was providing inadequate service to its customers at
13 the time of the acquisition, because (a) there is no evidence the Borough was in violation
14 of statutory or regulatory requirements at the time of the acquisition, (b) the Commission
15 did not determine the Borough’s financial, managerial or technical abilities were
16 inadequate, (c) the Commission did not determine there were deficiencies concerning the
17 availability or palatability of water, or the provision of it at adequate pressure/volume, and
18 (d) there were no issues with adequate service due to improvements to plant or the system.
19 OCA St. 2 at 11-12. Ms. DeAngelo further disputes the bases provided by Aqua PA under
20 the fifth criteria of Section 1327(a)(3), and argues the purchase agreement contained
21 representations and warranties about the system’s compliance with all regulatory and other
22 laws. OCA St. 2 at 12-13. Finally, she argues that the acquisition was only for a portion

² OCA witness Mr. Smith relies upon Ms. DeAngelo’s testimony to support his proposed adjustment. OCA St. 1 at 20-21.

1 of the Borough's system (i.e., the portion located outside its municipal boundaries) and that
2 the Borough continues to operate a system serving water and wastewater customers, as
3 well as providing wholesale water supply to Aqua PA. OCA St. 2 at 13-14.
4

5 **Q. Is there any valid basis for Mr. Sakaya's and Ms. DeAngelo's claims?**

6 A. No.
7

8 **Q. Please explain why not.**

9 A. To begin, Aqua PA's application to acquire the system did include sufficient evidence to
10 satisfy Section 1327(a)(3). Having non-revenue water of approximating 68%, and having
11 to replace 30% of all hydrants in the system is a clear indication that this was a troubled
12 system. As I noted previously, the Commission's policy statement encourages and
13 incentivizes mergers and acquisitions of smaller systems to foster regionalization. The
14 Phoenixville acquisition was a prime candidate for using this policy. In addition, in the
15 Company's experience, the Commission has never prescriptively required that all five
16 subsections of Section 1327(a)(3) be satisfied in order to accomplish the Commission's
17 policy goals, and such a prescriptive interpretation would be contrary to the plain language
18 of this statutory provision. Clearly, fire protection is a significant safety and reliability
19 issue which the Company addressed by inspecting 105 fire hydrants, replacing 13 hydrants,
20 and repairing 19 hydrants. The Company also is replacing meters with radio frequency
21 ("RF") capability, which will improve service to customers through better billing practices.
22 In addition, the Company proactively performed leak surveys, verified hydrant pressures,
23 and checked valve operations. This system is now currently on the Company's ongoing

1 maintenance program. Finally, this system was owned by an entity that did not want to
2 continue to provide service to these customers. The argument that Phoenixville could have
3 provided service is the same for any troubled system that would come under Section 1327.
4 A system with approximately 550 customers that had failing hydrants is a system that falls
5 within the parameters of the Commission’s policy on small non-viable water systems.

6
7 **B. CUSTOMER ADVANCES FOR CONSTRUCTION (“CAC”) AND**
8 **CONTRIBUTIONS IN AID OF CONSTRUCTION (“CIAC”)**

9 **Q. What are CAC?**

10 A. A customer advance for construction or “CAC” is funds paid to a utility for an extension
11 of service that is refunded over time to the applicant for service. These are treated as a
12 reduction to a company’s rate base.

13
14 **Q. What are CIAC?**

15 A. Contributions in aid of construction or “CIAC” are amounts furnished by applicants for
16 facilities that may not be subject to a refund. With CIAC, the funds do not diminish over
17 time, and as such, they are not investor supplied funds, and therefore, they are treated as a
18 reduction to rate base.

19
20 **Q. Do any parties propose adjustments to the Company’s claimed rate base related to**
21 **CAC and CIAC?**

22 A. Yes. OCA witness Mr. Smith proposes a \$6.431 million decrease to the Company’s water
23 rate base and a \$2.994 million decrease to its wastewater rate base related CAC and CIAC.
24 OCA St. 1 at 22-23.

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Q. Please summarize Mr. Smith’s arguments in support of his proposed adjustment.

A. Mr. Smith asserts that the starting point for the Company’s claimed amounts (i.e., CAC and CIAC as of March 31, 2021), was understated. OCA St. 1 at 21-22. He cites discovery responses provided by the Company and states that claimed amounts of CAC and CIAC for the water utility understate the actual amounts for the period ending March 31, 2021, by approximately \$6,431,456. OCA St. 1 at 22.

Q. Does the Company agree with Mr. Smith’s recommended adjustment to water and wastewater rate base?

A. No, Mr. Smith’s recommendation should be rejected as the amounts provided in the Company’s filing were not understated. By way of additional background, the responses provided to OCA-VII-11 and OCA-VII-12 were the Company’s per book amounts for all CAC and CIAC related accounts as of the end of the HTY. The difference Mr. Smith has identified between these per book amounts and the amounts claimed in AP Exhibit 1-A and 1-B, Schedule G-6 are non-utility plant items. As they are non-utility plant items, they are not included in AP Witness Mr. Spanos’ Exhibits 6-A through 6-G. If the Company were required to adjust CAC and CIAC as Mr. Smith has proposed, the Company would need to make an equal and offsetting adjustment to include the offsetting Utility Plant in Service, which would affect total rate base.

1 **III. REBUTTAL TO OTHER PARTIES' OPERATING REVENUE ADJUSTMENTS**

2 **A. I&E ADJUSTMENT TO SALE FOR RESALE NEGOTIATED WATER**
3 **CONTRACT REVENUES**

4 **Q. Please describe Rider DRS.**

5 A. Rider DRS is available to existing or new customers that intend to purchase water from the
6 Company for resale and have a viable competitive alternative to service from the Company.
7 The majority of the contracts that Mr. Cline recommends “canceling”³ are with municipal
8 water systems that were “new” customers at the time those contracts were entered into, and
9 therefore, the contracts provided incremental revenue streams that otherwise were not
10 available to the Company.

11 Pursuant to Rider DRS, the Company may furnish service to qualifying customers
12 under customer-specific contracts at prices designed to maintain sales that otherwise would
13 be lost to other water service alternatives. The use of such riders retains the recovery of
14 significant fixed costs from these qualifying customers that otherwise would have to be
15 recovered from all other customers. Specifically, Rider DRS requires that the customer:

16 (1) enter into a long-term (ten-year) contract;

17 (2) maintain a daily load factor of not less than 0.6;

18 (3) pay not less than the “Minimum Rate,” which must be high enough to recover:
19 (a) the Production Cost of Water; (b) all of the fixed costs associated with facilities
20 installed specifically to serve the resale customer; and (c) some portion of the fixed
21 costs of the Company’s other facilities; and

22 (4) accept, as part of the Rider DRS contract, an escalation clause providing that
23 the contract rate will automatically escalate at a designated index level or based on
24 changes in the Company’s cost of service, as the parties may agree.

³ As I will explain later, AP sells water to Aqua Ohio’s Masury Division pursuant to a specific tariff rate which is moving to a Rider DRS Contract.

1 Additionally, contracts entered into under Rider DRS must be filed with the Commission.
2 And, while not set forth in Rider DRS, contracts between a public utility and a municipality
3 for service at other than tariff rates must be filed with, and approved by, the Commission
4 under Section 507 of the Public Utility Code.

5
6 **Q. Please describe the process for how the Company reviews these contracts.**

7 A. Contract customers are an absolute benefit to the Company's existing customers and the
8 rates they are charged. To the extent that the Company is able to add additional contract
9 customers due to the availability of water supply and without the requirement to invest
10 additional incremental capital, the revenues received for providing this supply reduce rates.
11 It is important to highlight several key concepts that guide the Company's decision-making
12 process when dealing with the unique circumstances when dealing with water contracts.

13 Each entity is different, and having their own facts and circumstances concerning
14 the viability of their current and future water supply needs, and thus, engaging the
15 Company to satisfy those supply needs. The Company can only provide service to these
16 customers if it has available supply in neighboring or nearby systems that it currently
17 operates. In these instances, the Company's costs to serve these new customers is typically
18 limited to only the production cost of water and does not require capital investment to
19 create additional supply. Contracts of this nature not only cover the incremental cost to
20 produce water, but also contribute toward the payment of fixed costs which is a key tenant
21 in the Rider DRS. Lastly, the Company in good faith complied with the settlement follow-
22 up from the last base rate case where the Company was directed to contact each of the
23 Company's contract customers and have them demonstrate or identify that they have or

1 had a viable alternative (see HIGHLY CONFIDENTIAL Aqua PA Exhibit EMF-1-R).

2 Typically, when dealing with a municipal entity, discussions around water
3 availability or supply are often decided at a point in time and involve decisions about
4 whether to engage an engineer to find water, construct a well or plant, and go through a
5 DEP permitting process. Or the entity may consider the option of purchasing water from
6 the Company at a discounted rate.

7 At the time of these negotiations, representatives from the municipalities and the
8 Company discuss their alternatives to service and memorialize the decision to procure
9 water from the Company in the contract itself. It is important to emphasize that these
10 decisions for the municipalities are made at a point in time (e.g., whether to build a water
11 treatment plant or not). Requiring a re-evaluation of this decision 10 or 20 years later likely
12 would have resulted in the municipality either not signing the contract at all or pursuing
13 their alternative source. For example, if a municipality, 20 years ago, decided not to build
14 a water treatment plant, and faced with that decision today, would deal with permitting,
15 land use, source of supply, and capital issues and constraints. Again, one could assume
16 that if the municipality was going to be second guessed on their decision ten or twenty
17 years later to **not to build** a treatment plant, it may have reconsidered its initial decision.

18 Therefore, these contracts cannot be reviewed in a vacuum as Mr. Cline would
19 propose to do in this proceeding. Nor does his look-back comport with the Commission's
20 long-standing policy of consolidation of systems, if we are now encouraging municipalities
21 to build water and wastewater plants. I continue to believe that these contracts are in the
22 best interests of all the Company's customers.

23

1 **Q. Have the Company’s present, proposed and Commission-approved revenues in prior**
2 **rate cases been calculated to reflect the pricing terms of the Rider DRS contracts**
3 **being challenged in this case?**

4 A. Yes, they have. All of the contracts are long-term contracts that the Company has included
5 in multiple base rate cases. These contracts were the basis for the Company’s revenue
6 claims and its final approved rates in more than one prior base rate case.

7
8 **Q. Do any of the other parties propose that any of the Rider DRS contracts entered into**
9 **between Aqua PA and its customers be cancelled?**

10 A. Yes. I&E witness Mr. Cline recommends that certain of the contracts be cancelled and
11 present rate revenues be increased by \$8,577,675. I&E St. 4 at 15-16. On page 11 of his
12 direct testimony Mr. Cline lists Chemung, New Wilmington, Warwick, Sharpsville,
13 Hubbard, Horsham, and Schwenksville as the Rider DRS contracts he proposes should be
14 cancelled and should be moved Rate Zone 1 rates.

15
16 **Q. Why does Mr. Cline recommend that the Rider DRS contracts be cancelled?**

17 A. Mr. Cline wants to cancel Chemung, Warwick, Sharpsville and Schwenksville because he
18 asserts that the contracts refer to a claimed competitive alternative but does not provide
19 documentation. He next wants to cancel Horsham, Hubbard, and Downingtown because
20 he notes the Company failed to provide a competitive alternatives analysis, which he claims
21 is required.

22
23 **Q. Please elaborate on why you disagree on Mr. Cline’s approach and analysis of these**

1 **contracts.**

2 A. I disagree with his approach and analysis of these contracts for a number of reasons. Mr.
3 Cline conveniently ignores key provisions of the Company’s Commission-approved Rider
4 DRS. In particular, he fails to discuss: (1) the Company’s ability to **review documentation**
5 **to its satisfaction** when entering into these agreements; (2) the plain language of the Rider
6 DRS approved in the Company’s tariff and incorrectly expands the needed documentation
7 to support Rider DRS contracts; and (3) the fact that the additional documentation he
8 claims the Company did not provide is not required to be filed with the Commission as part
9 of the contract filing.

10 He asserts that a competitive alternative **analysis** is required in order for each of
11 these customers to be able to enter into such a contract. I&E St. 4 at 10-12. He further
12 erroneously suggests that Aqua PA was required to provide a competitive alternative
13 analysis for these customers under the terms of the settlement entered into in its 2018 base
14 rate proceeding at Docket No. R-2018-3003558. I&E St. 4 at 11.

15

16 **Q. Ms. Feeney, according to the Company’s tariff, what information can be utilized to**
17 **support utilizing Rider DRS?**

18 A. Under the Company’s Rider DRS, the Company must require documentation of the
19 existence of a competitive alternative to the Company’s satisfaction. However, Rider DRS
20 expressly states such documentation may include, but is not limited to, an affidavit of the
21 customer or, if the customer is a corporation, an affidavit of one or more of its officers.
22 The plain language of the Company’s tariff supports the use of an affidavit which requires
23 the customer (in this case – municipal employees) to swear under oath.

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Q. Does the settlement entered into in Aqua PA’s 2018 base rate proceeding require that a “competitive alternative analysis” be performed as Mr. Cline claims?

A. No, it does not. The Settlement Agreement in Aqua PA’s 2018 base rate case provided for the Company to provide documentation of competitive alternatives for these customers. This agreement did not change the requirements of the rider, which already requires documentation that includes submission of an affidavit.

Q. What are the benefits of Rider DRS customers and how do the contracts at issue satisfy all other requirements for service?

A. Contract customers are an absolute benefit to the Company’s existing customers and the rates they are charged. To the extent that the Company is able to add additional contract customers due to the availability of water supply and without the requirement to invest additional incremental capital, the revenues received for providing this supply reduce rates. The contracts assure long-term revenue streams that recover all of the Company’s variable costs, the fixed costs of customer-specific facilities and make positive contributions to the fixed costs of the Company’s other facilities, which reduces the fixed costs that must be borne by all other customers. In addition, all Rider DRS customers have and maintain favorable load factors. And, as I previously indicated, the Rider DRS customers represented new, incremental revenues that the Company was able to obtain because Rider DRS was available.

Q. Have you quantified the benefit all Aqua PA customers receive because of the positive

1 **contribution to fixed costs made by Rider DRS customers offsets the Company’s total**
2 **fixed costs?**

3 A. Yes. The contribution to fixed costs at the Company’s proposed rates for each of the Rider
4 DRS contracts is provided in the table below:

Chemung County Industrial Development Agency	\$8,505
New Wilmington Municipal Authority	\$273,246
Warwick Township Water and Sewer Authority	\$322,435
Borough of Sharpville	\$291,834
City of Hubbard	\$410,445
Horsham Water Authority	\$220,541
Schwenksville Borough Authority	\$98,194
Masury	\$180,729
Bucks County Water and Sewer Authority - Bristol	\$9,725
Total Contribution to Fixed Costs	\$ 1,815,655

5
6
7 **Q. Please describe the documentation of competitive alternatives provided by the**
8 **Chemung County Industrial Development Authority (“Chemung”) pursuant to the**
9 **contract challenged by Mr. Cline.**

10 A. The Chemung contract that Mr. Cline proposes to cancel has specific language addressing
11 competitive alternatives. The contract, which has been executed by representatives of
12 Chemung duly authorized to bind the Authority, states that Chemung “has considered
13 alternative means of obtaining service” and “following the consideration of other
14 alternatives, Chemung has decided to obtain its water supply from Aqua.” The duly
15 executed representation by an authorized officer of the Authority satisfies the
16 documentation requirement of Rider DRS. It is the Company’s policy and interpretation
17 of its Rider DRS that this language fulfills the requirements for entering a Rider DRS
18 contract.

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Q. If the Chemung contract was cancelled and Chemung went to Rate Zone 1 rates, what would be the impact to Chemung and other Aqua PA customers?

A. If this contract were cancelled as Mr. Cline proposes, Chemung would be required to pay an additional \$42,464 per year from present rates if it decided to continue to purchase water from AP. However, because Chemung has an alternative, it is more likely that it would cease purchasing water from AP, and the Company would lose revenues of approximately \$16,149 per year.

Q. Please describe competitive alternative available to the Warwick Township Water and Sewer Authority (“Warwick”).

A. Warwick is a municipal authority that owned and operated wells to provide water service to its customers. Warwick was looking for a way to obtain a supply of water that did not impose the responsibilities of ownership and operation of its own production facilities. To that end, it conducted a request for proposals (“RFP”) to solicit offers from suppliers to sell water to it to meet its customers’ requirements. AP was the successful bidder in the RFP and, based on that competitive procurement process, entered into the Rider DRS contract with Warwick. Because an RFP process was employed, Warwick clearly had competitive alternatives (other bidders) that it would have turned to if AP had not participated in the RFP or if AP had not submitted the successful bid. This is clearly memorialized in the Warwick Rider DRS contract, which recites that Warwick “has alternatives to service from the Company,” “has considered alternative means of obtaining service,” and “following the solicitation of proposals, the Authority has determined to take service from the

1 Company as the party best able to provide a supplemental supply of surface water which
2 is needed to serve the residents in Warwick Township”. It is the Company’s policy and
3 interpretation of its Rider DRS that this language fulfills the requirements for entering a
4 Rider DRS contract.

5
6 **Q. Are there any other factors to consider regarding the Warwick contract?**

7 A. Yes. Warwick currently purchases water from the North Wales Water Authority (“North
8 Wales”) in addition to AP. It is feasible for Warwick to purchase 100% of its water supply
9 from a neighboring municipality/authority, and AP would anticipate that Warwick would
10 do so if its Rider DRS contract were “cancelled.” If that were to occur, AP would lose
11 revenues of approximately \$549,773 per year.

12
13 **Q. What competitive alternatives were available to the Borough of Sharpville
14 (“Sharpville”) at the time the Company entered into contracts with these customers?**

15 A. The Company’s Rider DRS agreement with Sharpville states that “the Borough has a need
16 for a new source of water supply and has considered alternative means of obtaining that
17 supply, including constructing a new water treatment plant within the Borough.” It is the
18 Company’s policy and interpretation of its Rider DRS that this language fulfills the
19 requirements for entering a Rider DRS contract. If this contract were cancelled as Mr.
20 Cline proposes, Sharpville would be required to pay an additional \$1,692,971 per year
21 from present rates if it decided to continue to purchase water from AP. However, because
22 Sharpville has an alternative, it is more likely that it would cease purchasing water from
23 AP, and the Company would lose revenues of approximately \$475,000 per year.

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Q. Is there any other information regarding this contract?

A. In response to I&E discovery, the Company provided the contract for Sharpsville. The discovery response inadvertently excluded an affidavit, which is one of the ways to support the competitive alternative requirement (see HIGHLY CONFIDENTIAL Aqua PA Exhibit EMF-1-R).

Q. What competitive alternative was available to the Schwenksville Borough Authority (“Schwenksville”) at the time the Company entered into a contract with this customer?

A. Schwenksville is a municipal water utility and has several wells throughout the Schwenksville Borough and Lower Frederick Township, an interconnection with the Company, and a connection with the North Penn Water Authority that it currently uses only for reserve capacity. Schwenksville has competitive alternatives to purchasing water from the Company – from its own water sources and from existing interconnections with other municipalities. This is discussed in the contract that was provided to I&E. It is the Company’s policy and interpretation of its Rider DRS that this language fulfills the requirements for entering a Rider DRS contract.

Q. Is there any other information regarding this contract?

A. In response to I&E discovery, the Company provided the contract for Schwenksville. The discovery response inadvertently excluded an affidavit, which is one of the ways to support the competitive alternative requirement (see HIGHLY CONFIDENTIAL Aqua PA Exhibit

1 EMF-1-R).

2
3 **Q. If the Schwenksville contract was cancelled and Schwenksville went to Rate Zone 1**
4 **rates, what would be the impact to Schwenksville and other Aqua PA customers?**

5 A. If the existing contract with this customer was cancelled as Mr. Cline proposes,
6 Schwenksville would be required to pay an additional \$265,027 per year from present rates
7 if it decided to continue to purchase water from AP. However, because this customer has
8 alternatives, it is more likely that it would cease purchasing water from AP, and the
9 Company would lose revenues of approximately \$127,000 per year from Schwenksville,
10 respectively.

11
12 **Q. What competitive alternatives were available to the City of Hubbard (“Hubbard”) at**
13 **the time the Company entered into a contract with this customer?**

14 A. Hubbard owned and operated a water supply system that was out of compliance with the
15 EPA requirements. Additional investment was required to bring it into compliance, as set
16 forth in an engineering assessment Hubbard did at that time. Hubbard’s competitive
17 alternative to purchasing water from the Company would have been making the necessary
18 upgrades to its own system. When Hubbard entered into its Rider DRS agreement with the
19 AP, the Company’s Shenango water treatment plant had abundant capacity available due
20 to the loss of Sharon Steel, an industrial customer, that went out of business. Thus, the
21 Rider DRS contract with Hubbard also helped to offset the significant revenue loss that
22 occurred when Sharon Steel closed, which alone would have driven increases in rates to
23 the remaining customers.

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Q. Is there any other information regarding this contract?

A. In response to I&E discovery, the Company provided the contract for Hubbard. The discovery response inadvertently excluded an alternative analysis and study, which is one of the ways to support the competitive alternative requirement (see HIGHLY CONFIDENTIAL Aqua PA Exhibit EMF-1-R).

Q. If the Hubbard contract was cancelled and Hubbard went to Rate Zone 1 rates, what would be the impact to Hubbard and other Aqua PA customers?

A. If this contract were cancelled as Mr. Cline proposes, Hubbard would be required to pay an additional \$2,724,782 per year from present rates if it decided to continue to purchase water from AP. However, because Hubbard has an alternative, it is more likely that it would cease purchasing water from AP, and the Company would lose revenues of approximately \$650,000 per year.

Q. Please describe the documentation of competitive alternatives provided by the Horsham Water and Sewer Authority (“Horsham”) pursuant to the contract challenged by Mr. Cline.

A. Horsham is a municipal water utility that withdraws water from fifteen strategically-located wells throughout Horsham Township and has interconnections with the Company and North Wales. Horsham would be able to supply 100% of its water if needed through those sources. Horsham has competitive alternatives to purchasing water from the Company – from their own water sources and from existing interconnections with other municipalities.

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Q. If the Horsham contract was cancelled and Horsham went to Rate Zone 1 rates, what would be the impact to Horsham and other Aqua PA customers?

A. If the existing contract with these customers were cancelled as Mr. Cline proposes, Horsham would be required to pay an additional \$123,779 per year from present rates if it decided to continue to purchase water from AP. However, because this customer has alternatives, it is more likely that it would cease purchasing water from AP, and other customers could be impacted by lost revenues totaling approximately \$200,000 per year.

Q. Please describe the relationship with Downingtown Municipal Water Authority (“Downingtown”) pursuant to the contract challenged by Mr. Cline.

A. The contract that was provided in response to HIGHLY CONFIDENTIAL OCA-III-7, was a copy of the contract for Aqua PA to purchase water from Downingtown. Occasionally, Downingtown requires replacement water to be sold back to Downingtown from Aqua PA. The small usage shown reflects the replacement water sold. This is a unique situation, and if the Commission chose to cancel this contract, any increased revenues incurred by the Company would be offset by increased expenses associated with purchased water expense and hydrant charges.

Q. Please describe the contract with New Wilmington Municipal Authority (“New Wilmington”).

A. This contract was entered into for the purpose of “wheeling” water to an area AP proposed to serve that was not contiguous with its distribution system. Therefore, it is the

1 Company's position that a competitive alternative is not required for a wheeling agreement.
2 To get water to the proposed service area, AP would provide water to New Wilmington at
3 a designated point of interconnection and then withdraw water elsewhere to serve the new
4 service territory. As originally conceived, this contract would have maintained an
5 approximate balance between volumes sold by AP to New Wilmington at one point in the
6 New Wilmington system, and volumes withdrawn from another point on the New
7 Wilmington system, such that the costs of purchases and withdrawals would have mostly
8 offset. However, the increases in usage for AP's anticipated new service area did not
9 materialize. Nonetheless, New Wilmington continued to make incremental purchases of
10 water from AP under the contract – sales that, otherwise, AP would not be making.

11
12 **Q. If the New Wilmington contract was cancelled and New Wilmington went to Rate**
13 **Zone 1 rates, what would be the impact to New Wilmington and other Aqua PA**
14 **customers?**

15 A. If this contract were cancelled as Mr. Cline proposes, New Wilmington would be required
16 to pay an additional \$348,904 per year from present rates if it decided to continue to
17 purchase water from AP. However, it is more likely that New Wilmington would cease
18 purchasing water from AP, and the Company would lose revenues of approximately
19 \$328,000 per year.

20
21 **Q. Before addressing the specifics of Mr. Cline's adjustments regarding the contract**
22 **between Aqua PA and Aqua Ohio's Maury Division ("Masury"), can you provide an**
23 **update concerning this contract?**

1 A. Yes. Aqua PA and Aqua Ohio, Inc. (“Aqua OH”) entered into a contract for water supply
2 from Aqua PA to Aqua OH. This contract was filed with the Commission on November
3 30, 2021. For background purposes, Aqua agreed in its 2018 rate case settlement to provide
4 a competitive alternative for the Masury rate in its next base rate case.

5
6 **Q. Mr. Cline also recommends that the rates charged by Aqua PA to Masury be**
7 **cancelled because it does not have a water supply contract with the Company and**
8 **cannot qualify for Rider DRS. I&E St. 14-15. He further argues that Masury pay**
9 **“full tariff rates.” Please respond.**

10 A. Due to the updated information discussed above, the Company believes it has satisfied Mr.
11 Cline’s concerns regarding the Masury rate. The new contract established between Aqua
12 OH and Aqua PA to serve the Masury service area, replaces the tariff language that
13 increased the volumetric rate annually on a CPI basis. The new contract establishes a rate
14 based on a competitive alternative study (see HIGHLY CONFIDENTIAL Aqua PA
15 Exhibit EMF-1-R).

16
17 **Q. Does Mr. Cline further assert that the rate Aqua PA charges Masury for the purchase**
18 **of water is not in the public interest (I&E St. 4 at 14-15) as a basis for I&E witness**
19 **Ms. Wilson’s (I&E St. 1 at 19-20) related adjustment to the Company’s purchased**
20 **water expense claim?**

21 A. Yes. Although I address Ms. Wilson’s proposed adjustment below, it appears that I&E’s
22 witnesses appear to testify that the rate established for service by Aqua Ohio should be
23 made to equal the tariff rate of Aqua PA for service to Aqua Ohio.

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Q. Is there any valid basis for I&E’s recommendation to change the rates involved in Aqua Ohio’s sales of water to Aqua PA or Aqua PA’s sales of water to Aqua Ohio?

A. No. I will expand on this later in response to Ms. Wilson adjustment to purchased water expense.

Q. Mr. Cline recommends that the Company “cancel” the rates that it charges to Bucks County Water and Sewer Authority’s (“BCWSA”) Bristol Division (“Bristol”) because those customers do not have water supply contracts with the Company, and therefore cannot qualify for Rider DRS. Please respond.

A. The rates charged to Bristol are a result of an agreement between the Company and BCWSA for borderline service, such that water service is furnished to a few streets that fall on the border of the Company’s service territory and BCWSA’s service territory. There is clearly a competitive alternative because BCWSA has the ability to serve these customers, although it is beneficial to BCWSA to have AP provide that service at the contract price. Significantly, as part of this agreement, BCWSA accepts for treatment in its wastewater collection system all of the wastewater from filter backwashing at the Company’s Bristol water treatment plant, in exchange for which, the Company provides BCWSA a credit against its applicable monthly fire protection charges.

Q. Does the Company have any further concerns regarding I&E’s proposal that the Commission “cancel” certain existing water supply contracts?

A. Yes. While I am not an attorney, it is not clear that the affected Rider DRS customers

1 would have been provided adequate notice that their duly-executed water supply contracts
2 could be “cancelled” in this proceeding. Certainly, the Company has discussions and
3 dialogue with these entities at various times, but it cannot predict what and how the
4 statutory advocates will make adjustments to certain water supply contracts. It is the
5 Company’s policy and interpretation of its Rider DRS that the information provided by the
6 contract customers fulfills the requirements for entering a Rider DRS contract. If the resale
7 customers had been provided notice, it is possible that they would furnish additional
8 information about their competitive alternatives, in the event the Commission were to
9 determine that the substantial evidence the Company has already presented is, for some
10 reason, not sufficient to demonstrate that the terms of Rider DRS have been satisfied.

11
12 **B. OCA INFLATION ADJUSTMENT TO SALES FOR RESALE AND END-
13 USER CONTRACT REVENUES**

14 **Q. Does OCA propose a different adjustment to the Company’s water rate revenues
15 associated than I&E?**

16 **A.** Yes. OCA witness Mr. Watkins proposes an adjustment to the revenues associated with
17 negotiated rate contracts for sales for resale and for end-use Industrial and Public Authority
18 customers. OCA St. 4 at 22. Mr. Watkins notes that certain of the contracts contain annual
19 rate escalation provisions and, therefore, an adjustment to current revenues is appropriate
20 to reflect the contractual escalation rates through March 31, 2023. OCA St. 4 at 23; *see*
21 *also* HIGHLY CONFIDENTIAL Schedule GAW-9. Mr. Watkins proposes an adjustment
22 to reflect contractual escalation that increases water utility revenue for the FPPTY by
23 \$301,307. OCA St. 4 at 23.

24

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

2 A. Not as proposed. Mr. Watkins proposed adjustments by using inflation factors not
3 consistent with the inflation escalation clauses in the respective contracts. He also
4 incorrectly applied inflation to the customer charges as the customer charges are applicable
5 to the tariff rates. Please refer to the rebuttal testimony of Ms. Heppenstall (AP Statement
6 No. 5-R) and associated exhibits. The Company has updated the inflation factors for the
7 customers listed in the table below.

BOROUGH OF SHARPESVILLE

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
11/25/2021	\$ 0.249	2.63%
11/25/2022	\$ 0.253	1.70%

HUBBARD

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
11/1/2021	\$ 0.235	0.95%
11/1/2022	\$ 0.239	1.70%

SCHWENKSVILLE BOROUGH

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
3/1/2022	0 \$ 0.392	1.75%
3/1/2023	0 \$ 0.399	1.70%

MASURY

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
1/2/2022	0 \$ 2.320	
1/2/2023	0 \$ 2.359	1.70%

MT. CARMEL

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
5/21/2021	\$ 0.314	1.95%
5/21/2022	\$ 0.320	1.91%

COVANTA

<u>Effective Date of Rate</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
1/1/2021	\$ 0.339	3.10%
1/1/2022	\$ 0.352	3.75%
1/1/2023	\$ 0.365	3.70%

LIBERTY POWER

<u>Effective Date of Rate</u>	<u>Monthly Charge</u>	<u>Usage Rate</u>	<u>Rate Increase</u>
1/1/2021	\$ 95,487	\$ 0.099	0.78%
1/1/2022	\$ 97,158	\$ 0.100	1.75%
1/1/2023	\$ 98,809	\$ 0.101	1.70%

8

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1 **C. FORFEITED DISCOUNTS/LATE PAYMENTS**

2 **Q. Do any of the other parties recommend an adjustment to the Company’s claim based**
3 **upon forfeited discounts or late payment charges?**

4 A. Yes. I&E witnesses Mr. Cline and Mr. Kubas have both made recommendations to water
5 and wastewater, respectively. Mr. Cline recommends that the Company’s water revenues
6 under present revenues be increased to reflect \$1,373,542 in forfeited discounts (“late
7 payment revenue”). I&E St. 4 at 7. I note here that Mr. Cline is incorrectly pointing to all
8 miscellaneous revenue of the Company and not specifically the late payment charges. I&E
9 Witness Mr. Kubas recommends that the Company’s wastewater revenues for its New
10 Garden system under present rates be increased to reflect \$17,832 in late payment revenue.
11 I&E St. 5 at 60.

12
13 **Q. Please summarize Mr. Cline’s basis for this proposed adjustment.**

14 A. Mr. Cline argues that the Company has not projected any amounts of late payment revenue
15 in its claim and that “it is not reasonable to expect that Aqua PA will experience zero dollars
16 in [late payment revenue] in the FPFTY, as the moratorium on late payment fees ended on
17 September 30, 2021”. I&E St. 4 at 7.

18
19 **Q. Do you agree with Mr. Cline’s recommendation as proposed?**

20 A. No, I do not. As provided in filing requirement OR6, for Water, the Company recorded
21 other miscellaneous revenues totaling \$1,301,938 on its books for the historic test year
22 ended March 31, 2021 which are therefore included in the FPFTY claim. Of this amount,
23 \$735,710 was attributable to late payment revenues in the HTY therefore his assertion that
24 the Company did not include late payment revenues in its claim for the FTY and FPFTY

1 is incorrect. Moreover, while there was a moratorium on terminations, there was not a
2 moratorium imposed on late payment fees as Mr. Cline suggests.

3
4 **Q. Based on Mr. Cline’s recommendation, has the Company made an adjustment to its**
5 **Miscellaneous Revenues for water at present rates?**

6 A. In reviewing Mr. Cline’s recommendation, the Company did make an adjustment to
7 increase Miscellaneous revenues by \$150,172 to normalize the impact of COVID on
8 miscellaneous revenues. See Exhibit 1-A(a), Schedule B-8.

9
10 **Q. What does Mr. Cline recommend with respect to the Company’s Water late payment**
11 **revenue claim under proposed rates?**

12 A. Mr. Cline recommends that Aqua PA’s Water Operations Base’s⁴ late payment revenue
13 claim under proposed rates be increased by the same percent as the overall base rate
14 increase granted by the Commission.

15
16 **Q. Does the Company agree with Mr. Cline’s recommended adjustment to the Water**
17 **claim under proposed rates?**

18 A. No. The ratio proposed by Mr. Cline to increase late payment charges under proposed rates
19 is not necessary as the Company has already adjusted for this under present rates.

20
21 **Q. Please summarize Mr. Kubas’s basis for his proposed adjustment.**

22 A. The New Garden system was acquired in December 2020 and there was no late payment

⁴ Mr. Cline refers to Wastewater in his testimony, however, the Company believes his is referring to Water.

1 revenue recognized in the HTY. As indicated in the Company's response to I&E-RS-30-
2 D-WW, the Company received \$8,691 in late payment revenue between April and
3 September of 2021. Mr. Kubas took the monthly average of \$1,448.50 for April through
4 September and annualized the revenue to reflect a full twelve months.

5
6 **Q. Does the Company agree with Mr. Kubas's recommendation?**

7 A. The Company will accept Mr. Kubas' proposed adjustment due to the limited historical
8 billing information.

9
10 **Q. What does Mr. Kubas recommend with respect to the Company's New Garden**
11 **Wastewater forfeited discount claim under proposed rates?**

12 A. Mr. Kubas recommends that Aqua PA's Wastewater Operations Base's late payment
13 revenue claim under proposed rates be increased by the same percent as the overall base
14 rate increase granted by the Commission.

15
16 **Q. Does the Company agree with Mr. Kubas's recommended adjustment to the Water**
17 **Operations claim under proposed rates?**

18 A. No. The late payment revenue amount should not be increased by the same amount that
19 the revenue is proposed to be increased for the same reasons that the Company stated in
20 response to Mr. Cline, above.

1 **IV. REBUTTAL TO OTHER PARTIES' O&M EXPENSE ADJUSTMENTS**

2 **A. AMORTIZATION EXPENSE FOR PHOENIXVILLE WATER**
3 **ACQUISITION ADJUSTMENT**

4 **Q. Ms. Feeney, you previously addressed the recommendations of I&E and OCA**
5 **regarding the Company's claimed positive adjustment to the Phoenixville water**
6 **system acquisition. Do the recommendations of I&E and OCA to disallow the positive**
7 **acquisition adjustment from rate base have a corresponding adjustment to the**
8 **Company's claimed operating expenses?**

9 A. Yes. As noted above, the adjustments to rate base proposed by OCA and I&E regarding
10 the Phoenixville water system would result in a related adjustment to amortization expense.
11 Both I&E and OCA argue that an associated \$121,865 of amortization expense associated
12 with this acquisition should be disallowed, for the same reasons they assert the positive
13 acquisition adjustment should be disallowed. I&E St. 3 at 11; OCA St. 1 at 30 (citing
14 DeAngelo direct testimony).

15

16 **Q. Does the Company agree with this adjustment to operating expense?**

17 A. No, as I previously explained, the Company's proposed rate treatment is consistent with
18 Section 1327(a)(9) of the Public Utility Code, under which the excess of the acquisition
19 cost over the depreciated original cost will be added to the rate base to be amortized as an
20 addition to expense over a reasonable period of time with corresponding reductions in the
21 rate base.

22

23

24

1 **B. PURCHASED WATER EXPENSE**

2 **Q. Did any of the other parties recommend an adjustment to the Company’s claim for**
3 **purchased water expense?**

4 A. Yes. I&E witness Ms. Wilson recommends that the Company’s claim for purchased water
5 be reduced by \$166,795. I&E St. 1 at 20.

6
7 **Q. Please summarize Ms. Wilson’s basis for this proposed adjustment.**

8 A. Ms. Wilson testified that, if the Commission approves the Company’s rate for service to
9 Masury of \$0.232 per hundred gallons, then it should disallow \$166,795 of the AP’s actual
10 purchased water expense to purchase water from Aqua Ohio – Struthers Division. In effect,
11 Mr. Wilson wants to make the tariff rate established for service furnished by Aqua Ohio –
12 Struthers Division equal the tariff rate of AP for service to Masury. Ms. Wilson fails to
13 acknowledge that these two systems are in geographically separate locations and therefore
14 attempts to make the charges equal is inappropriate.

15
16 **Q. Is Ms. Wilson’s proposed adjustment to purchased water expense reasonable or**
17 **appropriate?**

18 A. No, it is not. Ms. Wilson seems to ignore the fact that AP’s sales to Masury and purchase
19 from the Struthers Division of Aqua Ohio take place at two different locations in AP’s
20 service territory. The sales to Masury are made from AP’s Shenango service area, while
21 AP’s purchases are made from the Struthers Division to serve AP’s Mahoning Valley
22 service area. The Masury and Struthers Divisions are separate rate divisions of Aqua Ohio,
23 with separately determined costs of service, separate tariffs and different rates.

1 **C. ADVERTISING EXPENSE**

2 **Q. Did any of the other parties recommend an adjustment to the Company’s claim for**
3 **advertising expense?**

4 A. Yes. OCA witness Mr. Smith recommends that the Company’s claim for advertising
5 expenses be reduced by \$50,000 for water operations and \$5,000 for wastewater
6 operations. OCA St. 1 at 40.

7
8 **Q. Please summarize Mr. Smith’s basis for this proposed adjustment.**

9 A. Mr. Smith is proposing to “normalize” the Company’s claim for USP customer education
10 and outreach over three years. Mr. Smith asserts this is appropriate because the Company
11 had no amounts in HTY or FTY for the “Explanations of billing practices, rates, rules and
12 regulations” category.

13
14 **Q. Should Mr. Smith’s proposed adjustment to advertising expense be adopted?**

15 A. No. The additional expense is a new expense which is related to customer education and
16 outreach for its proposed Universal Service Program. This is important to the success of
17 the Company’s Universal Service Program as noted by OCA witness Colton and CAUSE-
18 PA witness Geller.

19 In addition, I am advised by counsel that Section 1316 of the Public Utility Code
20 permits the recovery of advertising expense that (4) Provides important information to the
21 public regarding safety, rate changes, means of reducing usage or bills, load management
22 or energy conservation. (5) Provides a direct benefit to ratepayers.

1 **D. PAYROLL-RELATED EXPENSE**

2 **Q. Do any of the other parties recommend adjustments to the Company's claimed**
3 **payroll expense?**

4 A. Yes. Both I&E and OCA proposed adjustments to payroll expense based upon an
5 employee vacancy adjustment.

6
7 **Q. Please summarize I&E's proposed adjustment.**

8 A. I&E's proposed adjustment is based on the utilization of a vacancy rate percentage of
9 6.83%. I&E St. 1 at 23-24. I&E witness Ms. Wilson asserts that this rate is representative
10 of the 559 actual full time ("FT") employees in the HTY as of March 31, 2021 carried
11 forward into the FPFTY and the 600 budgeted full-time positions claimed in the FPFTY,
12 resulting in 41 vacancies (i.e., $41 / 600 = 6.83\%$). Ms. Wilson then multiplied this
13 percentage by the claimed labor expense for each division, except for East Bradford due to
14 this division having a very low expense. I&E St. 1 at 24-25.

15
16 **Q. Please summarize OCA's proposed adjustment.**

17 A. OCA's proposed adjustment is based upon a vacancy rate of 2.88%, rather than the
18 Company's claimed rate of 2.50%. OCA St. 1 at 41 (citing response to I&E-RE-22-D).
19 Mr. Smith states that the 2.88% vacancy rate is based on the difference between actual
20 regular hours and authorized regular hours during the HTY. OCA St. 1 at 41-42. This
21 adjustment would decrease payroll expense by \$119,358 for water operations and \$6,855
22 for wastewater operations. OCA St. 44-45.

23 Mr. Smith goes on to explain that he did not apply this vacancy rate to the
24 Company's proposed FPFTY gross payroll amount for 33 non-union seasonal employees,

1 which represent authorized positions rather than actual employees. OCA St. 1 at 42.
2 Regarding these seasonal positions, Mr. Smith recommends that the Company's payroll
3 expense be decreased from 33 to 11 positions based on the most current actual data. OCA
4 St. 1 at 43-44. This adjustment would decrease payroll expense by \$147,673 for water
5 operations and \$12,487 for wastewater operations.

6 Mr. Smith's total adjustment for vacancies and vacant seasonal positions is to
7 decrease payroll expense by \$267,031 for water operations and \$19,342 for wastewater
8 operations. OCA St. 1 at 45.

9
10 **Q. Does the Company agree with any of the adjustments proposed by I&E and OCA**
11 **related to payroll expense?**

12 A. The Company rejects the 6.83% full time vacancy rate adjustment proposed by I&E as it
13 is not reasonable. The Company accepts the 2.88% full time vacancy rate proposed by
14 OCA and rejects the proposed adjustment to reduce the number of seasonal employees to
15 11.

16
17 **Q. Please explain why I&E witness Ms. Wilson's proposed vacancy rate adjustment**
18 **should be rejected.**

19 A. Ms. Wilson's theory is flawed as she fails to recognize or take into account the vacancy
20 credit that the Company has already reflected in its FTY and FPFTY claim. Thus, her
21 adjustment double counts the vacancy adjustment already built into the Company's
22 expense claim because she does not apply her rate to unadjusted gross labor.

23 Ms. Wilson's calculation of the full-time vacancy rate is inaccurate for three

1 additional reasons. First, she determined the number of “vacant” positions to be 41 by
2 taking the difference between the actual full-time positions at the end of the HTY and the
3 number of authorized/budgeted positions as of the end of the FPFTY. It is not appropriate
4 to “carryforward” the actual number of employees as of a point in time in the HTY to the
5 number of authorized/budgeted positions in the FPFTY. Simply stated, Ms. Wilson has
6 compared apples and oranges in her adjustment -- the total number of employees who were
7 employed by the Company at a given date (559 at 3/31/21) and the new level of authorized
8 positions projected in the FPFTY. Second, Ms. Wilson used a terminal vacancy rate for
9 only one quarter of the HTY. To calculate an accurate vacancy rate to be applied, at a
10 minimum, the average of all 4 quarters of the HTY should be used. Finally, Ms. Wilson
11 applied her vacancy rate and adjusted the payroll claim for all full-time, part-time, co-op
12 and seasonal employees even though her vacancy rate was computed using only full-time
13 employees.

14
15 **Q. OCA witness Mr. Smith attempts to calculate a full-time vacancy rate of 2.88%, based**
16 **upon the difference between “actual regular hours and authorized regular hours**
17 **during the HTY.” OCA St. 1 at 41. Please respond.**

18 A. The Company accepts Mr. Smith’s proposed full time vacancy rate of 2.88%. Therefore,
19 the Company has revised its payroll, employee benefits and payroll tax claims for full-time
20 employees using the 2.88% rate as set forth in AP Exhibit Nos. 1-A(a) through 1-G(g)
21 accordingly.

22
23 **Q. Please respond to OCA witness Mr. Smith’s further adjustment related to seasonal**

1 **position vacancies.**

2 A. I do not agree with Mr. Smith's proposal to reduce the number of seasonal positions to
3 reflect the level as of June 30, 2021. The Company has provided an updated response to
4 I&E-RE-97 which inadvertently omitted the number of seasonal employees in 2019. In
5 2019 there were 31 seasonal employees hired. Clearly 2020 was an outlier due to the
6 restrictions and safety concerns related to COVID. The number of seasonal employees
7 hired in 2021 can also be considered an outlier due to COVID safety concerns. In the
8 FPFTY, the Company fully expects to fill all seasonal positions. Setting cost recovery on
9 those outlying data points would not be appropriate.

10
11 **E. EMPLOYEE BENEFITS**

12 **Q. Do I&E and OCA propose adjustments to the Company's employee benefits (also**
13 **referred to as employee group insurance) expense claims?**

14 A. Yes. I&E proposes to reduce the Company's employee benefits claims for water
15 operations by 6.83%, based upon its proposed vacancy rate. I&E St. 1 at 27. OCA also
16 proposes to reduce the Company's claim for water operations, using its proposed vacancy
17 rate of 2.88%. OCA St. 1 at 51.

18
19 **Q. Should the adjustment proposed by I&E be adopted?**

20 A. No, the Company rejects I&E's adjustments to benefits expense for the same reasons as
21 previously discussed regarding the flaws in I&E's proposed vacancy rate adjustment.

22
23 **Q. Should the any of the adjustments proposed by OCA be adopted?**

24 A. As previously discussed, the Company has accepted OCA's proposed vacancy rate

1 adjustment and has revised its payroll, employee benefits and payroll tax claims for full-
2 time employees using the 2.88% rate as set forth in AP Exhibit Nos. 1-A(a) through 1-G(g)
3 accordingly.

4
5 **Q. In addition to the vacancy rate adjustment, OCA witness Mr. Smith also makes an**
6 **adjustment for intracompany wastewater benefits as a result of utilizing the 2.88%**
7 **vacancy rate he proposed with respect to the Company's payroll expense claim. OCA**
8 **St. 1 at 52-53. Please respond.**

9 A. Mr. Smith's adjustment to the vacancy rate requires a corresponding adjustment to
10 Intracompany Benefits. His calculation is consistent with the Company's method of
11 calculating Intracompany Benefits.

12
13 **F. PAYROLL TAX EXPENSE**

14 **Q. Ms. Feeney, as an initial matter, did the Company's initial claim include payroll tax**
15 **expense for both water and wastewater operations?**

16 A. The Company's initial payroll tax claim for all Aqua PA employees included payroll tax
17 expense of \$3,163,655 (Exhibit 1-A, Schedule D-2.5, Line 8).

18
19 **Q. Is I&E witness Ms. Wilson correct to assert that the "Company has made no specific**
20 **claims for payroll tax in the Wastewater Base and other wastewater acquisitions,"**
21 **and further suggest that "the employee benefits claim in those revenue requirements**
22 **also includes payroll taxes"? I&E St. 1 at 25**

23 A. As stated above, the Company's total payroll tax claim was presented in Exhibit 1-A for
24 all Aqua PA employees. The payroll tax claim related to payroll for Wastewater Operations

1 is included in the Intracompany Benefits with an equally offsetting amount in Water
2 Operations.

3
4 **Q. Do I&E and OCA each also propose adjustments to the Company's payroll tax claims
5 that reflect their proposed adjustments to payroll expense?**

6 A. Yes. I&E witness Ms. Wilson's adjustment to the Company's payroll tax claim is based
7 solely on her incorrect 6.83% vacancy adjustment. I&E St. 1 at 27. Likewise, OCA
8 witness Mr. Smith's adjustment to payroll tax expense is related to his adjustments to
9 reduce the number of non-union seasonal employees, increase the vacancy rate used for
10 payroll expense, and the removal of stock-based compensation. OCA St. 1 at 50.

11
12 **Q. Does the Company agree with these adjustments?**

13 A. The Company rejects I&E's adjustments to payroll tax for the same reasons as previously
14 discussed regarding the flaws in I&E's proposed vacancy rate adjustment. As for OCA's
15 proposals, the Company rejects the adjustments to payroll tax as it relates to (1) the impact
16 of the proposed reduction to seasonal employees and (2) the removal of stock-based
17 compensation which the Company has rejected as discussed in Mr. Packer's rebuttal
18 testimony (AP Statement No. 1-R).

19 As discussed above, the Company has revised its payroll, employee benefits and
20 payroll tax claims for full-time employees using the 2.88% rate as set forth in AP Exhibit
21 Nos. 1-A(a) through 1-G(g) accordingly.

22
23 **G. PENNSYLVANIA PUBLIC UTILITY REALTY TAX ACT ("PURTA")**

24 **Q. In the Company's initial filing, did it propose an adjustment for Public Utility Realty**

1 **Tax?**

2 A. Yes, as explained in my direct testimony, Schedule D-2.3 of Exhibit 1-A reflects an
3 adjustment for PURTA for water operations, based on the estimated tax liability for 2020.
4 AP St. 2 at 13.

5
6 **Q. Do any of the other parties disagree with the Company's claim?**

7 A. Yes. I&E witness Ms. Wilson recommends a reduction of \$196,659 to the Company's
8 PURTA claim for water operations. I&E St. 1 at 17. Ms. Wilson acknowledges that the
9 Company made no claim for wastewater operations because sewer companies are exempt
10 from PURTA. I&E St. 1 at 17.

11

12 **Q. Ms. Wilson claims that her recommendation is based on the most recent PURTA**
13 **claim, and it is more prudent to rely upon the most up-to-date data. I&E St. 1 at 18.**
14 **Please respond.**

15 A. In response to Ms. Wilson statement that it is prudent to rely on the most recent up-to-date
16 data, the Company estimated its PURTA tax as \$4.8 million. This estimate of \$4.8 million
17 was paid in May of 2021. As of November 30, 2021, that amount is estimated to be
18 approximately \$4.9 million, which produces a possible under payment of \$159,251. The
19 Company has not made an upward adjustment for the \$159,251 increase. Therefore, Ms.
20 Wilson's recommendation to use the HTY amounts is inappropriate as the Company
21 provided sufficient evidence of the PURTA to be paid.

22

23 **Q. Ms. Wilson further asserts that the Company's current PURTA tax amount is under**

1 **appeal and may be reduced. I&E St. 1 at 18. Please respond.**

2 A. Ms. Wilson's claim that the Company's tax amount that is currently under appeal may be
3 reduced is inaccurate. For background, the appeal is strictly related to one county's
4 increased assessment. Whether the Company's appeal is successful or unsuccessful, the
5 result will increase, it is just a matter of how much. The Company is acting in the best
6 interests of its customers, and the Company should not be penalized for defending its
7 assessed taxes.

8

9 **V. CONCLUSION**

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

11 A. Yes, it does.