Morgan Lewis

Kenneth M. Kulak
Partner
+1.215.963.5384
ken.kulak@morganlewis.com

June 24, 2022

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2022-3031672 and R-2022-3031673

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced matters is the **Motion of Pennsylvania-American Water Company for Leave to File the Supplemental Direct Testimony of Ashley E. Everette and John R. Popiolek** (the "Motion"). Copies of the Motion have been served in accordance with the enclosed Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

Kenneth M. Kulak

KMK/ap
Enclosures

c: Per Certificate of Service (w/encls.)

Morgan, Lewis & Bockius LLP

1701 Market Street
Philadelphia, PA 19103-2921
United States

T +1.215.963.5000
F +1.215.963.5001

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	**DOCKET NOS. R-2022-3031672**
	:	**R-2022-3031673**
	:	
v.	:	
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Motion of Pennsylvania-American Water Company for Leave to File the Supplemental Direct Testimony of Ashley E. Everette and John R. Popiolek**, on the persons below in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

VIA ELECTRONIC MAIL

The Honorable Joel H. Cheskis
Deputy Chief Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street, Second Floor
Harrisburg, PA 17120
jcheskis@pa.gov

Erin K. Fure
Steven C. Gray
Office of Small Business Advocate
555 Walnut Street
Forum Place – First Floor
Harrisburg, PA 17101
efure@pa.gov
sgray@pa.gov

Gina L. Miller
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
ginmiller@pa.gov

Laura Antinucci
Erin Gannon
Mackenzie C. Battle
Lauren E. Guerra
Pennsylvania Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17101
ocapawc2022@paoca.org

Ria M. Pereira
Lauren N. Berman
John W. Sweet
Elizabeth R. Marx
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org
Counsel for CAUSE-PA

Joseph L. Vullo
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@bvrrlaw.com
Counsel for CEO

Kurt J. Boehm
Jody Kyler Cohn
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
kboehm@bkllawfirm.com
jkylercohn@bkllawfirm.com
Counsel for Cleveland-Cliffs Steel

Amee L. Mazzarese
Dickie, McCamey & Chilcote, P.C.
Attorneys at Law
Two PPG Place, Suite 400
Pittsburgh, PA 15222-5402
amazzarese@dmclaw.com
Counsel for Cleveland-Cliffs Steel

Tucker R. Hull
J. Chadwick Schnee
Law Office of Tucker R. Hull, LLC
108 West Main Street
P.O. Box 330
Annville, PA 17003
tucker@tucker-hull-law.com
chadwick@tucker-hull-law.com
Counsel for Exeter Township

Joan E. London
Kozloff Stoudt
Professional Corporation
2640 Westview Drive
Wyomissing, PA 19610
jlondon@kozloffstoudt.com
Counsel for Borough of St. Lawrence, Berks County, PA

Adeolu A. Bakare
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
abakare@mcneeslaw.com
Counsel for PAWLUG

Karen O. Moury
Eckert Seamans Cherin & Mellott, LLC
213 Market Street – 8th Floor
Harrisburg, PA 17101
kmoury@eckertseamans.com
Counsel for Victory Brewing Company

Lauren M. Burge
Eckert Seamans Cherin & Mellott, LLC
600 Grant Street – 44th Floor
Pittsburgh, PA 15219
lburge@eckertseamans.com
Counsel for Victory Brewing Company

Zachary D. O'Brien
231 Walnut Road
McDonald, PA 15057
obrien1280@gmail.com

Maria Elena Selznick
120 Lost Lantern Lane
East Stroudsburg, PA 18301
mselznick@yahoo.com

Mark Henderson
5425 East Lorane Road
Reading, PA 19606
markwh24@ptd.net

Jeff Henry
4621 Hillside Road
Reading, PA 19606
jeffhenry1@me.com

Keith Sauer
4824 Farming Ridge Boulevard
Reading, PA 19606
keith.j.sauer@gmail.com

Simeon Dobrev and Poli Iordanova
4210 Blue Mountain Crossing
East Stroudsburg, PA 18301
sd2734@yahoo.com

Carl E. Meyer
100 Grayhawk Way South
Mechanicsburg, PA 17050
carl.meyer@yahoo.com

Ivan Figueroa
432 Drycove Street
Pittsburgh, PA 15210
ivanfigueroa60@gmail.com

James Pagel
57 Narragansett Lane
Coatesville, PA 19320
J.Pagel47@gmail.com

William H. Rissmiller
1006 Hickory Lane
Reading, PA 19606
Whr19606@ptd.net

Jerome and Sheryl Rodzinak
181 Matson Avenue
Wilkes-Barre, PA 18705
zibadaun@frontiernet.net

Stephen T. Nardi
P.O. Box 224
146 Church Street
Claysville, PA 15323
nardiseast@gmail.com

Ramkrishna Sen
19 Evans Road
Norristown, PA 19403
Rksen1@gmail.com

Earl Knight
835 West Chestnut Street
Coatesville, PA 19320
eknight475@aol.com

Bridget L. Salkowski
4382 Hillside Road
Reading, PA 19606
bridgetlea115@yahoo.com

Sabatini Monatesti
919 Belair Drive
Berwick, PA 18603-2438
smonatesti@verizon.net

Barbara Cetnarowski
138 Butternut Street
Clairton, PA 15025
jmcbac@comcast.net

Tacy Rutherford
60-2 Mint Tier
Reading, PA 19606
scotacy@icloud.com

Trish E. Luberda
31 Whitetail Lane
Reading Station, PA 19606-9490
trish.luberda@gmail.com

Nathan Woodford
6 Okmed Drive
Birdsboro, PA 19606-1166
nathwoodford@gmail.com

Amanda Barto-Ealy
102 Lawrence Avenue
Butler, PA 16001
mandaln79@gmail.com

Sean Seidel
1340 Butter Lane
Reading, PA 19606
sseidel@comcast.net

LeRoy James Watters, III
#1 East Indian Lane
Norristown, PA 19403-3507
ljameswatters3@gmail.com

Latrese Laporte
2309 Snapdragon Street
East Stroudsburg, PA 18301
latrese.laporte@yahoo.com

Kathleen E. Jeffries
944 Mill Court
Bridgeville, PA 15017-1115
kejeffries@hotmail.com

Michael L. Pope
8607 Spruce Mill Drive
Yardley, PA 19067
mloringpope@gmail.com

John Palermo
2828 Dwight Avenue
Pittsburgh, PA 15216
palermojl@yahoo.com

Samantha Maize
16 Freedom Drive South
Bridgeville, PA 15017
samantha.maize@yahoo.com

Jorge Salazar
2328 Snapdragon Point
East Stroudsburg, PA 18301
jorge.m.salazar@gmail.com

Frank and Denise Piccola
284 Eastshore Drive
East Stroudsburg, PA 18301
frankpiccola@live.com

Hao Larry Tang
22 Shelduck Lane
Mechanicsburg, PA 17050
haotang@live.com

Darlene Nychey
5070 Brownsville Road
Pittsburgh, PA 15236
darlene.starfish@gmail.com

Lisa Inmon
4625 Painted Sky Road
Reading, PA 19608
lisainmon@icloud.com

Jessica Weiss
729 Orchard Street
Carnegie, PA 15106
weissjessica22@yahoo.com

Brian Kalcic
Excel Consulting
7330 Dorset Avenue
St. Louis, MO 63130
excel.consulting@sbcglobal.net
Consultant for OSBA

Aaron Rothschild
Edgar Bandera
Rothschild Financial Consulting
ocapawc2022@paoca.org
Consultant for OCA

Barbara Alexander
Barbara Alexander Consulting
ocapawc2022@paoca.org
Consultant for OCA

Jerome Mierzwa
Exeter Associates
ocapawc2022@paoca.org
Consultant for OCA

Ralph Smith
Dawn Bisdorf
Megan Cranston
Mark Dady
Larkin & Associates
ocapawc2022@paoca.org
Consultants for OCA

Roger Colton
Fisher, Sheehan & Colton
ocapawc2022@paoca.org
Consultant for OCA

Terry Fought
ocapawc2022@paoca.org
Consultant for OCA

Ethan Cline
etcline@pa.gov
Consultant for I&E

DC Patel
dupatel@pa.gov
Consultant for I&E

Anthony Spadaccio
aspadaccio@pa.gov
Consultant for I&E

Christine Wilson
cswilson@pa.gov
Consultant for I&E

Joe Kubas
jkubas@pa.gov
Consultant for I&E

Lisa Gumby
lgumby@pa.gov
Consultant for I&E

Richard A. Baudino
J. Kennedy & Associates
1347 Frye Road
Westfield, NC 27053
rbaudino@jkenn.com
Consultant for Cleveland-Cliffs Steel

VIA FIRST CLASS MAIL

Lisa Tunzi
204 Susquehanna Avenue
West Pittston, PA 18643

Meade Buffington
950 Orchard Avenue – Lot 39
Camp Hill, PA 17011

Paul J. Walaski
65 Depot Street
Forest City, PA 18421

Kenneth M. Kulak (Pa. No. 75509)
Catherine G. Vasudevan (Pa. No. 210254)
Brooke E. McGlinn (Pa. No. 204918)
Mark A. Lazaroff (Pa. No. 315407)
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
215.963.5384 (bus)
215.963.5001 (fax)
ken.kulak@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com
mark.lazaroff@morganlewis.com

Counsel for
Pennsylvania American Water Company

Dated: June 24, 2022

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**DOCKET NOS. R-2022-3031672**
	:	**R-2022-3031673**
PENNSYLVANIA-AMERICAN WATER COMPANY	:	

MOTION OF PENNSYLVANIA-AMERICAN WATER COMPANY FOR LEAVE TO FILE THE SUPPLEMENTAL DIRECT TESTIMONY OF ASHLEY E. EVERETTE AND POPIOLEK

Pursuant to 52 Pa. Code § 5.103, Pennsylvania-American Water Company ("PAWC" or the "Company") hereby moves for leave to file the Supplemental Direct Testimony of (1) Ashley E. Everette and (2) John R. Popiolek, attached hereto as Appendix A and B, respectively. This limited-scope Supplemental Direct Testimony is intended to address updates to the Company's pension and Other Post-Employment Benefit ("OPEB") expense claims. The pension and OPEB costs included in PAWC's initial water and wastewater rate filing were based on studies prepared by WTW, a national actuarial firm. Due to rapidly changing market conditions, updated actuarial calculations show a substantial change in these expense categories as compared to the initial filing.

I. MOTION FOR LEAVE TO FILE THE SUPPLEMENTAL DIRECT TESTIMONY ATTACHED AS APPENDICES A AND B

1. This case was initiated on April 29, 2022, when PAWC filed Supplement No. 35 to Tariff Water – PA P.U.C. No. 5 ("Tariff No. 5") and Supplement No. 34 to Tariff Wastewater PA P.U.C. No. 16 ("Tariff No. 16") with the Pennsylvania Public

Utility Commission ("Commission"). By Orders issued June 16, 2022, the Commission instituted a formal investigation to determine the lawfulness, justness and reasonableness of PAWC's existing and proposed rates, rules and regulations. Accordingly, Tariff Nos. 5 and 16 were suspended by operation of law until January 28, 2023.[1]

2. The pension and OPEB costs presented in PAWC's April 29, 2022 filing were based on studies prepared by Willis Towers Watson.

3. Market conditions deteriorated rapidly in 2022 and, since the Company's initial filing, Willis Towers Watson has prepared updated actuarial calculations. The Supplemental Direct Testimony of Mr. Popiolek describes those updated calculations as well as the evolving market conditions resulting in the changes in pension and OPEB costs. The Supplemental Direct Testimony of Ms. Everette addresses PAWC's updated claims for pension and OPEB expense in the Fully Projected Future Test Year.

4. To ensure the parties have reasonable notice of the updated claims for pension and OPEB expense, the Company believes it is appropriate to submit limited-scope Supplemental Direct Testimony. The Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate have each indicated that they have no objection to the Company's request to file the Supplemental Direct Testimony described above.

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[1] *Pa. P.U.C. v. Pennsylvania-American Water Company*, Docket Nos. R-2022-3031672 and R-2022-3031673 (Orders entered June 16, 2022).

II. CONCLUSION

WHEREFORE, for the reasons stated above, the Company respectfully requests that the Administrative Law Judge grant this Motion and authorize the Company to file the Supplemental Direct Testimony attached hereto as Appendices A and B.

____

Susan Simms Marsh (PA I.D. No. 44689)
Elizabeth Rose Triscari (PA I.D. No. 306921)
Teresa Harrold (PA I.D. No. 311082)
Pennsylvania-American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055
717.550.1570 (bus)
susan.marsh@amwater.com
elizabeth.triscari@amwater.com
teresa.harrold@amwater.com

Kenneth M. Kulak (Pa. No. 75509)
Catherine G. Vasudevan (Pa. No. 210254)
Brooke E. McGlinn (Pa. No. 204918)
Mark A. Lazaroff (Pa. No. 315407)
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
215.963.5384 (bus)
215.963.5001 (fax)
ken.kulak@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com
mark.lazaroff@morganlewis.com

Counsel for Pennsylvania-American Water Company

Dated: June 24, 2022

APPENDIX A

SUPPLEMENTAL DIRECT TESTIMONY OF ASHLEY E. EVERETTE

PAWC STATEMENT NO. 1 SUPPLEMENTAL

TESTIMONY
OF
ASHLEY E. EVERETTE

WITH REGARD TO

UPDATES TO PENSION AND OTHER POST-RETIREMENT BENEFITS EXPENSE AND REQUEST FOR ACCOUNTING DEFERRAL

DOCKET NOS.
R-2022-3031672 (WATER)
R-2022-3031673 (WASTEWATER)

DATE: JUNE 24, 2022

Q. What is your name and business address?

A. My name is Ashley E. Everette. My business address is 852 Wesley Drive, Mechanicsburg, Pennsylvania 17055. I am employed by American Water Works Service Company ("Service Company") as Senior Director of Rates and Regulatory for Pennsylvania-American Water Company ("PAWC" or the "Company").

Q. Have you submitted any other testimony in this proceeding?

A. Yes, I submitted PAWC Statement No. 1. I also sponsored portions of PAWC Exhibit 3-A.

Q. What is the purpose of your supplemental direct testimony in this proceeding?

A. The purpose of my supplemental direct testimony is to address PAWC's updated claim for pension and OPEB expense in the Fully Projected Future Test Year ("FPFTY"). As Company witness John Popiolek explains in Statement No. 15 (Supplemental), due to a significant decline in global investment returns, PAWC's pension and OPEB expense is projected to increase significantly beyond the level of expense originally forecasted for 2023.

Q. What is the revised level of pension expense that the Company is claiming for 2023?

A. The chart below summarizes the Company's revised pension and OPEB expense claims which are based on actual and projected calculations by Willis Towers Watson. The amounts are shown separately by PAWC's direct employee costs and PAWC's expense associated with the Service Company. Please refer to Schedules AEE-3 and AEE-4 for detailed support of the calculations.

	PAWC (As Filed)	PAWC (Revised)	Change
2023 Pension	($6,290,682)	$774,425	$7,065,107
2023 OPEB	($6,648,420)	($5,637,157)	$1,011,263

	AWWSC (As Filed)	AWWSC (Revised)	Change
2023 Pension	($417,125)	$803,223	$1,220,348
2023 OPEB	($388,790)	($329,005)	$59,785

Q. Please summarize the Company's request with regard to the pension and OPEB expense.

A. The Company requests the Commission authorize the revised level of expense identified in the chart above for recovery in this proceeding. Furthermore, given the significant fluctuation in this expense, the Company requests that the Commission allow the Company to record any amounts above or below the amount authorized in rates to a regulatory asset or liability, as appropriate, from the effective date of new rates in this proceeding until the Company's next base rate case.

Q. Please describe the Company's request for accounting deferral with respect to this expense.

A. The Company requests that through the conclusion of the Company's next rate proceeding, the Company be permitted to record any amounts above or below the projected level of expense into a regulatory asset or liability. At the time of the next rate proceeding, if the volatility is continuing, the Company will address any request to continue regulatory asset or liability treatment.

Q. Please discuss the circumstances under which an accounting deferral is appropriate.

A. Accounting deferral is appropriate when the event is extraordinary, nonrecurring, unanticipated, outside the control of the Company, and will have a significant financial impact on the Company. The standard which a utility must meet when seeking Commission authorization for deferral accounting is whether, based on Commission precedent, the financial impact appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expenses in order to provide the utility an opportunity to claim the expenses for recovery in a future proceeding.

Q. Why is it appropriate that the Company be permitted to record the amount of pension and OPEB expense above or below the amount authorized in rates to a regulatory asset or liability?

A. The pension and OPEB expense increase is extraordinary, as discussed in more detail by Mr. Popiolek. The level of fluctuation in this expense from year to year can change drastically based on market fluctuations and the factors that Mr. Popiolek discusses in his testimony. Finally, the $9 million[1] fluctuation in these expenses is a significant impact for the Company, representing more than 3% of total O&M expenses in the historic test year. In addition, counsel has advised me that the significant fluctuation in the pension and OPEB expense is within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery.

As described above and in the testimony of Mr. Popiolek, the Company is seeing extreme volatility in this expense. This fluctuation is outside of the Company's control

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[1] $7.1 million PAWC pension + $1.0 million PAWC OPEB + $1.2 million Service Company pension + $0.06 million Service Company OPEB.

and is a significant expense for PAWC. At this point, the Company cannot predict if the market will continue to fluctuate in this manner. The extreme volatility of these expenses is not within the Company's control. The purpose of the Company's request for deferral is to both protect the Company's customers if the expense were to significantly decrease in the future, as well as to allow the Company the opportunity to claim in a future proceeding the increased levels of cost, without assertions that such costs are out-of-test-year items.

Q. Will this increased level of expense change the amount of additional revenue requirement that the Company is requesting the Commission approve in this proceeding?

A. With this additional expense, the Company can support a higher level of revenue requirement than was originally requested in this proceeding. However, the Company is not requesting approval for more than the $173.2 million initially requested in this case and noticed to customers.

Q. Does that conclude your supplemental direct testimony at this time?

A. Yes, it does.

Pennsylvania-American Water Company
Pension Expense
Schedule AEE-3

		AS FILED		REVISED	
		PRESENT RATES	PRESENT RATES	PRESENT RATES	PRESENT RATES
LINE		12/31/2022	12/31/2023	12/31/2022	12/31/2023
NO.	DESCRIPTION	AMOUNT	AMOUNT	AMOUNT	AMOUNT
1	PAWC Pension Costs	($2,201,231)	($2,201,231)	($2,201,231)	$4,188,568
2	Less: 38.82% Capitalized service costs portion not charged to operating expense	2,131,033	2,131,033	2,131,033	$1,455,725
3	10 yr. amortization of Deferred Pension Liability	(1,958,418)	(1,958,418)	(1,958,418)	(1,958,418)
4	Sub-Total	(6,290,682)	(6,290,682)	(6,290,682)	774,425
5	Less: Amount Charged To Operating Expense				
6	During The Twelve Months Ended 12/31/21	(5,344,509)	(6,290,682)	(5,344,509)	(6,290,682)
7	Pro Forma Adjustment	($946,173)	$0	($946,173)	$7,065,107

AS FILED

Pension

	2022 Gross Amount	Capital Rate	Capitalized Service Costs	2022 Pro forma Expense
Pro Forma Pension Cost - Service Costs	$5,489,524	38.82%	$2,131,033	$3,358,491
Pro Forma Pension Cost - Non-Service Costs	(7,690,755)			(7,690,755)
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	($2,201,231)			($4,332,264)
10 yr amortization of Deferred Pension Liability - PAWC				($1,479,089)
10 yr amortization of Deferred Pension Liability - Service Company				(479,329)
Total 10 yr amortization of Deferred Pension Liability				(1,958,418)
Total Pro Forma Pension Expense				($6,290,682)

REVISED

Pension

	2023 Gross Amount	Capital Rate	Capitalized Service Costs	2023 Pro forma Expense
Pro Forma Pension Cost - Service Costs	$3,749,936	38.82%	$1,455,725	$2,294,211
Pro Forma Pension Cost - Non-Service Costs	438,632			438,632
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	$4,188,568			$2,732,843
10 yr amortization of Deferred Pension Liability - PAWC				($1,479,089)
10 yr amortization of Deferred Pension Liability - Service Company				(479,329)
Total 10 yr amortization of Deferred Pension Liability				(1,958,418)
Total Pro Forma Pension Expense				$774,425

Pennsylvania-American Water Company
Service Company Pension Expense
Schedule AEE-3

LINE NO.	DESCRIPTION	AS FILED 2022	AS FILED 2023	REVISED 2022	REVISED 2023
1	AWWSC Pension Costs	($2,616,376)	($2,616,376)	($2,616,376)	$4,978,518
2	Less: 11.18% Capitalized service costs portion not charged to operating expense	(292,559)	(292,559)	(292,559)	503,740
3	Sub-Total	($2,323,817)	($2,323,817)	($2,323,817)	$4,474,778
4	PAWC Allocation 17.95%	(417,125)	(417,125)	(417,125)	803,223
5	Less: Amount Charged To Operating Expense	(423,726)	(417,125)	(423,726)	(417,125)
6	During The Twelve Months Ended 12/31/21				
7	Pro Forma Adjustment	$6,601	$0	$6,601	$1,220,348

Pennsylvania-American Water Company
Service Company Pension Expense
Schedule AEE-3

	AS FILED			
	2022 Gross Amount	Capital Rate	Capitalized Service Costs	2022 Pro forma Expense
Pro Forma Pension Cost - Service Costs	$6,594,832	11.18%	$737,424	$5,857,408
Pro Forma Pension Cost - Non-Service Costs	(9,211,208)	11.18%	(1,029,983)	(8,181,225)
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	($2,616,376)			($2,323,817)
PAWC Allocation - 17.95%				($417,125)

	REVISED			
	2023 Gross Amount	Capital Rate	Capitalized Service Costs	2023 Pro forma Expense
Pro Forma Pension Cost - Service Costs	$4,504,982	11.18%	$503,740	$4,001,242
Pro Forma Pension Cost - Non-Service Costs	473,536			473,536
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	$4,978,518			$4,474,778
PAWC Allocation - 17.95%				$803,223

American Water
Allocation of Pension Expense
Not Reflecting Purchase Accounting
Based on census data collected as of July 1, 2021
Schedule AEE-3

	Company Code	Allocation Count	2021 Valuation Earnings	Pension Cost Allocation % (A)	2023 Total Cost	2023 Service Cost	2023 Non-Service Cost
[redacted]							
AWW SERVICE COMPANY	1033	393	39,568,610	21.68%	4,978,518	4,504,982	473,536
[redacted]							
PENNSYLVANIA - AM	1024	359	33,305,370	18.24%	4,188,568	3,749,936	438,632
[redacted]							
TOTAL		1,928	$182,574,388	100.00%	$22,963,642	$20,142,308	$2,821,334

(A) The allocation percentage for each company is equal to the ratio of valuation earnings for that company to total valuation earnings for the entire American Water system. For allocation purposes, the annual compensation limit under IRC Section 401(a)(17) is ignored.

Note: Confidential data pertaining to other American Water affiliates is redacted.

LINE NO.	DESCRIPTION	AS FILED PRESENT RATES 12/31/2022 AMOUNT	AS FILED PRESENT RATES 12/31/2023 AMOUNT	REVISED PRESENT RATES 12/31/2022 AMOUNT	REVISED PRESENT RATES 12/31/2023 AMOUNT
1	Annualized OPEB Expense	($3,173,353)	($6,548,040)	($3,173,353)	($5,544,736)
2	Annualized Retiree VEBA Expense	219,000	219,000	219,000	219,000
3	Less: Capitalized portion not charged to operating expense	228,915	319,380	228,915	311,421
4	Sub-Total	(3,183,268)	(6,648,420)	(3,183,268)	(5,637,157)
5	Less: Amount Charged To Operating Expenses				
6	For The Twelve Months Ended 12/31/21	(2,973,735)	(3,183,268)	(2,973,735)	(3,183,268)
7	Pro Forma Adjustment	($209,533)	($3,465,152)	($209,533)	($2,453,889)

Pennsylvania-American Water Company
OPEB Expense
Schedule AEE-4

	AS FILED			REVISED		
	2021 Pro forma Expense	Adjustment	2022 Pro forma Expense	2021 Pro forma Expense	Adjustment	2022 Pro forma Expense
Pro Forma OPEB Cost - Service Costs	$407,860	($37,177)	$370,683	$407,860	($37,177)	$370,683
Retiree Medical VEBA	216,716	2,284	219,000	216,716	2,284	219,000
Subtotal	624,576	(34,893)	589,683	624,576	(34,893)	589,683
Capitalization Rate	38.82%		38.82%	38.82%		38.82%
Pro Forma OPEB Cost - Service Costs Capitalized	(242,460)	13,545	(228,915)	(242,460)	13,545	(228,915)
Pro Forma OPEB Cost - Non-Service Costs	(3,355,851)	(188,185)	(3,544,036)	(3,355,851)	(188,185)	(3,544,036)
OPEB Cost - ASC 715 (FAS 106) and Retiree VEBA Medical	(2,973,735)	(209,533)	(3,183,268)	(2,973,735)	(209,533)	(3,183,268)
Total 2022 Pro forma OPEB Expense Adjustment			($209,533)			($209,533)

	2022 Pro forma Expense	Adjustment	2023 Pro forma Expense	2022 Pro forma Expense	Adjustment	2023 Pro forma Expense
Pro Forma OPEB Cost - Service Costs	$370,683	$233,037	$603,720	$370,683	$212,535	$583,218
Retiree Medical VEBA	219,000	-	219,000	219,000	-	219,000
Subtotal	589,683	233,037	822,720	589,683	212,535	802,218
Capitalization Rate	38.82%		38.82%	38.82%		38.82%
Pro Forma OPEB Cost - Service Costs Capitalized	(228,915)	(90,465)	(319,380)	(228,915)	(82,506)	(311,421)
Pro Forma OPEB Cost - Non-Service Costs	(3,544,036)	(3,607,724)	(7,151,760)	(3,544,036)	(2,583,918)	(6,127,954)
OPEB Cost - ASC 715 (FAS 106) and Retiree VEBA Medical	(3,183,268)	(3,465,152)	(6,648,420)	(3,183,268)	(2,453,889)	(5,637,157)
Total 2023 Pro forma OPEB Expense Adjustment			($3,465,152)			($2,453,889)

Pennsylvania-American Water Company
Service Company OPEB Expense
Schedule AEE-4

LINE NO.	DESCRIPTION	AS FILED 2022	AS FILED 2023	REVISED 2022	REVISED 2023
1	AWWSC OPEB Costs	($1,012,685)	($2,089,620)	($1,012,685)	($1,769,445)
2	Less: 19.93% Capitalized service costs portion not charged to operating expense	(201,857)	38,403	(201,857)	31,347
3	Sub-Total	($810,828)	($2,128,023)	($810,828)	($1,800,792)
4	PAWC Allocation 18.27%	(148,138)	(388,790)	(148,138)	(329,005)
5	Less: Amount Charged To Operating Expense	(594,272)	(148,138)	(594,272)	(148,138)
6	During The Twelve Months Ended 12/31/21				
7	Pro Forma Adjustment	$446,134	($240,651)	$446,134	($180,866)

Pennsylvania-American Water Company
Service Company OPEB Expense
Schedule AEE-4

	AS FILED 2023 OPEB	REVISED 2023 OPEB
Service Costs	$192,660	$157,265
Non- Service Costs	(2,282,280)	(1,926,710)
2023 Service + Non-Service Costs	(2,089,620)	(1,769,445)
2023 OPEX Costs	154,257	125,918
PA's allocated portion	18.27%	18.27%
Total Cost (Annual) - PA's portion	(388,790)	(329,005)
2022 Cost	(148,138)	(148,138)
2023 Adjustment	($240,651)	($180,866)

	2022 American Water Retiree Welfare Plan
Service cost (OR)	$81,183
Interest cost (INT)	258,466
Expected return on assets (INT)	(293,069)
Prior service cost (credit)	(857,409)
2022 Pension Cost	($810,828)
2022 Pension Cost allocated to PA	($148,138)

American Water
Allocation of Post-Retirement Welfare Cost
Not Reflecting Purchase Accounting
Based on census data collected as of July 1, 2021
Schedule AEE-4

	Company Code	Allocation Count	FAS 106 Cost Allocation % (A)	2023 Total Cost	2023 Service Cost	2023 Non-Service Cost
[redacted]						
AWW SERVICE COMPANY	1033	497	7.41%	(1,769,445)	157,265	(1,926,710)
[redacted]						
PENNSYLVANIA - AM	1024	1,556	23.22%	(5,544,736)	583,218	(6,127,954)
[redacted]						
TOTAL		6,711	100.00%	(23,879,146)	2,152,457	(26,031,603)

(A) The allocation percentage for each company is equal to the ratio of total participants for that company to total participants for the entire American system (Counts adjusted to reflect weighting of APBO).
(B) The service cost for 2023 is assumed to be allocated in the same proportion as previously provided for 2022.

Note: Confidential data pertaining to other American Water affiliates is redacted.

APPENDIX B

SUPPLEMENTAL DIRECT TESTIMONY OF
JOHN R. POPIOLEK

PAWC STATEMENT NO. 15

DIRECT TESTIMONY

OF

JOHN R. POPIOLEK, FSA

WITH REGARD TO
CHANGES IN PENSION AND POSTRETIREMENT WELFARE PLAN COSTS

DOCKET NOS.
R-2022-3031672 (WATER)
R-2022-3031673 (WASTEWATER)

DATE: JUNE 24, 2022

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PENNSYLVANIA-AMERICAN WATER COMPANY

DIRECT TESTIMONY OF JOHN R. POPIOLEK

<u>INTRODUCTION</u>

Q. Please state your name and business address.

A. My name is John R. Popiolek. My business address is WTW, 1735 Market Street, Philadelphia, Pennsylvania 19103-7501.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Pennsylvania-American Water Company ("PAWC", or "the Company").

Q. By whom are you employed and in what position?

A. I am employed by WTW as a retirement plan actuary and am a Director of WTW's Retirement line of business.

Q. Please describe your educational background.

A. I attended Cornell University, where I received a Bachelor of Arts degree majoring in Physics.

Q. Please describe your professional experience.

A. I have 35 years of experience consulting with organizations on the financial considerations of their pension programs. I have advised pension plan sponsors in the healthcare, transportation, and utility industries in meeting the funding, compliance, and administrative challenges involved in managing their pension plans. I have worked with utilities in matters relating to pension plan de-risking, collective bargaining support, multiemployer plan strategy, executive pension plan funding, and retirement plan design. I have also advised on multiemployer plan funding issues, consulting with clients on multiemployer plan exit and financial strategy. I am a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and Enrolled Actuaries under the Employee Retirement Income Security Act of 1974 ("ERISA"). Since 2018, I have served on the Retirement Plans Experience Committee of the Society of Actuaries, developing the next generation of mortality assumptions for U.S. actuaries.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present updated projections of changes in the forecast of pension cost and postretirement welfare plan income for the American Water Pension Plan and the American Water Postretirement Welfare Plan and, in addition, PAWC's share of these expenses. As I will describe, global investment returns have significantly declined during 2022. Even assuming a return of 5% through the remainder of 2022 and taking into account other adjustments in market data, the result is an annualized return for 2022 of minus 15% for the pension plan and minus 7.31% for the postretirement plan. The associated 2022 asset losses are almost twice the largest annual gain/loss over the last 10 years; similarly, the change in the discount rate is almost twice the largest change over the last 10 years.

The effect of these losses is an increase of $13.8 million ("M") in PAWC's portion of pension cost and a decrease of $1.2M in PAWC's portion of postretirement welfare plan income. Furthermore, the associated asset loss lowers the expected return on assets and increases the net gain/loss amortization in 2023.

PROJECTED CHANGES IN 2023 PENSION COST AND POSTRETIREMENT WELFARE PLAN INCOME

Q. What is the change in forecasted pension cost and postretirement welfare plan income for 2023?

A. Pension cost for the American Water Pension Plan as a whole is expected to increase in 2023, and PAWC's share is expected to increase from $2.2M income to $4.2M expense. Projected postretirement welfare plan income for the American Water Postretirement Welfare Plan is also expected to decrease in 2023. PAWC's share is expected to decrease from $6.5M income (as previously filed) to $5.5M income.

Q. How does the projected 2023 cost compare to 2022 by component?

A. See Table 3 below for a comparison of the pension cost amounts applicable to PAWC.

Table 3
Change in Pension Cost

Component	2022 Amount (as previously filed)	2023 Amount (Revised)	Commentary
Service Cost	$5.5M	$3.7M	Reduced based on higher discount rate and ongoing reduction in active participant count
Interest Cost	11.4M	11.9M	Higher discount rate results in lower pension benefit obligation but higher interest from passage of time
Expected Return on Assets	(22.4M)	(15.1M)	Same expected return on assets is currently assumed (6.5%) but applied to a lower projected asset value at 12/31/22
Prior Service Cost Amortization	(0.5M)	(0.4M)	
Net Gain/Loss Amortization	3.8M	4.1M	
Total pension cost/(income)	$(2.2M)	$4.2M	

Key Assumptions			
Discount Rate	2.94%	4.54%	Reflecting increases in corporate bond yields through May, 2022
Expected Return on Assets	6.50%	6.50%	
Actual Return on Assets	-15.00%	N/A	Projection is based on year-to-date plan investment returns through May 2022; actual results will be known after 2022 ends

See Table 4 below for a comparison of the postretirement welfare income amounts applicable to PAWC.

Table 4
Change in Postretirement Welfare Income

Component	**2023 Amount (as previously filed)**	**2023 Amount (Revised)**	**Commentary**
Service Cost	$0.6M	$0.6M	Reduced based on higher discount rate and ongoing reduction in active participant count
Interest Cost	2.5M	2.9M	Higher discount rate results in lower accumulated pension benefit obligation but higher interest from the passage of time
Expected Return on Assets	(2.4M)	(2.3M)	Same expected return on assets is currently assumed (3.6%) but applied to a lower projected asset value at 12/31/22
Prior Service Cost Amortization	(7.4M)	(7.4M)	
Net Gain/Loss Amortization	0.2M	0.7M	Experience results in accumulated losses outside the 10% loss recognition corridor
Total postretirement plan income	$(6.5M)	$(5.5M)	

Key Assumptions			
Discount Rate	3.49%	4.57%	Reflecting increases corporate bond yields through May, 2022
Expected Return on Assets	3.60%	3.60%	
Actual Return on Assets for 2022	-0.68%	-7.31%	Projection is based on year-to-date plan investment returns through February 2022 for the previously filed costs, and through May 2022 for the revised costs; actual results will be known after 2022 ends

Q. How was the 2023 pension and postretirement welfare plan expense developed in the Company's proposal for 2023 rates?

A. Pension cost and postretirement welfare plan income for 2023 was estimated by projecting investment returns for the pension trust through the end of 2022 and assuming that the corporate bond yields that are the basis for setting the discount rate at year-end 2022 would be at approximately the same level as were available in mid-May 2022.

Q. What specific assumptions were used to develop the Company's proposal for pension cost and postretirement welfare plan expense in 2023 rates?

A. Pension cost for 2023 was estimated assuming that investment returns for the pension trust would be -15% for the year, reflecting an approximate -19% actual return through mid-May 2022 and +5% return for the remainder of 2022. The estimate also assumes an increase in discount rate from 2.94% at year-end 2021 to 4.54% at year-end 2022, reflecting actual increases in high quality corporate bond yields through mid-May 2022 and no change for the reminder of the year.

Postretirement Welfare plan income for 2023 was estimated assuming that investment returns for the pension trust would be -7.31% for the year, reflecting an approximate -11.7% actual return through mid-May 2022 and +5% return for the remainder of 2022. This estimate also assumes an increase in discount rate from 3.49% at year-end 2022 in the previously filed costs to 4.57% at year-end 2022 in the revised costs, reflecting actual increases in high quality corporate bond yields through mid-May 2022 and no change for the reminder of the year.

Q. How much of the change from 2022 to 2023 is due to the discount rate?

A. **Pension:** Based on interest rates as of May 12, 2022, we are estimating an increase in the discount rate from 2.94% at December 31, 2021 to 4.54% at December 31, 2022. This decreases PAWC's pension cost by $7.4M.

Postretirement Welfare Plan: Based on interest rates as of May 12, 2022, we are estimating an increase in the discount rate from 3.49% estimated in the previously filed costs to 4.57% at December 31, 2022. This increases PAWC's postretirement welfare plan income by approximately $0.2M.

The discount rate change impacts pension cost and postretirement welfare income as follows:

1. The service cost component of pension cost is reduced, since the present value of benefits earned will decrease from the increase in rate.
2. The interest cost component is increased because the change in the discount rate increases the interest charged on the PBO but also reduces the PBO itself.
3. The net gain/loss amortization is decreased. This occurs because the decrease in PBO from the discount rate change results in an actuarial gain. This gain is immediately reflected in the amortization of net gains/losses, and amortized over the average remaining future service of the active participants in the plan.

Q. How much of the change from 2022 to 2023 that you have described is due to 2022 asset returns?

A. Global investment returns have significantly declined during 2022. Our estimated asset return through May 12, 2022 is a decline of 19.0% for the Pension Plan and a decline of 11.7% for the Postretirement Welfare Plan. Assuming returns of +5% through the remainder of 2022, this produces an annualized return of minus 15% for the pension plan and minus 7.31% for the postretirement welfare plan for all of 2022. This results in an asset loss of 21.5% (Expected return of 6.5% plus the 15% negative return for 2022) for the pension plan and 10.91% (Expected return of 3.6% plus the 7.31% negative return for 2022).

The effect of these losses is an increase of $13.8M in PAWC's portion of pension cost and a decrease of $1.2M in PAWC's portion of postretirement welfare plan income compared to the previously filed costs. The asset loss lowers the expected return on assets and increases the net gain/loss amortization in 2023.

Q. Is the estimated discount rate increases of 1.60% for the pension plan and 1.67% for the postretirement welfare plan within the typical range of annual change in assumptions?

A. No. The largest annual discount rate change over the last ten years is 0.95% for pension and 0.96% for postretirement welfare. This means the 2022 projected changes are almost 2 times the largest change over the last 10 years.

Q. Is the estimated loss of 21.5% for the pension plan and 10.91% for the postretirement welfare plan within the typical range of annual gains and losses?

A. No. The largest annual asset return gain/loss over the last 10 years is 12.0% for pension and 11.9% for postretirement welfare plan. This means the 2022 asset losses are almost 2 times the largest gain/loss over the last 10 years.

CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes, it does.