YORK WATER STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF JOSEPH T. HAND

Q. State your name and business address.

A. Joseph T. Hand. My business address is: 130 East Market Street, York, Pennsylvania.

Q. By whom are you employed?

A. I am employed by The York Water Company ("York Water" or the "Company").

Q. State your present position with the Company.

A. I am President and Chief Executive Officer.

Q. How long have you been employed by the Company?

A. I have been employed by the Company since March 5, 2008. I served as Chief Operating Officer from March 2008 through February 2020.

Q. What is your educational background?

A. I have a Bachelor of Science degree in Civil Engineering from the University of Vermont, Burlington, VT and a Master's Degree in Business Administration from York College of Pennsylvania, York, Pennsylvania. I am also a graduate of the US Army's Command and General Staff College.

Q. Are you a member of any professional societies or trade associations?

A. Yes, I am currently a member of the American Water Works Association ("AWWA"), the Waterworks Operators Association of Pennsylvania and the National Association of Water Companies ("NAWC"). I currently serve as the Chair of the Pennsylvania Chapter of NAWC and serve on the Board of Directors of NAWC. I am the Vice-Chair of the PA Section AWWA Water Utility Council and a member of the Small Water Systems Technical Assistance Center Board.

Q. What has been your other business experience?

A. In my last assignment on Active Duty with the United States Army, I served as the Deputy Commander and Deputy District Engineer for the Baltimore District, US Army Corps of Engineers ("USACE"). Immediately prior to joining the Company, I was Chief, Navigation Branch, Baltimore District, USACE. I served on Active Duty as an Engineer Officer in the United States Army Corps of Engineers for approximately 22 years.

Q. Have you previously testified before a regulatory commission?

A. Yes, I testified in the Company's last three base rate proceedings.

Q. Will you list the exhibits you are sponsoring in this proceeding?

A. I am sponsoring the following exhibits prepared by me or under my direction and supervision:

Exhibit Nos. HXII-1, HXII-2, FXII-1 and FXII-2 relating to quality of service;

Exhibit Nos. HXI-5 and FXI-5 relating to unaccounted for water, HXI-6 and FXI-6 relating to corporate history; and

Exhibit Nos. HIII-22 and FIII-22 relating to the incentive program.

Q. Please explain the history of the Company.

A. As explained in Exhibit No. FXI-6, York Water is the oldest investor-owned public utility in the country, having been formed in 1816. The Company is engaged in the business of furnishing water and wastewater service to over 75,000 customers pursuant to certificates of public convenience and necessity issued by the Commission. York Water provides direct water service in the City of York, in the Boroughs of East Prospect, Hallam, Jacobus, Jefferson, Loganville, Manchester, Mount Wolf, New Salem, North York, Railroad, Seven Valleys, Spring Grove, West York, York Haven and Yorkana, and in the Townships of Codorus, Conewago, East Manchester, Hellam, Hopewell, Jackson, Lower Windsor, Manchester, Newberry, North Codorus, North Hopewell, Paradise, Shrewsbury, Springettsbury, Springfield, Spring Garden, West Manchester, West Manheim, Windsor and York in York County, Pennsylvania and the Boroughs of Abbottstown and Carroll Valley and Townships of Berwick, Cumberland, Oxford, Hamilton, Reading, Mount Pleasant, Union, and Straban in Adams County, Pennsylvania. The Company also provides wholesale service to the Boroughs of Glen Rock, New Freedom, and Stewartstown and to Dover Township. In addition, York Water provides wastewater service in the Boroughs of East Prospect, Felton, Jacobus, and West York, in the Townships of East Manchester, Lower Windsor, and West Manheim in York County, Pennsylvania, in the Township of Letterkenny in Franklin County, Pennsylvania, and in the Township of Straban in Adams County, Pennsylvania.

Q. What are the goals of the Company, and has it met these goals?

A. York Water is committed to providing its customers with safe, dependable, high-quality water and wastewater service that meets or exceeds its customers' expectations. The Company provides high-quality water and wastewater service at reasonable rates and in an environment that allows its employees to achieve a high standard of performance. York Water's dependability was highlighted after a fire in its service territory, when the fire chief said that "great water and great manpower" resulted in no injuries to firefighters or residents.

Q. How has the Company accomplished these goals?

A. The Company conducts its business in a manner that demonstrates the highest standards of integrity. Each employee is responsible to act with honesty and accountability. The reputation of the Company is vital to its success. York Water has no patience for corrupt practices.

The Company continually strives to maintain and improve upon the reputation it has in the community. Recently, the Company partnered with York County Emergency Services and Nextel to help provide a solution to the County's 911 communication issues by allowing an antenna and equipment to be installed for a new digital radio tower and paging site on one of York Water's standpipes. This is something that could benefit the County greatly, at no cost to the Company's customers. In addition, the Company has partnered with local, state, and federal agencies on a number of emergency preparedness and response exercises with the use of the Company's facilities. One such exercise simulated a dam breach and deployment of the Swiftwater Emergency Response Team ("SWERT"), numerous rotary aircraft from the Pennsylvania Army National Guard, the Pennsylvania Fish and Boat Commission, and local and state first responders recovering multiple simulated victims from the Company's reservoir.

York Water continually strives to provide affordable service to its customers. The Company exceeds all standards for water quality, assuring that its customers receive safe water. And, the Company designs and upgrades its delivery system so that customers receive their water reliably. One of the ways the Company delivers affordable service is by partnering with the City of York and the municipalities in which it serves with regards to roadwork. As but one example, the City of York has a standing coordinating committee hosted by the Department of Public Works. Through this committee and less formal means, the City of York informs York Water of the paving and improvement projects for the following year. York Water then reviews the age and issues associated with the mains and services under the roads to be paved and replaces the facilities where appropriate in advance of the paving. As a result, the City of York pays for the paving saving York Water's customers money, and York Water does not have to dig up the street right after it is paved, which would cause the Company's neighbors and customers additional inconvenience and cost.

As shown on Exhibit No. HXII-1 and FXII-1, the Company's rates are amongst the lowest of the Class A water utilities regulated by the Commission. The Company has provided a comparison of the annual average base rate charges under existing rates for the Company and presently effective base rate charges of SUEZ Water Pennsylvania, Columbia Water Company, Pennsylvania-American Water Company, and Aqua Pennsylvania, Inc. The annual average residential base rates are based on monthly consumption of 4,000 gallons (York Water's average usage). Average annual residential base rate charges for the Company are $532. The average annual residential base rate charges for SUEZ Water Pennsylvania, Columbia Water Company, Pennsylvania-American Water Company, and Aqua Pennsylvania, Inc. are $611, $566, $843, and $778, respectively. The Company's annual average residential base rate charges are more affordable than the Pennsylvania Class A water utilities that serve the majority of Pennsylvania customers.

One of the reasons why the Company's rates are so low is efficiency. The Company maintains lower rates by managing expenses. In fact, in one of its reports, Standard & Poor's commented that the Company's "operating costs are among the lowest in the state."

Exhibit Nos. HXII-2 and FXII-2, pages 1 through 6 provide a comparison of the Company's 2019, 2018, and 2017 residential complaint rates and justified residential complaint rates to the 2019, 2018, and 2017 residential complaint rates and justified residential complaint rates of Aqua Pennsylvania, Inc., Pennsylvania-American Water Company, and the industry as a whole. The residential complaint rates and justified residential complaint rates for Aqua Pennsylvania, Inc., Pennsylvania-American Water Company, and the industry as a whole are published by the Commission's Bureau of Consumer Services. 2019 is the latest information available. York Water's 2019, 2018, and 2017 residential complaint rates and justified residential complaint rates are significantly lower than the residential complaint rates and justified residential complaint rates of Aqua Pennsylvania, Inc., Pennsylvania-American Water Company and the industry as a whole.

Exhibit Nos. HXII-1, HXII-2, FXII-1 and FXII-2 provide data that demonstrates that the Company, due to its efforts, delivers to its customers' exceptional customer service and exceptional value.

Q. As indicated in Mr. Wheeler's testimony, the Company is projecting to place in service $43,984,349 in new or replacement facilities during 2022 and $73,215,881 during 2023 and the first two months of 2024. How is the Company financing its capital requirements?

A. The Company is financing its capital requirements through internally generated funds, proceeds from the issuance of common stock under its dividend reinvestment and direct stock purchase plan and employee stock purchase plans, customer advances, issuances of equity and long-term debt, and temporary borrowings under its lines of credit.

In April 2022, the Company closed an underwritten public offering of 976,600 shares and an over-allotment of 146,340 shares. Janney Montgomery Scott LLC was the underwriter in the offering. The Company received net proceeds in the offering, after deducting offering expenses and underwriter's discounts and commissions, of approximately $44.0 million. No additional major equity issuances are planned in the next two years. The net proceeds were used to repay its short-term debt generated in 2021.

In December 2022, one of the Company's long-term debt issuances mature, the Series D Senior Notes. The Company plans to repay that issue and the short-term debt generated in 2022 at the end of 2022. The amount of the borrowing is expected to be approximately $30.0 million. For purposes of this case, the Company projects to be able to borrow at a rate of 4.0%. This issuance will likely be taxable debt.

The Company is also currently planning to refinance short-term debt generated in 2023 at the end of 2023. The amount of the borrowing is expected to be approximately $32.5 million. For purposes of this case, the Company projects to be able to borrow at a rate of 4.25%. This issuance will likely be taxable debt.

Since 2003, York Water has implemented a variety of financing methods in the Company’s efforts to produce interest cost savings for its customers. These methods include aggressively seeking tax-free debt financing and securing a Standard & Poor’s rating on the Company’s bond issues. As a result of these financing methods, the Company has greatly reduced its overall cost of debt resulting in interest cost savings for its customers. I note that the Company’s long-term goal for permanent capital is to maintain a capital structure between 50% and 55% equity, which will assist the Company in maintaining an investment grade credit rating.

Q. Does the Company promote the continuation of superior and affordable service to its customers in other ways?

A. Yes. To help York Water continue providing superior and affordable service, the Company has established a Cash Incentive Plan approved by the Company's Compensation Committee and Board of Directors on January 26, 2003.

The purpose of the Company's Cash Incentive Plan is to help the Company motivate and reward participants who provide superior service to the Company, contribute to the achievement of Company goals, and promote the creation of value for customers.

The Company establishes performance objectives for the calendar year, each of which provides a direct benefit to its customers.

The Company's Cash Incentive Plan provides for business criterion upon which annual incentive awards are conditioned. The business criterion is not a performance objective and is not the objective for the incentive plan. However, the business criterion is established to ensure that cash incentives are paid only when the Company's financial profile warrants such a payout.

In addition, the Company established a Long-Term Incentive Plan approved by the Company's stockholders on May 2, 2016, to help York Water continue providing superior and affordable service.

The purpose of the Company's Long-Term Incentive Plan is to advance the long-term success of the Company by providing the incentive of long-term stock-based awards to officers, directors, and key employees. The Long-Term Incentive Plan is designed to ensure the compensation practices of the Company are competitive in the industry to assist in the attraction and retention of directors and key employees vital to the providing superior and affordable service to York Water's customers.

Q. Can you describe the Company's recent acquisition activity?

A. The following is a summary of York Water's recent acquisition activity. York Water supports the Commission's objectives of promoting regionalization and strengthening water and wastewater system viability. These acquisitions will improve the overall capability of the Commonwealth's water and wastewater industry, enrich the quality of water and wastewater service to customers, advance the communities' economic development, and protect the environment.

Wrightsville Borough

On February 15, 2018, the Company completed the acquisition of certain water assets of Wrightsville Borough Municipal Authority ("Wrightsville") in York County, Pennsylvania, an expansion of its territory and the provision of water service to Eastern York School District ("District") and the surrounding residences. The Company began providing water service to this customer previously served by Wrightsville on February 20, 2018. The primary purpose of this transaction was to transfer to the Company from Wrightsville the responsibility to provide public water service to an educational campus of the District.

Wrightsville provided water and wastewater service for the District buildings. Wrightsville owned an approximately 90,000-gallon finished water standpipe situated on District property, whose sole purpose was to store and provide finished water to the District. Additionally, Wrightsville owned a small booster station and finished water force mains that pumped water to the finished water standpipe. No other customers of Wrightsville were connected to the finished water force mains or served by the finished water standpipe.

The District was not satisfied with its service from Wrightsville, including issues regarding responsibility to maintain certain facilities owned by the Authority and used to serve the District. The District ultimately determined that it was in the best interest of its faculty, staff, students, and families to request public water service from the Company.

Upon completion of the acquisition, the Company interconnected the acquired facilities with the Company's water distribution system. The Company incorporated and operated the finished water standpipe as part of its water operations to provide fire protection services for the District's buildings. In 2020, the Company replaced the purchased water standpipe with a 310,000 gallon finished water standpipe to provide the necessary water for the expanding educational campus of the District.

The Company installed an emergency interconnect with Wrightsville's water system. Wrightsville's single source of supply is the Susquehanna River. The Pennsylvania Department of Environmental Protection ("DEP") stresses the importance of alternate sources of supply. The emergency interconnect enables the Company to provide Wrightsville with up to 8 million gallons of water supply per month on an as-needed basis and is intended to provide Wrightsville with an additional source of water supply in case there is a disruption to its only current source of supply.

On June 11, 2018, the Company submitted to the Commission an original cost plant-in-service valuation of the acquired assets of Wrightsville. As noted in the testimony of Mr. Coppersmith (York Water Statement Nos. 4 and104), the Company's net cost to acquire the Wrightsville water assets was $67,886 greater than the original cost of the property less applicable accrued depreciation. See Exhibit No. FV-1-9.

The negotiations for the purchase the Wrightsville assets were conducted at arm's length. York Water was not affiliated with Wrightsville.

The actual purchase price was reasonable. The net premium is reasonable considering the projected annual revenues that the Company will receive from the customers added as a result of the acquisition. The additional revenue is reflected in this case.

Rates to pre-acquisition customers will not increase unreasonably due to this acquisition. Annual revenues from the added customers are sufficient to cover the incremental costs of the acquisition.

In accordance with Section 1327 of the Public Utility Code, the Company requests that amortization of the $67,886 positive acquisition adjustment be permitted over a 10-year period as part of rate base.

Jacobus Borough Sewer Authority (Wastewater purchase)

On August 29, 2019, the Company completed the acquisition of the wastewater facilities of Jacobus Borough Sewer Authority ("Jacobus") in York County, Pennsylvania. The Company began operating the existing collection facilities on August 30, 2019. Jacobus served approximately 700 wastewater customers.

Jacobus was not certificated by the Commission and did not wish to continue providing wastewater service to its residents due to increasing costs and the challenges of meeting regulatory oversight and reporting requirements. The Company was already certificated and providing water service to the entirety of

Jacobus Borough. Jacobus determined it was in the best interest of its current customers to sell its wastewater collection system to a company that has sufficient wastewater operations and maintenance experience to meet the wastewater demands of the public and has more experience dealing with utility service and regulatory requirements associated with providing such service. Jacobus also concluded that its investment in maintaining the collection system in the future would be insufficient to provide reliable wastewater collection and transportation services. The sole contract operator responsible for maintaining the sanitary lift stations was retiring with no immediate successor available. Jacobus determined that its volunteer, part-time board had insufficient experience to continue meeting the regulatory requirements associated with its wastewater obligations.

The Company acquired Jacobus's wastewater collection system including all the physical plant, property, and equipment. Upon taking over the Jacobus wastewater collection system, the Company installed Supervisory Control and Data Acquisition ("SCADA") equipment and backup power generation at each of the system's sanitary lift stations to improve the reliability of service.

On November 27, 2019, the Company submitted to the Commission an original cost plant-in-service valuation of the Jacobus wastewater system. The Company paid less than depreciated original cost of the acquired system. York Water has included in rate base the depreciated original cost of the acquired system. No amortization of pass-through of the difference between the acquisition cost and the depreciated original cost is appropriate because this acquisition involves a matter of substantial public interest.

Felton Borough (Wastewater purchase)

On April 9, 2020, the Company completed the acquisition of the wastewater facilities of Felton Borough ("Felton") in York County, Pennsylvania. The Company began operating the existing collection and treatment facilities on April 16, 2020. Felton served approximately 130 wastewater customers.

Felton was not certificated by the Commission and did not wish to continue providing wastewater service to its residents due to increasing costs and the challenges of meeting regulatory oversight and reporting requirements. Felton determined that it was in the best interest of its current customers to sell its wastewater system to a company that has sufficient wastewater operations and maintenance experience to meet the wastewater demands of the public and has more experience in dealing with utility service and the regulatory requirements associated with providing such service. Felton also concluded that its investment in maintaining the wastewater system in future years would be insufficient to provide reliable wastewater collection and treatment services. In July 2018, DEP served a Notice of Violation ("NOV") on Felton resulting from DEP's inspection of Felton in June 2018. The findings in the Inspection Compliance Report and subsequent NOV are indicative of Felton's difficulties with operating its wastewater system. In addition to the conditions that resulted in the NOV, DEP also noted an effluent violation occurring in August 2017. Additionally, Felton identified Inflow and Infiltration ("I&I") problems with the collection system as noted in its 2018 Chapter 94 report. Felton concluded that its volunteer, part-time board had insufficient experience to continue meeting the regulatory requirements associated with its wastewater obligations.

The Company acquired Felton's wastewater collection and treatment system, including all the physical plant, property, and equipment. Upon taking over the Felton wastewater collection and treatment system, the Company installed SCADA equipment and backup power generation at the treatment plant and sanitary lift station.

On July 14, 2020, the Company submitted to the Commission an original cost plant-in-service valuation of the Felton wastewater system. As noted in the testimony of Mr. Coppersmith (York Water Statement Nos. 4 and 104), the Company's net cost to acquire the Felton wastewater collection and treatment system was $294,808 greater than the original cost of the property less applicable accrued depreciation. See Exhibit No. FV-1-2W.

The negotiations for the purchase the Felton wastewater system were conducted at arm's length. York Water was not affiliated with Felton.

The actual purchase price was reasonable. The net premium is reasonable considering the projected annual revenues that the Company will receive from the customers added as a result of the acquisition. The additional revenue is reflected in this case.

Rates to pre-acquisition customers will not increase unreasonably due to this acquisition. Annual revenues from the added customers are sufficient to cover the incremental costs of the acquisition.

In accordance with Section 1327 of the Public Utility Code, the Company requests that amortization of the $294,808 positive acquisition adjustment be permitted over a 10-year period as part of rate base.

<u>Letterkenny Township Municipal Authority (Wastewater purchase)</u>

On September 14, 2020, the Company completed the acquisition of the wastewater facilities of Letterkenny Township Municipal Authority ("Letterkenny") in Franklin County, Pennsylvania. The Company began operating the existing collection and treatment facilities on September 14, 2020. Letterkenny served approximately 180 wastewater customers.

Letterkenny was not certificated by the Commission and did not wish to continue providing wastewater service to its residents due to increasing costs and the challenges of meeting regulatory oversight and reporting requirements.

Letterkenny determined that it was in the best interest of its current customers to sell its wastewater system to a company that has sufficient wastewater operations and maintenance experience to meet the wastewater demands of the public and has more experience in dealing with utility service and the regulatory requirements associated with providing such service. Letterkenny also concluded that its investment in maintaining the wastewater system in future years would be insufficient to provide reliable wastewater collection and treatment services. For example, in September 2018, DEP entered into a Consent Order and Agreement ("COA") with Letterkenny for discharges between April 2013 and August 2017 that, as stated on page 2 of the COA, were "contrary to the terms and conditions set forth in its NPDES Permit." On January 2, 2018, DEP conducted an inspection of the wastewater treatment plant and identified accumulated sewage solids at the outfall. Subsequently, DEP issued an NOV on January 5, 2018. DEP concluded that Letterkenny had violated Sections 201 and 202 of The Clean Streams Law, 35 P.S. §§ 691.201 and 691.202, as well as its National Pollutant Discharge Elimination System permit. Letterkenny was ordered to take certain corrective actions and pay a civil penalty. The findings in the COA are indicative of Letterkenny's difficulties with operating its wastewater system.

The Company acquired Letterkenny's wastewater collection and treatment system, including all the physical plant, property, and equipment. Upon taking over the Letterkenny wastewater collection and treatment system, the Company installed

SCADA equipment and backup power generation. The Company has also corrected all items the resulted in the COA discussed above.

On November 25, 2020, the Company submitted to the Commission an original cost plant-in-service valuation of the Letterkenny wastewater system. The Company paid less than depreciated original cost of the acquired system. York Water has included in rate base the depreciated original cost of the acquired system. No amortization of pass-through of the difference between the acquisition cost and the depreciated original cost is appropriate because this acquisition involves a matter of substantial public interest.

<u>West Manheim Township (Wastewater purchase)</u>

On December 30, 2021, the Company completed the acquisition of the wastewater facilities of West Manheim Township ("West Manheim") in York County, Pennsylvania. The Company began operating the existing collection facilities on January 3, 2022. West Manheim served approximately 1,900 wastewater customers.

West Manheim was not certificated by the Commission and did not wish to continue providing wastewater service to its residents due to increasing costs and the challenges of meeting regulatory oversight and reporting requirements.

The Company was already certificated and providing water service to portions of West Manheim. The Company acquired West Manheim's wastewater collection system, including all the physical plant, property, and equipment.

On January 6, 2022, the Company submitted to the Commission an original cost plant-in-service valuation of the West Manheim wastewater system. The Company's net cost to acquire the West Manheim wastewater collection system was $3,124 greater than the original cost of the property less applicable accrued depreciation.

The negotiations for the purchase the West Manheim wastewater system were conducted at arm's length. York Water was not affiliated with West Manheim.

The actual purchase price was reasonable. The net premium is reasonable considering the projected annual revenues that the Company will receive from the customers added as a result of the acquisition. The additional revenue is reflected in this case.

Rates to pre-acquisition customers will not increase unreasonably due to this acquisition. Annual revenues from the added customers are sufficient to cover the incremental costs of the acquisition.

Due to the immaterial amount, the Company is not requesting amortization of the $3,124 positive acquisition adjustment.

As required by the Commission in Docket No. A-2021-3025720, the Company believes the original cost and accumulated depreciation presented in the original cost plant-in-service valuation of the West Manheim wastewater system filed with the Commission on January 6, 2022, should be allowed in rate base and are claimed as part of rate base in this case. The depreciated original cost of all acquisitions of the Company prior to this case has been allowed in rate base. It is the Company's understanding that no customer funds or contributions were used to build the facilities. The Company is not claiming any utility plant acquisition adjustment in this case.

Q. Related to the West Manheim wastewater purchase, does the Company intend to charge for the provision of wastewater services to Penn Township?

A. No. There are approximately 14 properties located in Penn Township that are connected to the collection and conveyance system in the West Manheim service area. These are wastewater service customers of Penn Township and not of the Company. Per the Bulk Service Agreement with Penn Township, the volume of flow from these customers is deducted from the available capacity and credited to York Water's total flows. Penn Township is responsible for all maintenance costs related to the wastewater assets that are in Penn Township but connected to the collection and conveyance system in the West Manheim service area, including replacement of sewer mains and service laterals if required. Any costs for conveyance of the wastewater from these customers through Company assets is small and immaterial compared to total costs for the conveyance of wastewater to Penn Township. As such, the Company does not propose a rate for these services to be charged to Penn Township.

Q. What are your conclusions about the overall effectiveness of the service provided by the Company?

A. York Water is superior in its overall effectiveness and provides exceptional service to its customers at exceptional value. The Commission should recognize such performance in arriving at the allowed rate of return on common equity.

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

A. Yes.

YORK WATER STATEMENT NO. 2

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF MARK A. WHEELER

Q. State your name and business address.

A. Mark A. Wheeler. My business address is: 130 East Market Street, York, Pennsylvania.

Q. By whom are you employed?

A. I am employed by The York Water Company ("York Water" or the "Company").

Q. State your present position with the Company.

A. I am the Chief Operating Officer.

Q. How long have you been employed by the Company?

A. I have been employed by the Company since September 16, 2019. I served as Chief Administrative Officer from September 2019 through February 2020.

Q. What is your educational background?

A. I have a Bachelor of Science degree in Accounting from the Pennsylvania State University, University Park, Pennsylvania and a Master's Degree in Business Administration from York College of Pennsylvania, York, Pennsylvania.

Q. Are you a member of any professional societies or trade associations?

A. Yes, I am currently a member of the American Water Works Association, the Waterworks Operators Association of Pennsylvania, and the National Association of Water Companies.

Q. What has been your other business experience?

A. From July 2015 through August 2019, I was the Chief Financial Officer for Knott Mechanical in Hunt Valley, Maryland. From January 2006 through July 2015, I was the Chief Financial Officer for New Standard Corporation in York, Pennsylvania. From March 2003 through January 2006, I was the Site Controller and then the Senior Manager, Financial Analysis for Armstrong World Industries, Lancaster, Pennsylvania. Prior to that, I held various positions of increasing responsibility for York International Corporation and Gichner Systems Group.

Q. Have you previously testified before a regulatory commission?

A. No, this is the first time I have presented testimony to the Pennsylvania Public Utility Commission ("Commission").

Q. Will you list the exhibits you are sponsoring in this proceeding?

A. I am sponsoring the following exhibits prepared by me or under my direction and supervision:

Exhibit Nos. HIX-1, HIX-2, HIX-3, HIX-4, HIX-5, HIX-6, HIX-7, FIX-1, FIX-2, FIX-3, FIX-4, FIX-5, FIX-6, and FIX-7 relating to quality of service, and Exhibit Nos. HV-12, FV-12, FV-12-1, FV-12-1W, FV-12-2, FV-12-2W, FV-12-3, FV-12-3W, FV-12-4, FV-12-4W, FV-12-5, FV-12-5W, FV-12-6, and FV-12-6W relating to plant additions and retirements.

Q. Please outline the operations of the Company.

A. The Company obtains its water for its main water distribution system from the South and East Branches of the Codorus Creek. The East Branch flows into the Company's two impounding basins known as Lake Williams and Lake Redman. The water is taken from the confluence of the east and south branches of the creek and pumped by the Company's Brillhart Pumping Station a distance of approximately two miles to the Company's Purification Plant. The Company also has an intake in the Susquehanna River. Water is pumped through a 15-mile transmission pipeline connecting the Susquehanna River to the Company's Lake Redman impounding reservoir. The Company has an alternate pumping station at Lake Redman, which allows the Company to pump directly from Lake Redman. Water from Lake Redman is pumped a distance of approximately three miles to the Company's Purification Plant.

The Company fully treats and filters the water that is supplied to the public. The Company was one of the first public water supply systems in the nation to treat and filter its water supply, having constructed its first filtration and treatment facilities in 1898. After treatment, water is retained in two storage basins located at the Purification Plant for eventual distribution to the Company's service areas. In compliance with requirements of the Department of Environmental Protection ("DEP") related to finished water storage facilities, the two basins were covered in 1993 and 1994.

The Company has two separate types of service areas. One is referred to as the "Gravity System." In the "Gravity System," water flows to customers from the Purification Plant without the use of booster pumps. The second service area is referred to as the "Repumped System," for which booster pumps are used to provide necessary water pressure and flow. All booster stations are equipped with at least two pumps and backup power generation to safeguard water service in the event of mechanical or electrical failure.

The Company has thirty-five standpipes, two finished water reservoirs, and thirty-three booster stations located throughout its service territory, which provide emergency supplies and water pressure.

In addition to the water assets described above, the Company owns and operates four groundwater sources, one in the Borough of Carroll Valley, Adams County, PA, two in Cumberland Township, Adams County, PA, and one in Straban Township, Adams County, PA. These water supply systems are not connected to the Company's main water treatment plant and have their own water treatment facilities.

The Company owns and operates five wastewater collection systems and treatment facilities, one in East Manchester Township, York County, PA, one in the Borough of East Prospect and Lower Windsor Township, York County, PA, one in Felton Borough, York County, PA, one in Letterkenny Township, Franklin County, PA, and one in Straban Township, Adams County, PA. The Company owns and operates three wastewater collection systems, one in West York Borough, York County, PA with wastewater treatment provided by the City of York, pursuant to contract,[1] one in Jacobus Borough, York County, PA, with wastewater treatment provided by Springfield Township York County Sewer Authority, and one in West Manheim Township, York County, PA, with wastewater treatment provided by Penn Township.

Q. What measures has the Company taken to ensure the safety and availability of water in the event of an emergency?

A. The Company has a long-standing Emergency Response Plan for drinking water contamination incidents prepared in accordance with the regulatory requirements of

[1] On April 14, 2022, at Docket No. A-2021-3024681, the Commission entered an Order approving Pennsylvania-American Water Company's ("PAWC") Application to, among other things, acquire the wastewater collection and treatment system operated by the City of York. Upon closing of that transaction, PAWC will be the entity providing wastewater treatment service for York Water's West York Borough wastewater collection system.

DEP and the guidelines established by the United States Environmental Protection Agency ("EPA"). The Emergency Response Plan is tested, evaluated, and updated on a regular basis, not less frequent than annually.

The Company has established a York County Inter Water Utility Cooperation Plan. Under the Plan, if a York County water utility has a water contamination incident or a water loss, the neighboring utilities would assist in meeting drinking water needs through the operation of one or more Drinking Water Fill Stations.

Customers of the affected utility will be notified of the locations and operating hours of the Drinking Water Fill Stations. The Company will maintain an inventory of the Drinking Water Fill Station connection facilities.

In addition, York Water has improved its notification procedures in the event of a water contamination incident. To ensure that residential customers, businesses, governmental agencies, and health care facilities are promptly and properly informed and protected in the event of an emergency, the Company has entered into an emergency telephone message distribution contract, which will provide rapid telephone notification to its customer base. Annually the Company attempts to secure current telephone numbers and email addresses from all of its customers, and currently has approximately 90% of its customers' landline, cellular, or email telephone numbers/addresses. The telephone numbers and email addresses are kept secure in the Company's database, and access is restricted to customer service staff.

In addition to the emergency telephone message distribution notification, the Company will provide notification through the Company's website, local radio and television stations, newspapers, and other media.

York Water has installed a Supervisory Control and Data Acquisition ("SCADA") process control network, which enables the Company to immediately detect a water contamination incident throughout its distribution system. This process control network allows the Company to provide rapid customer notification in the event of an emergency.

Q. Mr. Hand's testimony states that one of the goals of the Company is to provide high quality water and excellent service. How has the Company achieved this goal?

A. York Water continually strives to provide superior service to its customers. The Company exceeds all standards for water quality, assuring that its customers receive safe water. And York Water designs and upgrades the Company's delivery system so that its customers receive their water reliably.

To reduce the cost of service to York Water's customers and keep the Company's rates as affordable as possible, York Water encourages water conservation by its customers.

The Company meters all customer water usage with the exception of fire service. All meter readings are checked during the billing process to make sure that the most recent consumption is consistent with the historical average. If the reading is abnormal, before billings are mailed, a customer service employee attempts to contact the customer to inform the customer of the abnormal reading and suggest the customer investigate a possible leak. The Company has received high praise from its customers for this validation procedure.

Each year, York Water's customers receive bill inserts or onserts (messages printed on the actual water bill) that describe ways to conserve water. In addition, a brochure that the Company provides to all new customers contains a section on water conservation. Also, the Company's Consumer Confidence Report (Refer to Exhibit No. FIX-1) contains water conservation information.

The Company and its employees undertake an active role in the community to stress the need for water conservation. Speakers are provided to local organizations to explain the need for water conservation. The Company provides coloring books and brochures to local school and scout groups on water conservation. The Company has also sponsored and provided instruction for the Boy Scout merit badge on Water and Soil Conservation. The Company has assigned a team of employees to complete and analyze monthly water audits using industry benchmarks as a guide for performance. When safety conditions allow, the Company offers tours of its water treatment process to school-age children and local scout troops to demonstrate the importance of water conservation, the quality of the product and the value of drinking water to the community.

During the drought periods of 1997, 1999 and 2001-2003, the Company issued many press releases urging customers to conserve water. In addition, the Company sponsored a series of water conservation tips broadcast over a local TV station and over the local Cable TV network.

The Company has a Drought Contingency Plan, approved by the Commission and DEP, filed as a part of its Tariff.

The Company practices water conservation as well. Leak detection and repair has always been one of the Company's highest priorities.

The repair of a large leak or one doing any damage takes precedence over all other activities of the distribution department, which operates 24 hours a day, 365 days a year.

The Company has an employee whose sole responsibility is leak detection. During the calendar year 2021, the Company's Leak Detection Coordinator detected 166 leaks throughout the Company's service territory. The Company has purchased and installed leak detection equipment, which allows York Water to continuously monitor portions of its distribution system to detect leaks.

In addition, York Water's Distribution Department Superintendent periodically contacts municipal street crew superintendents, police and fire officials in the 51 municipalities served by the Company to remind and encourage them to contact the Company if they observe any unusual water flows in the streets or at valve boxes or hydrants. All such reports are promptly investigated.

It should also be noted that most of the municipalities in which York Water serves have code provisions that require the installation of water saving plumbing fixtures.

The Company's conservation efforts have been very successful. As shown on Exhibit No. HXI-5, York Water's unaccounted-for water was 13.8%, 13.9%, and 13.4% during 2021, 2020, and 2019, respectively. For comparison purposes, Section 65.20 of the Commission's regulations (52 Pa. Code § 65.20) identifies 20% unaccounted for water as an outside limit of reasonableness. Therefore, the Company's unaccounted-for water is well within that limit.

Q. Does the Company have a program to assist low-income customers?

A. Yes. While the Company's rates are among the most affordable rates of the Class A water utilities regulated by the Commission, York Water recognizes that not all its customers can easily pay a monthly water bill. To assist those payment troubled customers, the Company established a Pilot Low Income Customer Assistance

Program in 2005. This program grew to serve a high of 68 customers in 2008 and is no longer known as a "pilot" program.

The Company's Low Income Customer Assistance Program is designed to aid low-income, payment troubled customers in reducing water consumption and arrearage amounts. The Company's Low Income Customer Assistance program includes the following features: (1) it is targeted to low income payment troubled customers (150% of poverty level); (2) it includes a water usage reduction component with plumbing repairs and the installation of water conservation devices; (3) it includes a requirement of monthly payments to reduce arrearages; and (4) customers earn immediate forgiveness of up to $120 by meeting payment obligations.

The Company's Low Income Customer Assistance Program was expanded as part of York Water's 2018 base rate case at Docket Nos. R-2018-3000019, *et al.* The Commission in its Opinion and Order entered March 1, 2019, approved $20,000 annually on a pilot basis until its next base rate case. The Company has followed all conditions stipulated in the Order, and there are no unspent funds to be refunded to ratepayers. The program has been a success in helping low-income customers pay their water and wastewater bills to avoid shut off, especially during the COVID-19 pandemic. The Company is requesting that the program be established permanently and that the funding level be increased to $40,000 annually because: (1) the $20,000 each year has been fully expended; and (2) the Company's customer base and service territory continues to grow.

Q. How does the Company recover the costs associated with the Low Income Customer Assistance Program?

A. Because the program helps residential customers only, the Company includes the costs associated with the program, including plumbing repairs and bad debt forgiveness, in the cost of service for residential customers.

Q. Has the Company taken any other measures to assist low-income, payment-troubled customers?

A. Yes. The Company has chosen to exercise significant flexibility with regard to the implementation of the Responsible Utility Customer Protection Act (Chapter 14). The Company has not modified its existing tariff rules and regulations to the extent authorized under Chapter 14. York Water does not require a deposit as a condition of service, nor does the Company propose to implement such a policy at this time. York Water has not altered its termination dates or winter termination procedures. And the Company will negotiate second or subsequent payment agreements.

Q. Is there any demonstration that customers view the Company's service favorably?

A. The superior level of customer service provided by the Company can be demonstrated by reviewing the frequency of customer complaints filed with the Commission's Bureau of Consumer Services. As shown on Exhibit No. HXII-2 and Exhibit No. FXII-2, the Company's 2019, 2018, and 2017 residential consumer complaint rate and justified residential consumer complaint rate are significantly lower than the 2019, 2018, and 2017 complaint rates of Aqua Pennsylvania, Inc., Pennsylvania-American Water Company, and the industry average.

To maintain this exceptionally high level of customer satisfaction, the Company has a policy and procedures for responding and tracking customer inquiries and complaints.

All customer inquiries are tracked for action taken prior to being closed. If an inquiry requires action by someone outside the customer service area, a customer work order will be created to track the activity until completion.

The President and Chief Executive Officer and Chief Operating Officer receive all customer inquiries. The VP of Customer Service monitors the activity of all inquiries to determine that the customer has received satisfaction or a satisfactory response to the customer's concern.

In addition, all inquiries requiring some action on the part of the Company are logged into the Company's customer information system as part of the customer history file.

York Water also conducts Customer Attitude Surveys to measure the level of its customers' satisfaction and to anticipate and respond to changes in its customers' expectations.

The Company has conducted independent Customer Attitude Surveys in 1989, 1992, 1996, 2000, 2004, 2009, 2015, and 2020.

The surveys measured customer satisfaction as it relates to water quality and service. The customer opinions of both quality and service were uniformly excellent.

In 2020, when the last survey was performed, 85.5% of the customers gave the Company an overall excellent or very good rating. 86.0% of the customers gave the Company an excellent or very good rating of the water service provided by the Company. Finally, respondents were asked to evaluate the quality of water they receive from York Water. 85.7% of the people rated the overall quality as excellent or very good.

Q. Please describe the actions that the Company takes to maintain and improve the quality and safety of the water provided to customers.

A. In addition to the affordability of the Company's water and the exceptional customer service that York Water provides to its customers, the quality of water the Company delivers to its customers is second to none. As reflected in the attachment to Exhibit No. FIX-1, the Company compares the chemical characteristics of the Company's water supply to the EPA's and DEP's Safe Drinking Water Act standards. This information is posted on the Company's website and mailed to customers who use York Water's water in processing or request the information. The Company's water quality in all instances exceeds, and in most instances, far exceeds the Safe Drinking Water Act standards.

The Company maintains its own laboratory and performs nearly 70,000 chemical and bacteriological tests every year to make certain that water quality meets or exceeds recognized standards of water quality and purity. In addition, periodic tests are performed by independent laboratories to confirm that water delivered to customers is safe and aesthetically pleasing to customers.

The Company is not in violation of any provision of the Pennsylvania Safe Drinking Water Act or any rule, regulation or order or any condition of any permit, variance, or exemption granted by the DEP. To the contrary, the Company is in compliance with all Safe Drinking Water Act provisions and generally exceeds such standards. Providing safe and high-quality water is as critically important to the Company as it is to its customers.

No annual consumer confidence report has reflected a violation of State and Federal safe drinking water requirements.

Attached to Exhibit No. HIX-1 is the Company's 2021 annual Drinking Water Quality Reports prepared and provided to York Water's customers and users in February 2022. The Safe Drinking Water Act requires community water systems to annually prepare and provide to customers and users annual consumer confidence reports detailing the quality of water delivered by the Company. In addition to sending the report to customers electronically, the Company mails copies to those customers requesting a hard copy of the report. Prior to releasing the report, the Company advertises its availability in local newspapers and places the report on the Company's website so that non-customer users can obtain a copy.

The Company entered into a consent order agreement with DEP in December 2016 after the Company determined it exceeded the action level for lead as established by the Lead and Copper Rule ("LCR") issued by the EPA. The Company has not had an exceedance in any subsequent compliance test. Under the agreement, the Company committed to exceed the LCR replacement schedule by replacing all of the remaining known company-owned lead service lines within four years from the agreement. The Company completed the replacement of all known company-owned lead service lines by the end of 2018, compressing the replacement schedule from four year to two. Any additional company-owned lead service lines that have been discovered since the end of 2018 have been replaced. Currently, all known company-owned lead service lines have been replaced.

The Company was granted approval by the Commission to modify its tariff to include the cost of the replacement of lead customer-owned service lines that are discovered when the Company replaces its lead service lines, and to include the cost of the annual replacement of up to 400 lead customer-owned service lines whenever they are discovered, regardless of the material used for the company-owned service line over nine years from the agreement. All known customer-owned lead service lines that were connected to a company-owned lead service line were replaced by the end of 2018. Any additional customer-owned lead service lines connected to a company-owned lead service line that have been discovered since the end of 2018 have been replaced.

To identify customer-owned lead service lines not adjoining active, identified company-owned lead service lines, the Company continues to canvass its customers and seek their assistance with identifying the material composition of their customer-owned service lines. The Company has used its website as well as targeted mailings to identify customer-owned lead service lines. To date, over 700 customer-owned lead service lines have been replaced by the Company.

Q. Is the Company making substantial expenditures to provide for the water supply and wastewater service needs of its customers?

A. Yes. For the Company to continue providing its high-quality water service and exceptional customer service, it is necessary to invest in replacements, improvements, and additions to the Company’s facilities. As explained in Exhibit Nos. FV-12-1, FV-12-2, FV-12-4 and FV-12-5, York Water has projected to place in service $38,286,074 in new or replacement facilities during 2022 and $67,795,881 in 2023 and the first two months of 2024. The significant increase in 2023 is a result of the completion of the dam armoring and spillway replacement project on the Lake Williams reservoir currently in process. The Company's projection of new facilities includes: (1) standpipe, booster station, and pumping equipment upgrades; (2) improvements to the Company's water treatment facilities that will make them more efficient; (3) improvements to the impounding dams as required by the DEP; (4) the replacement or relining of aging mains; and (5) the replacement of other infrastructure. Projected additions also include the cost of new services, hydrants, and mains resulting from organic growth within York Water's service territory as well as upgraded meter reading equipment and electronics to make the Company's operations more efficient.

For the Company to continue providing its high-quality wastewater service, it is necessary to invest in replacements, improvements, and additions to the Company's facilities. As explained in Exhibit Nos. FV-12-1W, FV-12-2W, FV-12-4W and FV-12-5W, York Water has projected to place in service $5,698,275 in new or replacement facilities during 2022 and $5,420,000 in 2023 and the first two months of 2024. The Company's projection of new facilities includes improvements to the Company's wastewater treatment facilities that will make them more efficient as well as the replacement and rehabilitation of aging mains, manholes, and other infrastructure. Projected additions also include the cost of upgraded equipment and electronics to make the Company's operations more efficient.

Q. Has the Company also projected retirements and removed them from rate base?

A. Yes. As shown in Exhibit Nos. FV-12-3 and FV-12-6, the Company plans to retire approximately $2,228,279 from utility plant in service during 2022 and $2,442,382 during 2023 and the first two months of 2024.

As shown in Exhibit Nos. FV-12-3W and FV-12-6W, the Company plans to retire approximately $12,174 from wastewater utility plant in service during 2022 and $5,608 during 2023.

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

A. Yes.

YORK WATER STATEMENT NO. 3

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF MATTHEW E. POFF

Q. State your name and business address.

A. Matthew E. Poff. My business address is: 130 East Market Street, York, Pennsylvania.

Q. By whom are you employed?

A. I am employed by The York Water Company ("York Water" or the "Company").

Q. State your present position with the Company and explain your duties and responsibilities.

A. I am Chief Financial Officer and Treasurer for the Company. My duties and responsibilities include managing the day to day financial transactions of the Company.

Q. How long have you been employed by the Company?

A. I have been employed by the Company since June 15, 2009.

Q. What is your educational background?

A. I have a Bachelor's Degree from the Pennsylvania State University, University Park, Pennsylvania and a Master's Degree in Business Administration from York College of Pennsylvania, York, Pennsylvania.

Q. Are you a certified public accountant?

A. Yes, I am a certified public accountant licensed by the Commonwealth of Pennsylvania.

Q. What has been your other business experience?

A. From September 2006 through June 2009, I was employed by I. B. Abel, Inc. in York, Pennsylvania as the Chief Financial Officer. In this capacity, I managed the day-to-day accounting and financial transactions of the Company.

From July 1995 through September 2006, I was employed by Beard Miller Company LLP (now Baker Tilly US, LLP) as a certified public accountant. In this capacity, I oversaw the audits and reviews and preparation of financial statements and tax returns for various business entities, both private and public companies of various sizes.

Q. Have you previously testified before a regulatory commission?

A. Yes, I have presented testimony to the Pennsylvania Public Utility Commission ("Commission") in the Company's last two rate cases.

Q. Will you list the water operations exhibits you are sponsoring in this proceeding?

A. I am sponsoring the following water operations exhibits prepared by me or under my direction and supervision:

Exhibit Nos. H (b)-2, H (c)-5, H (c)-6, HI-1, HI-2, HI-3, HI-4, and HI-5 relating to the statement of operations for the water division;

Exhibit Nos. H (a)-2, H (a)-3, H (a)-4, H (a)-5, H (b)-3, H (b)-4, H (b)-5, H (b)-6, HII-1, HII-2, HII-2-1, HII-2-2, HII-2-3, HII-2-4, HII-2-5, HII-2-6, HII-2-7, HII-2-8, HII-2-9, HII-2-10, HII-2-11, HII-2-12, HII-2-14, HII-2-15, HII-3, HII-4, HII-5, HII-6, HII-7, HII-8, HII-9, HII-10, HII-11, HII-12, and HII-13 relating to operating revenues for the water division;

Exhibit Nos. HIII-1, HIII-2, HIII-2-1, HIII-2-2, HIII-2-3, HIII-2-4, HIII-2-4 (a), HIII-2-5, HIII-2-6, HIII-2-7, HIII-2-8, HIII-2-9, HIII-2-10, HIII-2-11, HIII-2-12, HIII-2-13, HIII-2-14, HIII-2-15, HIII-2-16, HIII-2-17, HIII-2-18, HIII-2-19, HIII-2-20, HIII-2-21, HIII-2-22, HIII-2-23, HIII-2-24, HIII-2-25, HIII-2-26, HIII-2-27, HIII-2-28, HIII-2-29, HIII-2-30, HIII-2-31, HIII-2-32, HIII-2-33, HIII-2-34, HIII-2-35, HIII-2-36, HIII-2-37, HIII-2-38, HIII-3, HIII-4, HIII-5, HIII-6, HIII-7, HIII-8, HIII-9, HIII-10, HIII-11, HIII-12, HIII-13, HIII-14, HIII-15, HIII-16, HIII-17, HIII-18, HIII-19, HIII-20, HIII-21, HIII-23, HIII-24, HIII-25, HIII-26, HIII-27, and HIII-28 relating to operating expenses for the water division;

Exhibit No. HV-1-1, HV-1-10, HV-8-1 (g), HV-8-1 (g)1, HV-8-1 (g)2, and HV-10 relating to the original cost measure of value for the water division;

Exhibit Nos. HVII-1, HVII-2, HVII-3, HVII-4, HVII-5, HVII-6, HVII-7, HVII-8, HVII-9, HVII-10, HVII-11, HVII-12, HVII-13, HVII-14, HVII-15, HVII-16, HVII-17 HVII-18, HVII-19, HVII-20, HVII-21, HVII-22, HVII-23, HVII-24, HVII-25, HVII-26, HVII-27, HVII-28, HVII-29, HVII-30, HVII-31, and HVII-32, relating to rate of return;

Exhibit Nos. H (c)-2, HX-1, HX-2, HX-3, HX-4, HX-5, HX-6, HX-7, HX-8, HX-9, HX-10, HX-11, HX-12, and HX-13 relating to the balance sheet; and

Exhibit Nos. H (a)-1, H (a)-6, H (a)-9, H (a)-10, H (a)-11, H (b)-1, HVIII-1, HVIII-2, HXI-1, HXI-2, HXI-3, and HXI-4.

Q. Explain Exhibit No. H (b)-1.

A. Exhibit No. H (b)-1 provides the specific reasons the Company proposes to increase its water rates. Despite the best efforts by York Water to control costs, the effects of increased expenses and net additions to rate base have reduced returns. The Company proposes to increase its water rates to: (1) provide sufficient revenues to recover the cost of providing water service to its customers; (2) allow the Company to properly discharge its public duties by continuing to furnish adequate, safe, and reliable service; (3) maintain its facilities properly; and (4) afford the opportunity to more nearly approach a fair and reasonable rate of return on the original cost measure of value of its used and useful property.

Q. Explain Exhibit No. HI-1.

A. Exhibit No. HI-1 provides a detailed comparative operating statement for the twelve months ended December 31, 2021, and December 31, 2020. Column 1 of pages 2 through 8 of Exhibit No. HI-1 reflects the Company's detailed water operating statement per books for the twelve months ended December 31, 2021, showing operating income of $21,522,940. Column 2 of pages 2 through 8 of Exhibit No. HI-1 reflects the Company's detailed operating statement per books for the twelve months ended December 31, 2020, showing operating income of $21,082,565. Column 3 of pages 2 through 8 of Exhibit No. HI-1 reflects the increases and decreases by account between the operating statement for the twelve months ended December 31, 2021, and the operating statement for the twelve months ended December 31, 2020. Major account variances (>$50,000) between the detailed operating statement for the twelve months ended December 31, 2021, and the detailed operating statement for the twelve months ended December 31, 2020 are identified in Column 4 of pages 2 through 8 of Exhibit No. HI-1. Detailed explanations of the causes of the major account variances between the operating statement for the twelve months ended December 31, 2021, and the operating statement for the twelve months ended December 31, 2020, are provided beginning on page 9 of Exhibit No. HI-1.

Pages 18 and 19 of Exhibit HI-1 show the increase in Company labor expense for the twelve months ended December 31, 2021. The increase is principally due to wage increases for existing employees, promotions, and an increase in the number of employees.

As explained on pages 21 and 22 of Exhibit No. HI-1, each year the Company incurs expenses to maintain different components of its plant facilities. As a consequence, the level of maintenance costs charged to each account will vary from year to year, depending upon the nature of maintenance projects undertaken in any one year. The significant factor for ratemaking is not whether an individual account has varied, but whether the overall level of maintenance costs is reasonable. As pages 21 and 22 demonstrate, while maintenance expenses rose by 3.9%, test year maintenance expense, as a percentage of plant in service, fell slightly during the historic test year as compared to the prior twelve-month period.

Page 20 of Exhibit No. HI-1 shows the allocated transportation expenses in 2020 and in 2021. Overall transportation expenses went up by 21.2% from 2020 to 2021 due to higher gas prices, higher costs for replacement vehicles generating higher depreciation expense, and higher maintenance expense from an expanding fleet.

Q. Explain Exhibit No. HI-2.

A. Exhibit No. HI-2 summarizes ratemaking adjustments under existing rates to per book water statement of income for the twelve months ended December 31, 2021, and the anticipated statement of income when proposed rates become effective. The water income per books for the twelve months ended December 31, 2021, as shown in Column 1 of Exhibit No. HI-2 is $17,301,088. I note that this amount reflects non-operating income and other income deductions not included in the calculation of net operating income for ratemaking purposes. Net operating income for ratemaking purposes was $21,522,940 for the twelve months ended December 31, 2021, as shown in Column 1, page 2 of Exhibit No. HI-2. Column 3 of Exhibit No. HI-2 shows adjusted net operating income of $19,556,905. The adjustments to net operating income in the amount of

$(1,966,035) are shown in Column 2 of Exhibit No. HI-2. These adjustments are detailed in other exhibits, which I will explain later. Column 5 of Exhibit No. HI-2 shows net operating income of $20,686,683 after reflecting adjustments related to the effects of proposed rates. The adjustments to net operating income in the amount of $1,129,778 are shown in Column 4 of Exhibit No. HI-2, and these adjustments are detailed in other exhibits, which I will explain later.

Q. Are you sponsoring any other exhibits regarding the Company's statement of operations?

A. Yes, I am also sponsoring Exhibit Nos. H (b)-2, H (c)-5, H (c)-6, HI-3, HI-4, and HI-5.

Q. Explain Exhibit No. H (b)-3.

A. Exhibit No. H (b)-3 provides the number of water customers whose monthly bills will increase under proposed rates based on pro forma historic test year volumes.

Q. Explain Exhibit No. H (b)-5.

A. Exhibit No. H (b)-5 states that no water customers' monthly bills will decrease under proposed rates based on pro forma historic test year volumes.

Q. Explain Exhibit No. HII-1.

A. Exhibit No. HII-1 is a comparative statement of gallons sold and operating revenues per books by class for the twelve months ended December 31, 2021, and December 31, 2020, and the number of customers by class as of December 31, 2021, and December 31, 2020.

Q. Explain Exhibit No. HII-2.

A. Exhibit No. HII-2 summarizes adjustments to per book operating revenues for the twelve months ended December 31, 2021, that are required for ratemaking purposes. As I will explain later, such adjustments reflect elimination of Distribution System Improvement Charge ("DSIC") revenues billed and recorded on the books during the twelve months ended December 31, 2021, and elimination of net accrued operating revenues recorded on the corporate books during the twelve months ended December 31, 2021. The adjustments also annualize the effects of changes in number of customers, which occurred during the twelve months ended December 31, 2021.

Exhibit No. HII-2, page 2 of 3, shows operating revenues from metered sales, by class, from fire protection, by class, and revenues from other than sales of water.

The operating revenues per books, for the twelve months ended December 31, 2021, as shown in Column 1, page 2 of 3 of Exhibit No. HII-2, were $52,903,579. Adjustments under existing rates to decrease historic test year operating revenues in the amount of $(251,254) are summarized on page 3 of 3 of Exhibit No. HII-2 and are shown in Column 2, page 2 of 3 of Exhibit No. HII-2. These adjustments are explained later in Exhibit Nos. HII-2-1 through HII-2-12 and HII-2-14. Pro forma operating revenues under existing rates, after adjustments, for twelve months ended December 31, 2021, of $52,652,325 are shown in Column 3, page 2 of 3, of Exhibit No. HII-2. The proposed increase in historic test year operating revenues in the amount of $1,607,976 is shown in Column 5, page 2 of 3 of Exhibit No. HII-2. The corresponding percentage increase in operating revenues is shown in Column 6, page 2 of 3.

For historic test year purposes, the increase of $1,607,976 shown on Exhibit No. HII-2 was not produced by the application of proposed rates to historic test year volumes. Since the Company's claim in this case is based upon data for a fully projected future test year ending February 29, 2024, annualized and normalized for ratemaking purposes, the increase of $1,607,976, or 3.05%, is the increase calculated based upon pro forma historic test year revenues, expenses and rate base that is distributed proportionately among the customer classes.

Q. Explain Exhibit No. HII-2-1.

A. Exhibit No. HII-2-1 eliminates DSIC revenues billed and recorded on the books during the twelve months ended December 31, 2021. The Company's calculations zero the DSIC and roll-into base rates the costs recovered through the charge. The adjustment to eliminate DSIC revenues is carried forward to Exhibit No. HII-2.

Q. Explain Exhibit No. HII-2-2.

A. Exhibit No. HII-2-2 eliminates net accrued operating revenues recorded on the corporate books during the twelve months ended December 31, 2021. In response to the enactment of the Tax Reform Act of 1986, the Company estimates for income tax and financial reporting purposes the amount of income attributable to utility services provided during each accounting period, but after the final meter reading which falls within that accounting period.

Since unbilled revenues from the end of one accounting period are included in the first meter reading for the next accounting period, unbilled revenues from one accounting period are offset by unbilled revenues in the succeeding accounting period, with the result that the Company will record for accounting purposes, as either a debit or credit, the negative or positive difference in accrued revenues between the two accounting periods. This difference represents net accrued revenues recorded for the latter accounting period.

Operating revenues are presented for ratemaking purposes on an "as billed basis" for the historic, future, and fully projected future test years, to eliminate the uncertainties inherent in estimated "unbilled revenues." Therefore, for ratemaking purposes, net accrued operating revenues are eliminated.

Q. Explain Exhibit No. HII-2-3.

A. Exhibit No. HII-2-3 annualizes water operating revenues for metered residential, commercial, and industrial customers by applying metered base rates effective March 1, 2019, to test year water consumption. By Order entered at Docket No. R-2018-3000019, the Commission authorized increased base rates for the Company. These rates are the currently effective base rates of the Company. Annualization of revenues by customer class at present-metered base rates effective March 1, 2019, in the amount of $48,107,419 are shown in Column 2 on Exhibit No. HII-2-3. Application of present base rates to the customer consumption analysis for the twelve months ended December 31, 2021, is shown on Exhibit No. HII-4, which I will explain later. Metered operating revenues by customer class billed and recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $48,076,574 are shown in Column 1 of Exhibit No. HII-2-3 and are subtracted from annualized revenues at metered base rates effective March 1, 2019, to determine the adjustment by customer class to operating revenues shown in Column 3 of Exhibit No. HII-2-3 [$48,107,419 - $48,076,574 = $30,845]. The adjustment by customer class of operating revenues in the amount of $30,845 is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-4.

A. Exhibit No. HII-2-4 annualizes operating revenues for metered residential gravity customers connected and disconnected during the twelve months ended December 31, 2021. The net loss in number of metered residential gravity customers during the twelve months ended December 31, 2021, was 87 (20,813 metered residential gravity customers as of December 31, 2021, less 20,900 metered residential gravity customers as of December 31, 2020). Since 87 metered residential gravity customers were lost throughout the historic test year, it is assumed the historic test year average number of metered residential gravity customers is equal to the average of metered residential gravity customers at the beginning and end of the historic test year, or 20,857 ([20,813 + 20,900] ÷ 2). Annualized revenues for metered residential gravity customers of $9,743,607 (refer to Exhibit No. HII-4) are divided by the historic test year average number of metered residential gravity customers of 20,857 to calculate the average annual revenue per average metered residential gravity customer in the amount of $467.16 ($9,743,607÷20,857 = $467.16). The adjustment to annualize revenues for the net loss in metered residential gravity customers during the twelve months ended December 31, 2021, is determined by multiplying the net loss of 87 metered residential gravity customers by the average annual revenue per average metered residential gravity customer in the amount of $467.16 and by dividing the product of this calculation by two [(87) x $467.16 ÷ 2 = $(20,321)]. The product is divided by two since it is reasonable to assume that customers were lost evenly through the historic test year and that annualized revenues already reflect the loss of one-half of one year's revenue, on average, for the 87 customers. The result of the calculations described above is the amount of $(20,321), which is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-5.

A. Exhibit No. HII-2-5 annualizes operating revenues for metered residential repumped customers connected and disconnected during the twelve months ended December 31, 2021. The net gain in number of metered residential repumped customers during the twelve months ended December 31, 2021, was 442 (42,664 metered residential repumped customers as of December 31, 2021, less 42,222 metered residential repumped customers as of December 31, 2020). Since 442 additional metered residential repumped customers were added throughout the twelve months ended December 31, 2021, it is assumed the historic test year average number of metered residential repumped customers is equal to the average of the numbers of metered residential repumped customers at the beginning and end of the historic test year, or 42,443 ([42,664 + 42,222] ÷ 2). Annualized revenues for metered residential repumped customers of $23,909,801 (Refer to Exhibit No. HII-4) are divided by the historic test year average number of metered residential repumped customers of 42,443 to calculate the average annual revenue per average metered residential repumped customer in the amount of $563.34 ($23,909,801 ÷ 42,443 = $563.34). The adjustment to annualize revenues for the net increase in metered residential repumped customers during the twelve months ended December 31, 2021, is determined by multiplying the net gain of 442 metered residential repumped customers by the average annual revenue per average metered residential repumped customer in the amount of $563.34 and by dividing the product of this calculation by two (442 x $563.34 ÷ 2 = $124,498). The product is divided by two since it is reasonable to assume that customers were added evenly throughout the twelve months ended December 31, 2021, and that annualized revenues already reflect one-half of one year's revenue, on average, for the 442 customers. The result of the calculations described above is the amount of $124,498, which is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-6.

A. Exhibit No. HII-2-6 annualizes operating revenues for metered commercial gravity customers connected and disconnected during the twelve months ended December 31, 2021. The net loss in number of metered commercial gravity customers during the twelve months ended December 31, 2021, was 10 (2,531 metered commercial gravity customers as of December 31, 2021, less 2,541 metered commercial gravity customers as of December 31, 2020). Since 10 metered commercial gravity customers were lost throughout the twelve months ended December 31, 2021, it is assumed the historic test year average number of metered commercial gravity customers is equal to the average of the numbers of metered commercial gravity customers at the beginning and end of the historic test year, or 2,536 ([2,531 + 2,541] ÷ 2). Annualized revenues for metered commercial gravity customers of $3,533,320 (Refer to Exhibit No. HII-4 reduced by priced out bulk truck sales) are divided by the historic test year average number of metered commercial gravity customers of 2,536 to calculate the average annual revenue per average metered commercial gravity customer in the amount of $1,393.26 ($3,533,320 ÷ 2,536 = $1,393.26). The adjustment to annualize revenues for the net decrease in the number of metered commercial gravity customers during the twelve months ended December 31, 2021, is determined by multiplying the net loss of 10 metered commercial gravity customers by the average annual revenue per metered commercial gravity customer in the amount of $1,393.26 and by dividing the product of this calculation by two [(10) x $1,393.26 ÷ 2 = $(6,966)]. The product is divided by two since it is reasonable to assume that customers were lost evenly throughout the twelve months ended December 31, 2021, and that annualized revenues already reflect the loss of one-half of one year's revenue, on average, for the 10 customers. The result of the calculations described above is the amount of $(6,966), which is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-7.

A. Exhibit No. HII-2-7 annualizes operating revenues for metered commercial repumped customers connected and disconnected during the twelve months ended December 31, 2021. The net gain in number of metered commercial repumped customers during the twelve months ended December 31, 2021, was 13 (2,077 metered commercial repumped customers as of December 31, 2021, less 2,064 metered commercial repumped customers as of December 31, 2020). Since 13 metered commercial repumped customers were added throughout the twelve months ended December 31, 2021, it is assumed the historic test year average number of metered commercial repumped customers is equal to the average of the numbers of metered commercial repumped customers at the beginning and end of the historic test year, or 2,071 ([2,077 + 2,064] ÷ 2). Annualized revenues for metered commercial repumped customers of $6,790,252 (Refer to Exhibit No. HII-4 reduced by priced out bulk truck sales) are divided by the historic test year average number of metered commercial repumped customers of 2,071 to calculate the average annual revenue per average metered commercial repumped customer in the amount of \$3,278.73 (\$6,790,252 ÷ 2,071 = \$3,278.73). The adjustment to annualize revenues for the net increase in metered commercial repumped customers during the twelve months ended December 31, 2021, is determined by multiplying the net gain of 13 metered commercial repumped customers by the average annual revenue per average metered commercial repumped customer in the amount of \$3,278.73 and by dividing the product of this calculation by two (13 x \$3,278.73 ÷ 2 = \$21,312). The product is divided by two since it is reasonable to assume that customers were gained evenly throughout the twelve months ended December 31, 2021, and that annualized revenues already reflect the gain of one-half of one year's revenue, on average, for the 13 customers. The result of the calculations described above is the amount of \$21,312, which is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-8.

A. Exhibit No. HII-2-8 eliminates operating revenues for a net of zero metered industrial gravity customers connected and disconnected during the twelve months ended December 31, 2021. The annualized revenue adjustment for one metered industrial gravity customer connected during the test year of \$7,286 was offset by test year revenues for one metered industrial gravity customer disconnected during the test year of \$2,675. The net adjustment of \$4,611 (\$7,286 - \$2,675 = \$4,611) is carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-9.

A. Exhibit No. HII-2-9 annualizes operating revenues for two metered industrial repumped customers who were connected during the twelve months ended December 31, 2021. The annualized revenue adjustment for two metered industrial repumped customers connected during the test year of $2,073 was carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-10.

A. Exhibit No. HII-2-10 annualizes operating revenues to reflect the number of private fire protection customers as of December 31, 2021, at present rates. Annualized private fire protection revenues in the amount of $1,890,834 shown on Exhibit No. HII-2-10, page 2 of 2 were determined by applying present private fire protection rates effective March 1, 2019, authorized by the Commission’s Order entered at Docket No. R-2018-3000019 to the number of private fire hydrants and standby service connections in service as of December 31, 2021. The difference in the amount of $16,119 between the annualized private fire protection revenues of $1,890,834 and the historic test year private fire protection revenues of $1,874,714 ($1,890,834 - $1,874,714 = $16,119), shown on page 2 of 2 of Exhibit No. HII-2-10, is the adjustment to annualize operating revenues for private fire protection customers as of December 31, 2021, which has been carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-11.

A. Exhibit No. HII-2-11 annualizes operating revenues to reflect the number of public fire protection customers as of December 31, 2021, at present rates. Annualized public fire protection revenues in the amount of $1,373,175 shown on Exhibit No. HII-2-11 were determined by applying the present public fire protection rates effective March 1, 2019, authorized by the Commission's Order entered at Docket No. R-2018-3000019 to the number of public fire hydrants in service as of December 31, 2021. The difference in the amount of $9,280 between the annualized public fire protection revenues of $1,373,175 and the historic test year public fire protection revenues of $1,363,896 ($1,373,175 - $1,363,896 = $9,280) shown on Exhibit No. HII-2-11 is the adjustment to annualize operating revenues for public fire protection customers as of December 31, 2021, which has been carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-12.

A. Exhibit No. HII-2-12 annualizes lease payments received for communication equipment installed on the Company's standpipes in accordance with the non-exclusive license agreement between the Company and cellular telephone companies. These cellular telephone companies are not affiliated with the Company. This industry is experiencing consolidation. As cellular telephone companies merge, they may have leases with the Company for equipment on the same standpipe for each of the legacy companies. As a result, they are not renewing these duplicate leases or providing notice they will not be renewing these duplicate leases upon the end of the lease. This is resulting in decreases in annualized lease payments. Rent from water property for the twelve months ended December 31, 2021, reflects lease payments from the dates of the license agreements. The adjustment of $(11,154) is determined by subtracting the lease payments received and recorded as rental income during the twelve months ended December 31, 2021, of $550,745 from the annual lease payments for the installation of communication equipment in the amount of $539,590 [$539,590 - $550,745 = $(11,154)]. This adjustment of $(11,154) has been carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-13.

A. Exhibit No. HII-2-13 eliminates the billing and revenue collection services provided to West Manheim Township included in the historic test year miscellaneous water revenues. Before this year, West Manheim Township provided wastewater service to their residents, and the Company acted as the billing and revenue collection agent for the municipality. On December 30, 2021, the Company completed the acquisition of the wastewater collection assets of West Manheim Township and began operating the collection facilities on January 3, 2022. As a result, the billing and revenue collection services the Company provided to West Manheim Township ceased beginning in 2022. West Manheim Township was billed on a quarterly basis for the billing and revenue collection services provided by the Company. The Company determined the total revenue included in the historic test year for these services was $16,356. This adjustment of $(16,356) has been carried forward to Exhibit No. HII-2, page 3.

Q. Explain Exhibit No. HII-2-14.

A. Exhibit No. HII-2-14 adjusts customers' penalties based on pro forma sales of water under existing rates and a two-year average ratio of customers' penalties to total sales of water. The two-year average ratio used for this analysis was based on the years ended December 31, 2019, and December 31, 2018. These two years were used rather than the historic test year and the second most previous year ended because the data from those years were skewed by the impact for the COVID-19 pandemic and customer protections that were put in place. The Company believes using these two years provides a more accurate ratio. This ratio was used in all historic test year, future test year, and fully project future test year pro forma and projected adjustments for customers' penalties.

Pro forma sales of water under existing rates (Refer to Exhibit No. HII-2) of $51,496,634 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% (rounded) to determine the annualized customers' penalties under existing rates of $72,899 ($51,496,634 x 0.0014).

The adjustment to customers' penalties in the amount of $(12,522) is determined by subtracting test year customers' penalties of $85,421 from annualized customers' penalties under existing rates of $72,899 [$72,899 - $85,421 = $(12,522)]. The adjustment to customers' penalties of $(12,522) has been carried forward to Exhibit No. HII-2, as an adjustment to Account No. 47100500.

Q. Explain Exhibit No. HII-2-15.

A. Exhibit No. HII-2-15 adjusts customers' penalties based on pro forma sales of water under proposed rates and a two-year average ratio of customers' penalties to total sales of water. Pro forma sales of water under proposed rates (Refer to Exhibit No. HII-2) of $53,102,336 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% (rounded) to determine the pro forma customers' penalties under proposed rates of $75,172 ($53,102,336 x 0.0014).

The adjustment to customers' penalties in the amount of $2,273 is determined by subtracting pro forma customers' penalties under existing rates of $72,899 (Refer to

Exhibit No. HII-2-14) from pro forma customers' penalties under proposed rates of $75,172 ($75,172 - $72,899 = $2,273). The adjustment to customers' penalties of $2,273 has been carried forward to Exhibit No. HII-2, page 2, Column 5, as an adjustment to Account No. 47100500.

Q. Explain Exhibit No. HII-4.

A. Exhibit No. HII-4 provides a detailed customer consumption analysis by customer classification and meter size.

Pages 2 through 4 of Exhibit No. HII-4 provide the application of present-metered base rates, which became effective March 1, 2019, to the customer consumption analysis for the twelve months ended December 31, 2021. The details of the customer consumption analysis are presented on pages 5 through 18 of Exhibit No. HII-4. The application of present-metered base rates to the customer consumption analysis for the twelve months ended December 31, 2021, results in annualized revenues at present-metered base rates on pages 2-4 of Exhibit No. HII-4 of $48,107,419 ($33,653,408 + $10,385,604 + $4,068,407). Annualized revenues at current base rates of $48,107,419 have been carried forward to Exhibit No. HII-2-3, which I have explained previously.

Q. Explain Exhibit No. HII-5.

A. Exhibit No. HII-5 provides a detailed explanation of the accounting procedures and methods used to determine accrued revenues and detailed computations of accrued revenues as of December 31, 2021, and December 31, 2020, based on the explanation that was previously provided with respect to Exhibit No. HII-2-2. Refer to Exhibit No. HII-2-

2, which I explained previously, for an operating revenue adjustment, which eliminates net accrued revenues, recorded during the test year from the cost of service.

Page 2 of Exhibit No. HII-5 provides a detailed computation of accrued utility revenues as of December 31, 2021.

Page 3 of Exhibit No. HII-5 provides a detailed computation of accrued utility revenues as of December 31, 2020.

Page 4 of Exhibit No. HII-5 provides a summary of entries recorded during the twelve months ended December 31, 2021, accounting for accrued revenues.

Q. Explain Exhibit No. HII-6.

A. Exhibit No. HII-6 provides a detailed analysis of miscellaneous water revenues for the twelve months ended December 31, 2021, and the calendar years 2020 and 2019.

Q. Explain Exhibit No. HII-7.

A. Exhibit No. HII-7 provides the number of customers, the number of customers added or lost, and the consumption by customer classification for the year ended December 31, 2021, and the year-to-date period ended March 31, 2022.

Q. Explain Exhibit No. HII-10.

A. Exhibit No. HII-10 provides a listing of all public fire protection customers as of December 31, 2021.

Q. Are you sponsoring any other exhibits regarding the Company's operating revenues?

A. Yes, I am also sponsoring Exhibit Nos. H (a)-2, H (a)-3, H (a)-4, H (a)-5, H (b)-4, H (b)-6, HII-3, HII-8, HII-9, HII-11, HII-12, and HII-13.

Q. Explain Exhibit No. HIII-1.

A. Exhibit No. HIII-1 is a comparative statement of water operating expenses per books for the twelve months ended December 31, 2021, December 31, 2020, and December 31, 2019.

I note that in comparing operating expenses for the three twelve-month periods ended December 31, 2021, December 31, 2020, and December 31, 2019, there are variations in labor costs charged to the various expense accounts during the three twelve-month periods. The direct labor charge to the numerous accounts will vary from year to year, in proportion to the change in the number of man-hours from year to year, actually reported on time sheets for different activities charged to different accounts. To the extent permitted with respect to its unionized employees, York Water utilized its complement of employees during the twelve-month periods ended December 31, 2021, 2020, and 2019, where there was the greatest need for manpower. Employees are not assigned to the same work, nor do they perform the same functions, from year to year or from month to month, inasmuch as the need for manpower by system function changes. Therefore, the man-hours charged to the functional accounts, and thus, the labor expense recorded on the books, are directly related to the time the employees spend on the various functions as reported on time sheets. Consequently, the individual expense accounts reflect increases and decreases of various magnitudes in Company labor when comparing different twelve-month periods. These variations in labor costs charged to different expense accounts can be seen on Exhibit No. HIII-2-4.

Each year the Company incurs expenses to maintain different components of its plant facilities. Therefore, the level of maintenance costs charged to each account will vary from year to year, depending upon the nature of maintenance projects undertaken in any one year. The significant factor for ratemaking is not whether an individual account has varied, but whether the overall level of maintenance costs is reasonable. I note that test year maintenance expense as a percentage of plant in service, has remained the same during the twelve months ended December 31, 2021, as compared to the prior twelve-month period.

Q. Explain Exhibit No. HIII-2.

A. Exhibit No. HIII-2 summarizes adjustments to operating expenses for the twelve months ended December 31, 2021, to: (1) annualize and normalize the effect of changes occurring during the twelve months ended December 31, 2021; and (2) reflect changes in uncollectible accounts expenses due to the increase in operating revenues resulting from the proposed increase in rates.

Operating expenses per books for the twelve months ended December 31, 2021, in the amount of $20,045,215 are shown in Column 1 of Exhibit No. HIII-2, pages 2 through 5. Adjustments to operating expenses in the amount of $1,003,571, to annualize and normalize the effect of changes occurring during the twelve months ended December 31, 2021, are shown in Column 3 of Exhibit No. HIII-2, pages 2 through 5, and are detailed in Exhibit Nos. HIII-2-1 through HIII-2-37. Adjustments to operating expenses in the amount of $8,370 to reflect changes in uncollectible accounts expenses due to the increase in operating revenues resulting from the proposed increase in rates are shown in Column 6 of Exhibit No. HIII-2, pages 2 through 5, and is detailed in Exhibit No. HIII-2-38.

Q. Explain Exhibit No. HIII-2-1.

A. Exhibit No. HIII-2-1 adjusts per books operating expenses to reflect a normalized level of rate case expenses for this rate case in the amount of $238,125. The estimated expenses of this rate case are $952,500, assuming a fully-litigated rate case, and Exhibit No. HIII-2-1 normalizes the estimated expenses of this rate case over 48 months. The Company proposes to normalize the cost of the current rate case over 48 months, which is the approximate average elapsed time between the filing dates for the Company's last three rate cases.

The adjustment in the amount of $134,171 is determined by subtracting amortization of rate case expenses in the amount of $103,954 recorded on the corporate books during the twelve months ended December 31, 2021, from the annual normalized expenses of this rate case. The annual normalized expenses of the rate case of $238,125 is determined by dividing the estimated expenses of this rate case of $952,500 by 48 months and multiplying by 12 months ($952,500 ÷ 48 x 12), the normalization period. The adjustment to Account No. 66680000 in the amount of $134,171 ($238,125 - $103,954) has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-2.

A. Exhibit No. HIII-2-2 adjusts uncollectible accounts expense for the twelve months ended December 31, 2021, based on a two-year ratio of the net of uncollectible accounts written- off, less recoveries of amounts previously written-off to total operating revenues. The two-year average ratio used for this analysis was based on the years ended December 31, 2019, and December 31, 2018. These two years were used rather than the historic test year and the second most previous year ended because the data from those years were skewed by the impact for the COVID-19 pandemic and customer protections that were put in place. The Company believes using these two years provides a more accurate ratio. This ratio was used in all historic test year, future test year, and fully project future test year pro forma and projected adjustments for uncollectible accounts.

The two-year ratio of 0.52% is multiplied by pro forma operating revenues of $51,496,634 (see Exhibit HII-2) to calculate pro forma uncollectible accounts expense for ratemaking purposes of $268,425 ($51,496,634 x 0.0052). The adjustment to uncollectible accounts in the amount of $(109,260) is determined by subtracting the uncollectible accounts accrual recorded on the books during the test year of $377,685 from the calculated pro forma uncollectible accounts for ratemaking purposes of $268,425 [$268,425 - $377,685 = $(109,260)]. The adjustment to uncollectible accounts expense of $(109,260) to Account No. 67070000 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-3.

A. Exhibit No. HIII-2-3 adjusts chemical expense, based on a two-year average of amounts of chemicals used. Pro forma chemical expense in the amount of $729,214 is based on applying unit prices of chemicals effective at the time of the rate filing to the two-year average amounts of chemicals used. The adjustment to chemical expense in the amount of $135,950 is determined by subtracting test year chemical expense of $792,214 from calculated pro forma chemical expense of $656,264 ($792,214 - $656,264 = $135,950). The adjustment to Account No. 61830000 in the amount of $135,950 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Why do you use a two-year average of chemicals used?

A. The Company's raw water quality varies continually as a result of factors beyond the Company's control, including in particular the amount and quality of rainfall. Different raw water qualities require different chemical treatment to ensure that the Company's treated water quality meets the high-quality standards that York Water's customers have come to expect. A two-year average provides a reasonable normalization of chemical usage. A two-year average has been used in prior base rate cases.

Q. Explain Exhibit No. HIII-2-4.

A. Exhibit No. HIII-2-4 presents an adjustment of payroll expense for union and nonunion employees to reflect the full annual effect of actual hourly and salary rates and annual cash incentive awards and annual stock incentive awards that are effective December 31, 2021. I started by applying the actual hourly rates to a two-year average of regular, overtime and double time hours. Because the need for manpower by system function changes each year, the Company used an average of the two years ended December 31, 2021, and December 31, 2020, to calculate pro forma payroll hours and the distribution of pro forma payroll among capital and expense accounts. Pro forma payroll expense is determined by applying wage rates and annual incentive awards effective December 31, 2021, to the modified two-year average of regular, overtime, and double time payroll hours. The Company included year-end bonuses in an amount of $34,080 in pro forma payroll expense. The Company has consistently provided year-end bonuses to employees for over 26 years as a part of the employees' overall compensation package, and this is an expected part of compensation. The distribution of pro forma payroll among the various capital and expense accounts is determined by allocating pro forma payroll over the two-year average payroll distribution. The allocation of pro forma payroll is reflected on Exhibit No. HIII-2-4 (a), which I will explain later. Total pro forma payroll expense, by account, of $7,756,320 is shown in Column 1 on page 1 of Exhibit No. HIII-2-4. It is to be noted, in comparing pro forma payroll expense to test year payroll expense, the critical issue is not increases or decreases to individual accounts. The differences for individual accounts are substantially the result of using a two-year average to allocate pro forma payroll, combined with the fact that every year the need for manpower by system function changes.

Total test year payroll expense, by account, in the amount of $7,471,838 is shown in Column 2 on page 1 of Exhibit No. HIII-2-4. The increase in payroll expense of $284,482 represents the difference between pro forma payroll expense, by account, and test year payroll expense, by account, and is shown by account in Column 3 on page 1 of Exhibit No. HIII-2-4. The adjustments have been carried forward to Exhibit No. HIII-2, Column 3.

I note that a portion of pro forma payroll expense for certain specified supervisory and general office employees for twelve months ended December 31, 2021, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Miscellaneous Expenses-Administrative and General Expenses Transferred, on Exhibit No. HIII-2-6, which I will explain later.

Q. Explain Exhibit No. HIII-2-4 (a).

A. Exhibit No. HIII-2-4 (a) is the distribution of pro forma labor based on Company labor for the two years ended December 31, 2021, and December 31, 2020. Company labor for the twelve months ended December 31, 2021, of $8,252,050, is shown in Column 1 on page 1 of Exhibit No. HIII-2-4 (a). Company labor for the twelve months ended December 31, 2020, of $7,882,196 is shown in Column 2 on page 1 of Exhibit No. HIII-2-4 (a). Two-year Company labor of $16,134,246, which represents the addition of Company labor for the twelve months ended December 31, 2020, and Company labor for the twelve months ended December 31, 2021, is shown in Column 3 on page 1 of Exhibit No. HIII-2-4 (a). Pro forma payroll of $8,605,691 is distributed among the various capital and expense accounts based on the two-year Company labor. The allocation factor of 0.53338039 shown in Column 4 on page 1 of Exhibit No. HIII-2-4 (a) used to distribute pro forma payroll among the various capital and expense accounts is calculated by dividing Pro Forma Company Labor of $8,605,691 by Two Year Company Labor of $16,134,246. The allocation factor of 0.53338039 is multiplied by each capital and expense amount of Two Year Company Labor shown in Column 3 on page 1 of Exhibit No. HIII-2-4 (a) to determine the pro forma Company labor amount allocated to each capital and expense account shown in Column 5 on page 1 of Exhibit No. HIII-2-4 (a). Pro Forma Company Labor Expense is carried forward to Column 1, pages 1 and 2 of Exhibit No. HIII-2-4.

Q. Explain Exhibit No. HIII-2-5.

A. Exhibit No. HIII-2-5 normalizes over five years the costs of a customer survey. The purpose of the survey is to assist the Company in further improving its customer service. The Company commissions a customer survey approximately every five years. The Company has commissioned a customer survey in 1989, 1992, 1996, 2000, 2004, 2009, 2015, and 2020. The Company anticipates conducting another customer survey in 2025. This expense was approved by the Commission as a normalized expense in its Order at Docket No. R-901813 entered July 17, 1991.

The costs of the customer survey completed in 2020 of $11,614 are divided by five years to determine the normalized level of $2,323 ($11,614 ÷ 5). The adjustment to Account No. 63670000 in the amount of $2,323 has been carried forward to Exhibit No. HIII-2, Column 3.

Refer to Mr. Wheeler's testimony (York Water Statement No. 2) for a further explanation of the customer survey.

Q. Explain Exhibit No. HIII-2-6.

A. Exhibit No. HIII-2-6, consistent with the settlements approved by the Commission in the Company's 1987 and 1996 base rate cases at Docket Nos. R-870769 and R-963619, respectively, adjusts administrative and general expenses capitalized for the twelve months ended December 31, 2021, based on pro forma indirect labor, employee benefit costs, property insurance, workers' compensation insurance, and pension expense for the twelve months ended December 31, 2021, and a two-year average capitalization ratio.

A portion of the pay of certain specified supervisory and general office employees is capitalized (referred to as "indirect labor") in addition to capitalized payroll determined directly from employee time records. The indirect labor capitalization is calculated based upon three, separate, experienced ratios of directly capitalized payroll to total payroll, as follows:

	Employee Position	**Allocation**
(a)	President and Chief Executive Officer Chief Operating Officer Chief Financial Officer Chief Administrative Officer and General Counsel Controller Finance Manager CPR Clerk CPR Clerk Buyer Materials and Supplies Clerk Operations Manager	Ratio of total payroll directly Capitalized to total payroll
(b)	GIS Administrator Assistant Distribution Superintendent Assistant Distribution Superintendent Distribution Superintendent Distribution Line Representative Distribution Customer Service Manager Distribution Services Representative Engineering Technician Engineering Technician Dispatcher Relief Dispatcher	Ratio of directly capitalized payroll of Distribution System Department employees to total Distribution System Department payroll
(c)	Maintenance & Grounds Superintendent	Ratio of directly capitalized payroll

Maintenance & Grounds Assistant Superintendent	of Maintenance and Grounds Department employees to total
Maintenance & Grounds Assistant Superintendent	Maintenance and Grounds Department payroll

The two-year average general and administrative employees' capitalized ratio is 13.38%. This ratio was applied to pro forma payroll of $1,523,321 for the specified administrative and general employees to determine the pro forma capitalized indirect labor for general and administrative employees of $203,808 ($1,523,321 x 0.1338).

The two-year average distribution employees' capitalized ratio is 17.95%. This ratio was applied to pro forma payroll of $622,328 for the specified distribution employees to determine the pro forma capitalized indirect labor for distribution employees of $111,732 ($622,328 x 0.1795).

The two-year average maintenance and grounds employees' capitalized ratio is 5.94%. This ratio was applied to pro forma payroll of $229,186 for the specified maintenance and grounds employees to determine the pro forma capitalized indirect labor for maintenance and grounds employees of $13,603 ($229,186 x 0.0594).

As further provided in the settlement of the Company's 1987 base rate proceeding at Docket No. R-870769, group life and health insurance expense and property insurance are capitalized based upon the ratio of capitalized payroll to total payroll.

In addition, as provided in the settlement of the Company's 1996 base rate proceeding at Docket No. R-963619, a portion of pension expense is capitalized based upon the ratio of capitalized payroll to total payroll.

The two-year average capitalized payroll ratio is 9.61%. This ratio was applied to pro forma group life and health insurance expense, property insurance expense and pension expense of $1,434,778, $126,627, and $2,510,079, respectively, to determine the capitalized employee benefits, property insurance expense, and pension expense of $137,858, $12,167, and $241,177.

The capitalized payroll ratio of 9.61% used to capitalize a portion of group life insurance, health insurance, property insurance, and pension expense is different from the capitalization ratios used for indirect labor because the calculations are based on different allocation factors as prescribed by the 1987 and 1996 base rate case settlements.

The capitalization ratios for workers' compensation and payroll taxes of 1.49% and 8.01%, respectively, are based on a two-year average of the actual workers' compensation insurance premiums and payroll tax rates applied to capitalized payroll. The 1.49% ratio of workers' compensation was applied to pro forma capitalized labor from Exhibit HIII-2-4(a) of $843,482 to determine capitalized workers' compensation expense of $12,607. The 8.01% ratio of payroll taxes (including FICA, FUTA, and SUTA) was applied to pro forma capitalized labor from Exhibit HIII-2-4(a) of $843,482 to determine capitalized payroll tax expense of $67,572. These two ratios were not previously approved in a rate settlement, but they more accurately reflect the actual rates to be applied to capitalized payroll. In addition, higher capitalization rates result in lower expenses and a lower revenue requirement. The same calculations were used in the Company's last rate case at Docket No. R-2018-3000019.

Pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense total $800,525 ($203,808 + $111,732 + $13,603 + $137,858 + $12,167 + $12,607 + $67,572 + $241,177). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense in the amount of $14,276 is determined by subtracting test year capitalized indirect labor, employee benefits, property insurance expenses, payroll taxes and pension expense of $786,246 from calculated pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense of $800,525 ($800,525 - $786,246). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense in the amount of $(14,279) as an adjustment to Account No. 67580002 and Account No. 40801302 has been carried forward to Exhibit No. HIII-2, Column 3 and Exhibit No. HIV-15.

Q. Explain Exhibit No. HIII-2-7.

A. Exhibit No. HIII-2-7 annualizes the standby letter of credit fees to reflect expected increases in fees. To keep variable interest rates down and to enhance the marketability of the Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Refunding Bonds, Series A of 2008, the Company entered into a Reimbursement, Credit and Security Agreement that provides a direct pay letter of credit issued to the trustee. Based on the current rising interest rate environment, the Company expects a 10-basis point increase in the fee from its current rate of 1.40% to 1.50%. The Company experienced a 30-basis point increase in the fee from 1.10% to 1.40% in October 2020. The rate of 1.50% is applied to the basis of the letter of credit of $12,185,425 based on a 360-day year to determine the total annual fees of $185,320 ($12,185,425 x 0.015 x 365/360 = $185,230).

The adjustment to the letter of credit fees in the amount of $12,355 is determined by subtracting test year letter of credit fees of $175,965 from calculated letter of credit fees of $185,320 ($185,320 - $172,965). The adjustment to letter of credit fees in the amount of $12,355 as an adjustment to Account No. 67580402 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-8.

A. Exhibit No. HIII-2-8 annualizes expenses for directors' fees for the twelve months ended December 31, 2021, based on the Company's current complement of directors and schedule of board of director and board committee meetings. During the twelve months ended December 31, 2021, the Company had one vacancy on the board of directors, which was filled on May 2, 2022. President and Chief Executive Officer Hand, who also serves as a director of the Company, is not paid directors' fees.

The adjustment in the amount of $1,684 is determined by subtracting directors' fees for the twelve months ended December 31, 2021, of $348,540 from pro forma directors' fees for the twelve months ended December 31, 2021, of $350,224 ($350,224 - $348,540 =

$1,684). The adjustment to directors' fees in the amount of $1,684 as an adjustment to Account No. 67580800 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-9.

A. Exhibit No. HIII-2-9 adjusts purchased power expenses by location for the twelve months ended December 31, 2021, to reflect generation, transmission, and distribution rates effective January 1, 2022, from the Company's electric service providers. Purchased power expense charged to Account Nos. 61510000, 61530000, 61550000, and 61580000 during the twelve months ended December 31, 2021, of $646,914, $26,051, $458,930, and $12,821, respectively, are subtracted from pro forma purchased power expense of $661,709, $26,162, $470,368, and $12,820, respectively, to determine the adjustments to purchased power expense of $14,795, $111, $11,438, and $(1) respectively. Pro forma purchased power includes contracted credits related to a curtailment program with CPower Energy Management expected to be effective for future periods. The adjustments to purchased power expense of $14,795, $111, $11,438, and $(1) have been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-10.

A. Exhibit No. HIII-2-10 eliminates expenses of the Company's annual employee picnic incurred during the twelve months ended December 31, 2021, of $5,662. The elimination of the costs of the Company's annual employee picnic of $(5,662) as an adjustment to Account No. 60480006 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-11.

A. Exhibit No. HIII-2-11 amortizes over ten years the acquisition costs of the waterworks property and rights of the Section A Water Corporation in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation. Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. The acquisition adjustment of $34,729 is determined by subtracting the depreciated original cost of waterworks property and rights of $135,977 from acquisition costs of $170,725 ($170,725 - $135,977 = $34,729). The acquisition adjustment of $34,729 is divided by ten years to determine the annual amortization of $3,473 ($34,729 ÷ 10). The annual amortization of the acquisition costs of $3,473 has been carried forward to Exhibit No. HIII-2, Column 3. The Commission specifically approved this amortization as part of the settlement in the Company's 2012 base rate case at Docket No. R-2012-2336379. The amortization period began March 1, 2013 (the effective date of rates under Docket No. R-2012-2336379) and ends February 28, 2023. This adjustment is removed from the fully projected future test year as explained in York Water Statement No. 103.

Q. Explain Exhibit No. HIII-2-12.

A. Exhibit No. HIII-2-12 adjusts operating expenses in the amount of $10,735 for additional costs of customer accounting and collecting (excluding uncollectible accounts), purchased power, and chemicals resulting from the annualization of the net increase in number of customers served during the twelve months ended December 31, 2021.

The historical average ratio of customer accounting and collecting, purchased power, and chemical costs to sales of water of 7.10% for the two-year period ended December 31, 2021, was calculated. This ratio was applied to the total operating revenue adjustments in the amount of $150,605 representing annualized increases from load growth, as calculated on Exhibit Nos. HII-2-4 through HII-2-11, to derive the adjustment of $10,735 ($150,605 x 0.071). The adjustment in the amount of $10,735 for additional costs of customer accounting and collecting, purchased power, and chemicals has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-13.

A. Exhibit No. HIII-2-13 annualizes trustee and portfolio management fees for the Company's qualified defined benefit pension plans based on plan asset values as of December 31, 2021. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values as of the end of each calendar quarter. The adjustment in trustee and portfolio management fees in the amount of $(104,369) is determined by subtracting trustee and portfolio management fees recorded on the corporate books during the twelve months ended December 31, 2021, of $268,328 from the annual trustee and portfolio management fees based on plan asset values as of December 31, 2021, of $163,959, which is calculated based on a trustee and portfolio management fee of 0.25% of the market value of pension plan assets as of December 31, 2021, of $65,583,553 ($65,583,553 x 0.0025 = $163,959). The Company transitioned its trustee and portfolio management for its defined benefit pension plans to a new provider in 2022 at a fee of 0.25%, lower than its fee during the historic test year. The adjustment to Account No. 60480001 in the amount of $(104,369) for annualized trustee and portfolio management fees has been carried forward to Exhibit No. HIII-2, Column 3. The recovery of administrative costs of the Company's qualified defined benefit pension plans as an expense was specifically approved by the Commission as part of the settlements in York Water's 2000, 2008, 2010, 2012, and 2018 base rate cases at Docket No. No. R-00027975, Docket No. R-2008-2023067, Docket No. R-2010-2157140, Docket No. R-2012-2336379, and Docket No. R-2018-3000019, respectively.

Q. Explain Exhibit No. HIII-2-14.

A. Exhibit No. HIII-2-14 adjusts fees for the Company's Standard & Poor's corporate credit rating based on the fee schedule in effect January 1, 2022, to December 31, 2022. The Company obtains an investment grade credit rating from Standard & Poor's to allow the Company to issue debt at lower interest rates than the Company could otherwise obtain, thereby reducing the cost of debt paid by York Water's customers. The adjustment of $2,333 is determined by subtracting the corporate credit rating fee incurred and recorded on the books during the twelve months ended December 31, 2021, of $80,667 from the corporate credit rating based on the fee schedule in effect January 1, 2022, of $83,000 ($83,000 - $80,667 = $2,333).

The adjustment to Account No. 67580403 in the amount of $2,333 for the Standard & Poor's corporate credit rating has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-15.

A. Exhibit No. HIII-2-15 amortizes over ten years the acquisition costs of the waterworks property and rights of the Westwood Mobile Home Park less than the original cost of the property when first devoted to public service less the applicable accrued depreciation. The negative acquisition adjustment of $(75,474) is determined by subtracting the depreciated original cost of waterworks property and rights of $96,795 from acquisition costs of $21,321 [$21,321 - $96,795 = $(75,474)]. The negative acquisition adjustment of $(75,474) is divided by ten years to determine the annual negative amortization of $(7,547) [$(75,474) ÷ 10]. The annual negative amortization of the acquisition costs of $(7,547) has been carried forward to Exhibit No. HIII-2, Column 3. This amortization was specifically approved by the Commission as part of the settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Docket No. R-2018-3000019) and ends February 28, 2029.

Q. Explain Exhibit No. HIII-2-16.

A. Exhibit No. HIII-2-16 annualizes health insurance expense and group life insurance expense based on the Company's complement of employees and the annualization of actual monthly premiums effective in 2022 for health insurance and group life insurance. The Company offers health insurance coverage for its employees. The Company pays health benefits up to 80% of the premium cost for all participating employees. The Company also offers dental and vision programs for its employees. The Company pays for 80% of the participating employees' dental and vision benefits. The Company pays for a group life insurance benefit for all employees.

The actual 2022 monthly insurance premiums by class are annualized to determine the pro forma annual health insurance and group life insurance expense of $1,781,431. The adjustment in the amount of $201,392 is determined by subtracting the portion of health insurance expense to be borne by all employees of $346,653 and the health insurance expense recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $1,233,386 from the pro forma annual health insurance expense of $1,781,431 ($1,781,413 - $346,653 - $1,233,386 = $201,392). The adjustment to Account No. 60480005 of $201,392 has been carried forward to Exhibit No. HIII-2, Column 3.

I note that a portion of pro forma health insurance expense and group life insurance expense for the twelve months ended December 31, 2021, was capitalized in accordance with Appendix "B" of the settlement approved in the Company's 1987 rate case (Docket No. R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Miscellaneous Expenses-Administrative and General Expenses Transferred on Exhibit No. HIII-2-6, which I have explained earlier.

Q. Explain Exhibit No. HIII-2-17.

A. Exhibit No. HIII-2-17 adjusts workers' compensation insurance expense based on pro forma payroll at workers compensation rates in effect as of January 1, 2022. Total pro forma payroll of $8,605,691 is detailed by workers' compensation insurance classifications of waterworks employees, outside sales employees, and clerical employees in the amounts of $4,421,708, $1,060,087, and $3,123,896, respectively. The actual January 1, 2022 workers' compensation premium rates per $100 by classifications are $2.89, $0.28, and $0.13, respectively. These rates are applied to the pro forma payroll by classification to determine the initial workers' compensation insurance premiums. The initial premiums are $127,787 for waterworks employees, $2,968 for outside sales employees, and $4,061 for clerical employees. The initial premiums are subject to an increased employer's liability limit factor of 1.10% and an experience modification factor of 1.098 as established by the Pennsylvania Compensation Insurance Bureau. Total premiums subject to experience modification of $134,817 ($127,787 + $2,968 + $4,061 = $134,817) are multiplied by the employer's liability limit coverage factor of 1.10% to determine the cost of the increased employer's liability limit of $1,483 ($134,817 x 0.011). The total of initial premiums of $134,817 and increased employer's liability limit cost of $1,483 are multiplied by the Pennsylvania Experience Modification of 1.098 to arrive at adjusted workers' compensation insurance premiums of $149,657 [($134,817 + $1,483) x 1.098]. Adjusted workers' compensation insurance premiums of $149,657 are reduced by a (5.0%) schedule rating premium of $(7,483) [$149,657 x (0.05)]. The premiums adjusted by application of experience modification of $149,657 and schedule rating of $(7,483) are multiplied by and reduced by a 5% safety credit of $7,109 [($149,657 - $7,483) x 0.05] to arrive at premiums adjusted by application of schedule rating and safety credit of $135,065 ($149,657 - $7,483 - $7,109). Premiums adjusted by application of schedule rating and safety credit of $135,065 are reduced by an 11.0% premium discount of $14,857 $[135,065 x (0.11)] and increased by the Pennsylvania Compensation Rating Bureau Fee of $175, a foreign and domestic terrorism surcharge of $2,582, a catastrophe (other than terrorism) surcharge of $1,721, and a 2.48% Pennsylvania Employer Assessment of $3,092 [($135,065 - $14,857 + $175 + $2,582 + 1,721) x 0.0248] to determine pro forma workers' compensation insurance expense of $127,778 ($135,065 - $14,857 + $175 + $2,582 + 1,721 + $3,092). The adjustment to Workers' Compensation Insurance expense of $15,285 is determined by subtracting

Workers' Compensation Insurance expense recorded on the corporate books during the twelve months ended December 31, 2021, of $112,493 from pro forma workers' compensation insurance expense of $127,778 ($127,778 - $112,493 = $12,285). The adjustment to Account No. 65880000 of $15,285 has been carried forward to Exhibit No. HIII-2, Column 3.

A portion of pro forma workers' compensation insurance expense for twelve months ended December 31, 2021, is capitalized in accordance with Appendix "B" of the settlement approved in the Company's 1987 rate case (Docket No. R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Miscellaneous Expenses-Administrative and General Expenses Transferred, on Exhibit No. HIII-2-6, which I have explained earlier.

Q. Explain Exhibit No. HIII-2-18.

A. Exhibit No. HIII-2-18 adjusts gas service expenses incurred during the historic test year to annualized levels based on service rates in effect as of January 1, 2022, reflecting average gas usage over the two-year period including the historic test year. Average gas usage was calculated for the Company's five facilities based on billings for calendar years 2020 and 2021.

The calculated average gas usage by facility was multiplied by the 2022 supply charge, gas cost, distribution charge, and state tax adjustment surcharge and added to the fixed customer charge for each facility. Sales tax was calculated on the combined costs to arrive at pro forma gas service costs of $10,819, $7,178, $10,659, $30,922, and $19,841.

Gas costs recorded on the corporate books for the twelve months ended December 31, 2020, in the amounts of $10,333, $5,988, $8,728, $25,328, and $14,208 were subtracted from pro forma gas costs of $10,819, $7,178, $10,659, $30,922, and $19,841, respectively, to determine the adjustments of $486, $1,190, $1,931, $5,594, and $5,633, or a total adjustment of $14,834. The adjustments to gas service expense of $486, $1,190, $1,931, $5,594, and $5,633 have been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-19.

A. Exhibit No. HIII-2-19 normalizes over three years the costs of accounting, legal, printing, and other services related to the Amendment to Form S-3 for the Company's Dividend Reinvestment and Direct Stock Purchase and Sale Plan filed with the Securities and Exchange Commission in 2019 and the filing of a Securities Certificate to allow shareholders to continue to reinvest their dividends and shareholders and first-time buyers to purchase and sell the Company's stock. Based on the present rate of issuance of common shares under the Company's Dividend Reinvestment and Direct Stock Purchase and Sale Plan, the Company would be required to file another Form S-3 with the Securities and Exchange Commission in 2022 in order to continue its Dividend Reinvestment and Direct Stock Purchase and Sale Plan.

The costs of accounting, legal, printing, and other services related to the Amendment to Form S-3 for the Company's Dividend Reinvestment and Direct Stock Purchase and Sale Plan of $24,916 is divided by three years to determine the annual normalization of $8,305. The normalization of the costs of accounting, legal, printing, and other services related to the Amendment to Form S-3 for the Company's Dividend Reinvestment and Direct Stock Purchase and Sale Plan of $8,305 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-20.

A. Exhibit No. HIII-2-20 normalizes over ten years the costs of accounting and legal services related to the Form S-8 for the Company's Long-term Incentive Plan filed with the Securities and Exchange Commission in 2016 and the filing of a Securities Certificate to allow shareholders to allow the Company to ensure its compensation practices are competitive in the industry to assist in the attraction and retention of directors and key employees vital to the Company's success. Based on the ten-year life of the Long-term Incentive Plan, the Company would be required to file another Form S-8 with the Securities and Exchange Commission in 2026 in order to continue its Long-term Incentive Plan.

The costs of accounting, legal, printing, and other services related to the Form S-8 for the Company's Long-term Incentive Plan of $17,402 is divided by ten years to determine the annual normalization of $1,740. The normalization of the costs of accounting and legal services related to the Amendment to Form S-3 for the Company's Long-term Incentive Plan of $1,740 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-21.

A. Exhibit No. HIII-2-21 normalizes over fourteen years the costs of accounting and legal services related to the Amendment to Form S-8 for the Company's Employee Stock

Purchase Plan filed with the Securities and Exchange Commission in 2013 to register additional shares for the plan's use. Based on the present rate of issuance of common shares under the Company's Employee Stock Purchase Plan, the Company would be required to file another Form S-8 with the Securities and Exchange Commission in 2027 in order to continue its Employee Stock Purchase Plan.

The costs of accounting, legal, printing, and other services related to the Form S-8 for the Company's Employee Stock Purchase Plan of $17,878 is divided by fourteen years to determine the annual normalization of $1,277. The normalization of the costs of accounting and legal services related to the Amendment to Form S-8 for the Company's Employee Stock Purchase Plan of $1,277 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-22.

A. Exhibit No. HIII-2-22 amortizes over ten years the acquisition costs of the waterworks property and rights of Wrightsville Borough Municipal Authority in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation. Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. The acquisition adjustment of $67,886 is determined by subtracting the depreciated original cost of waterworks property and rights of $45,227 from acquisition costs of $113,113 ($113,113 - $45,227 = $67,886). The acquisition adjustment of $67,886 is divided by ten years to determine the annual amortization of $6,789 ($67,886 ÷ 10). The annual amortization of the acquisition costs of $6,789 has been carried forward to Exhibit No. HIII-2, Column 3.

Refer to the testimony of Mr. Hand (York Water Statement No. 1) for a further explanation of this acquisition and the basis for the Company's proposed amortization.

Q. Explain Exhibit No. HIII-2-23.

A. Exhibit No. HIII-2-23 adjusts gasoline expense for the twelve months ended December 31, 2021, based on the volumes of gasoline used during the twelve months ended December 31, 2021, and the gasoline price per gallon as of March 2022. Pro forma gasoline costs of $294,089 are determined by multiplying the volume of gasoline used during the twelve months ended December 31, 2021, of 68,092 gallons times the price per gallon of gasoline as of March 2022 of $4.319 (68,092 x $4.319 = $294,089). Gasoline costs recorded on the corporate books during the twelve months ended December 31, 2021, of $190,900 and pro forma gasoline costs charged to capital and non-operating accounts of $8,874 are subtracted from the pro forma gasoline costs of $294,089 to determine the adjustment of gasoline costs of $94,315 ($294,089 - $190,900 - $8,874 = $94,315). The adjustment of $94,315 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-24.

A. Exhibit No. HIII-2-24 adjusts the present value costs of postretirement benefits other than pensions (unfunded health and death benefits) expensed during the twelve months ended December 31, 2021, to reflect pay-as-you-go costs of postretirement benefits other than pensions (unfunded death benefits). The present value costs of postretirement benefits other than pensions expensed during the twelve months ended December 31, 2021, is $(9,002). Pay-as-you-go costs of postretirement benefits other than pensions incurred by the Company during the twelve months ended December 31, 2021, were $4,000, representing two deaths. The adjustment in the amount of $13,002 is determined by subtracting the present value of postretirement benefit other than pensions recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $(9,002) from the pay-as-you-go costs of postretirement benefits other than pensions during the twelve months ended December 31, 2021, in the amount of $4,000 [$4,000 - $(9,002) = $13,002]. The adjustment to postretirement benefits other than pensions of $13,002 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-25.

A. Exhibit No. HIII-2-25 adjusts fuel expense used for pumping to reflect current unit prices applied to a two-year average of fuel oil used. Pro forma fuel expense in the amount of $21,428 for fuel oil used for pumping is based on applying the unit price of fuel oil near the time of the rate filing to the two-year average of fuel oil used. The adjustment to fuel expense in the amount of $1,393 is determined by subtracting test year fuel expense used for pumping of $21,428 from calculated pro forma fuel expense of $22,821 ($22,821 - $21,428 = $1,393). The adjustment to fuel expense in the amount of $1,393 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HII-2-26

A. Exhibit No. HIII-2-26 amortizes over ten years the acquisition costs of the waterworks property and rights of Margaretta Mobile Home Park in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation. Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. The acquisition adjustment of $55,509 is determined by subtracting the depreciated original cost of waterworks property and rights of $46,159 from acquisition costs of $101,667 ($101,667 - $46,159 = $55,509). The acquisition adjustment of $55,509 is divided by ten years to determine the annual amortization of $5,551 ($55,509 ÷ 10). The annual amortization of the acquisition costs of $5,551 has been carried forward to Exhibit No. HIII-2, Column 3. This amortization was specifically approved by the Commission as part of the settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Docket No. R-2018-3000019) and ends February 28, 2029.

Q. Explain Exhibit No. HIII-2-27.

A. Exhibit No. HIII-2-27 includes, in operating costs, the expansion of The York Water Cares Low Income Customer Assistance Program. As part of Company's 2018 base rate case settlement, the Commission approved $20,000 annually on a pilot basis until York Water's next base rate case. The Company has followed all conditions stipulated in the Commission's Order and there are no unspent funds to be refunded to ratepayers. The program has been a success in helping low-income customers pay their water and wastewater bills to avoid shut off, especially during the COVID-19 pandemic. As explained in the direct testimony of Mr. Wheeler (York Water Statement No. 2), the

Company requests the program be established permanently and that the funding level be increased to $40,000 annually. This adjustment of $20,000 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-28.

A. Exhibit No. HIII-2-28 amortizes over ten years the acquisition costs of the waterworks property and rights of York Starview LP in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation. Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. The acquisition adjustment of $35,897 is determined by subtracting the depreciated original cost of waterworks property and rights of $94,540 from acquisition costs of $130,437 ($130,437 - $94,540) = $35,897). The acquisition adjustment of $35,897 is divided by ten years to determine the annual amortization of $3,590 ($35,897 ÷ 10). The annual amortization of the acquisition costs of $3,590 has been carried forward to Exhibit No. HIII-2, Column 3. This amortization was specifically approved by the Commission as part of the settlement in the Company's 2012 base rate case at Docket No. R-2012-2336379. The amortization period began March 1, 2013 (the effective date of rates under Docket No. R-2012-2336379) and ends February 28, 2023. This adjustment is removed from the fully projected future test year as explained in York Water Statement No. 103.

Q. Explain Exhibit No. HIII-2-29.

A. Exhibit No. HIII-2-29 normalizes over ten years the costs of a survey of the Company's filter plant property conducted in 2015. The Company is aware of potential transfers of real estate on lands adjacent to the filter plant property, and desired to identify the boundaries of its filter plant property. The Company anticipates surveying its filter plant property approximately every ten years.

The costs of the survey of the Company's filter plant property during the twelve months ended December 31, 2015, of $30,810 are divided by 20 years to determine the normalized level of $3,081 ($30,810 ÷ 10). The adjustment to normalize the costs of surveying the Company's filter plant property of $3,081 as an adjustment to Account No. 63620002 have been carried forward to Exhibit No. HIII-2, Column 3. I note that the Company reflected a normalized level of survey costs related to its filter plant property in its last rate case at Docket No. R-2018-3000019.

Q. Explain Exhibit No. HIII-2-30.

A. Exhibit No. HIII-2-30 normalizes over five years the cost of a service life study incurred and recorded during the twelve months ended December 31, 2017, of $24,641. The Company, as a public utility with gross intrastate revenues in excess of $20 million, is required to file a service life study with the Commission every five years pursuant to Chapter 73 of the Public Utility Code.

The costs of the service life study during the twelve months ended December 31, 2017, of $24,641 are divided by five years to determine the normalized level of $4,928. Cost of this study amortized on the corporate books during the twelve months ended December

31, 2021, of $4,928 are subtracted from the normalized costs of $4,928 to determine the adjustment of $0. The adjustment to normalize the costs of the service life study of $0 as an adjustment to Account No. 63280003 has been carried forward to Exhibit No. HIII-2, Column 3. I note that the Company reflected a normalized level of service life study costs in its last rate case at Docket No. R-2018-3000019. The accrual rates used to calculate depreciation used in this base rate case are based on the rates to be included in the cost of service life study to be filed with the Commission in 2022.

Q. Explain Exhibit No. HIII-2-31.

A. Exhibit No. HIII-2-31 normalizes on-line bill payment fees for the twelve months ended December 31, 2021, based on the Company's average monthly fees charged under the current contract. Monthly fees have been generally increasing as more customers use the on-line bill payment method. Average monthly fees for the period January and February 2022 of $32,074 were used as the baseline for normalization by dividing by two and multiplying by twelve to determine pro forma annual fees of $384,887. Fees recorded on the corporate books for the twelve months ended December 31, 2021, of $289,195 are subtracted from annualized fees of $384,887 to determine the adjustment of $95,692. The adjustment to on-line bill payment fees of $95,692 to Account No. 67570400 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-32.

A. Exhibit No. HIII-2-32 amortizes over ten years the acquisition costs of the waterworks property and rights of Lincoln Estates Mobile Home Park less than the original cost of the property when first devoted to public service less the applicable accrued depreciation. The negative acquisition adjustment of $(77,186) is determined by subtracting the depreciated original cost of waterworks property and rights of $146,957 from acquisition costs of $69,772 [$69,772 - $146,957 = $(77,186)]. The negative acquisition adjustment of $(77,186) is divided by ten years to determine the annual negative amortization of $(7,719) [$(77,186) ÷ 10]. The annual negative amortization of the acquisition costs of $(7,719) has been carried forward to Exhibit No. HIII-2, Column 3. This amortization was specifically approved by the Commission as part of the settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Docket No. R-2018-3000019) and ends February 28, 2029.

Q. Explain Exhibit No. HIII-2-33.

A. Exhibit No. HIII-2-33 amortizes over ten years the acquisition costs of the waterworks property and rights of The Meadows less than the original cost of the property when first devoted to public service less the applicable accrued depreciation. The negative acquisition adjustment of $(158,818) is determined by subtracting the depreciated original cost of waterworks property and rights of $221,778 from acquisition costs of $62,960 [$62,960 - $221,778 = $(158,818)]. The negative acquisition adjustment of $(158,818) is divided by ten years to determine the annual negative amortization of $(15,882) [$(158,818) ÷ 10]. The annual negative amortization of the acquisition costs of $(15,882) has been carried forward to Exhibit No. HIII-2, Column 3. This amortization was specifically approved by the Commission as part of the settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Docket No. R-2018-3000019) and ends February 28, 2029.

Q. Explain Exhibit No. HIII-2-34.

A. Exhibit No. HIII-2-34 normalizes over five years the costs of legal services related to the Company's Long Term Infrastructure Improvement Plan filed with the Commission in 2021 to file the plan required pursuant to 52 Pa. Code Section 121. The Code requires the Company files a Long Term Infrastructure Improvement Plan every five years with the Commission, so the Company would be required to file another plan in 2026.

The costs of legal services related to the Company's Long Term Infrastructure Improvement Plan of $4,220 are divided by five years to determine the annual normalization of $844. Fees recorded on the corporate books for the twelve months ended December 31, 2021, of $4,220 are subtracted from normalized fees of $844 to determine the adjustment of $(3,376). The adjustment of the costs of legal services related to the Company's Long Term Infrastructure Improvement Plan of $(3,376) has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-35.

A. Exhibit No. HIII-2-35 normalizes the cost of replacing the laptop and desktop computers of the Company. In the past, the Company has replaced all its laptop and desktop computers at the same time. In the future, the Company intends to replace a portion of its laptop and desktop computers each year so when all have been replaced over a period of approximately five years, the laptop and desktop computers place in service in the first year will have reached the end of their five-year life and will be replaced again. The Company has determined to replace twenty laptop and desktop computers each year beginning in 2022.

The estimated cost for the hardware and software for each laptop and desktop computer is $1,766. The total estimated cost to replace twenty laptop and desktop computers is $35,318 ($1,766 x 20). There were no laptop or desktop computers replaced in the twelve months ended December 31, 2021, so the adjustment is $35,318. The adjustment to Materials & Supplies - Computer of $35,318 to Account No. 62180000 has been carried forward to Exhibit No. HIII-2, Column 3

Q. Explain Exhibit No. HIII-2-36.

A. Exhibit No. HIII-2-36 eliminates legal expenses related to potential acquisitions incurred during the twelve months ended December 31, 2021, of $104,478. The elimination of the costs of the Company's legal expense related to potential acquisitions of $(104,478) as an adjustment to Account No. 63380000 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-37.

A. Exhibit No. HIII-2-37 amortizes the actual costs of replacing customer-owned lead service lines, excluding the costs recovered as part of the Commission-approved settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019, over a period of four years. In accordance with Commission's Order entered at Docket No. P-2016-2577404, the Company is permitted to record the cost of all customer-owned lead service line replacements as a regulatory asset. The Company is permitted to amortize the amounts booked to the regulatory asset account in a base rate proceeding over a reasonable period to be not less than four years and not to exceed six years.

The Company has incurred actual costs replacing customer-owned lead service lines since its last base rate case of $1,132,257. As part of the settlement in the Company's 2018 base rate case at Docket No. R-2018-3000019, the Commission allowed the regulatory asset to be amortized over a period of four years. The amortization is determined to be $283,064 ($1,132,257 ÷ 4 = $283,064). The adjustment to maintenance of services in the amount of $215,890 is determined by subtracting the updated amortization of $283,064 from the amortization recorded during the twelve months ended December 31, 2021, of $67,174 ($283,064 - $67,174 = $215,890). The adjustment for customer-owned lead service line replacements of $215,890 as an adjustment to Account No. 63660004 has been carried forward to Exhibit No. HIII-2, Column 3.

Q. Explain Exhibit No. HIII-2-38.

A. Exhibit No. HIII-2-38 adjusts uncollectible accounts expense based on pro forma revenues under proposed rates and a two-year average ratio of net uncollectible accounts written off to total operating revenues.

Pro forma revenues under proposed rates (Refer to Exhibit No. HII-2) of $53,102,336 are multiplied by the two-year average ratio of net write-offs to total operating revenues of 0.52% to determine the pro forma uncollectible accounts expense under proposed rates of $276,795 ($53,102,336 x 0.0052). The adjustment to uncollectible accounts expense in the amount of $8,370 is determined by subtracting pro forma uncollectible accounts expense under existing rates of $268,425 (Refer to Exhibit No. HIII-2-2) from pro forma uncollectible accounts expense under proposed rates of $276,795 ($276,795 - $268,425 = $8,370). The adjustment to uncollectible accounts expense of $8,370 to Account No. 67070000 has been carried forward to Exhibit No. HIII-2, Column 6.

Q. Explain Exhibit No. HIII-9.

A. Exhibit No. HIII-9 provides a comparative statement of advertising expense per books for the twelve months ended December 31, 2021, December 31, 2020, and December 31, 2019. The Company did not have advertising expenses during the three-year period ended December 31, 2021.

Q. Explain Exhibit No. HIII-10.

A. Exhibit No. HIII-10 provides a schedule of social and service organization memberships paid for by the Company during the twelve months ended December 31, 2021, in the amount of $1,520.

The Company charged social and service membership fees for the twelve months ended December 31, 2021, to Account No. 42600060, Miscellaneous Non-operating Expenses. No social or service memberships are included in the cost of service in this rate proceeding.

Q. Explain Exhibit No. HIII-11.

A. Exhibit No. HIII-11 provides a schedule, by major components, of Contractual Services, Rate Case Expense and Miscellaneous Expense for the twelve months ended December 31, 2021, 2020, and 2019. Page 2 of Exhibit No. HIII-11 provides a schedule of Contractual Services-Auditing for the twelve months ended December 31, 2021, 2020, and 2019. Page 3 of Exhibit No. HIII-11 provides a schedule of Contractual Services-Tax, for the twelve months ended December 31, 2021, 2020, and 2019. Page 4 of Exhibit No. HIII-11 provides a schedule by major components of Contractual Services-Other Accounting for the twelve months ended December 31, 2021, 2020, and 2019. Page 5 of Exhibit No. HIII-11 provides a schedule of Legal Fees Expense for the twelve months ended December 31, 2021, 2020, and 2019. Page 6 of Exhibit No. HIII-11 provides a schedule, by major components, of Contractual Services-Outside Services for the twelve months ended December 31, 2021, 2020, and 2019. Page 7 of Exhibit No. HIII-11 provides a schedule of Rate Case Expense for the twelve months ended December 31, 2021, 2020, and 2019. Page 8 of Exhibit No. HIII-11 shows the components of Other Miscellaneous Expense for the twelve months ended December 31, 2021, 2020, and 2019.

Q. Explain Exhibit No. HIII-13.

A. Exhibit No. HIII-13 provides a detailed schedule of all charitable and civic contributions in the amount of $509,899 for the twelve months ended December 31, 2021. These contributions were offset by $146,073 of tax credits received from the state for educational improvement and scholarship contributions, for a net contribution of $363,826. York Water charged charitable and civic contributions for the twelve months ended December 31, 2021, to Account No. 42600020, Contributions. No charitable or civic contributions are included in the cost of service in this rate proceeding.

Q. Explain Exhibit No. HIII-15.

A. Exhibit No. HIII-15 provides a schedule of pension contributions, SFAS87 pension expense, the amount of SFAS87 pension that was expensed to Operations & Maintenance expenses, and the amount of SFAS87 that was deferred. The Company has two defined benefit pension plans (one plan for union-represented employees and one plan for administrative and general employees). The Company has reflected in its cost of service for ratemaking purposes the cash contributions to its two defined benefit pension plans since the pension plans were established in 1959. The Commission, in its Order at Docket No. R-00027975, dated June 26, 2003, in its Order at Docket No. R-00049165, dated November 9, 2004, in its Order at Docket No. R-00063122, dated September 15, 2006, in its Order at Docket No. R-2008-2023067, dated October 9, 2008, in its Order at Docket No. R-2010-2157140, dated November 4, 2010, in its Order at Docket No. R-2012-2336379, dated February 28, 2014, and in its Order at Docket No. R-2018-3000019, dated March 1, 2019, approved cash contributions plus administrative costs as the basis for the Company's ratemaking claim for pension expenses and authorized the Company to defer on its books, the difference between cash contributions and SFAS87 expense.

Q. Explain Exhibit No. HIII-16.

A. Exhibit No. HIII-16 provides SFAS106 expenses incurred during the twelve months ended December 31, 2021, for postretirement death benefits. These expenses were eliminated from the cost of service on Exhibit No. HIII-2-24. The "pay-as-you-go" expense of $4,000, representing two death benefits paid, is reflected as part of the historic test year cost of service.

Q. Explain Exhibit No. HIII-24.

A. Exhibit No. HIII-24 provides a listing of payments made to industry organizations during the twelve months ended December 31, 2021. These payments are exclusive of lobbying fees, and they are included in cost of service.

Q. Explain Exhibit No. HIII-27.

A. Exhibit No. HIII-27 indicates that no employee positions have been eliminated in the 2021/2022 timeframe.

Q. Are you sponsoring any other exhibits regarding the Company's operating expenses?

A. Yes, I am also sponsoring Exhibit Nos. HIII-3, HIII-4, HIII-5, HIII-6, HIII-7, HIII-8, HIII-12, HIII-14, HIII-17, HIII-18, HIII-19, HIII-20, HIII-21, HIII-23, HIII-25, HIII-26, and HIII-28.

Q. Explain Exhibit No. HV-1-1.

A. Exhibit No. HV-1-1 is a summary, by year, of the unamortized balances of deferred income taxes related to accelerated depreciation and the unamortized balances of excess deferred income taxes related to accelerated depreciation that are deducted from the measure of value.

Page 1 of Exhibit No. HV-1-1 is a summary, by year, of the unamortized balance in the amount of $23,651,956, as of December 31, 2021, of deferred income taxes related to accelerated depreciation, that are deducted from the measure of value. Column 2 lists, by year, deferred federal income taxes resulting from accelerated depreciation from 1971 through 2021. The balance in Column 2 is $23,651,956.

Deferred Federal Income Tax Related to Accelerated Depreciation on Property Constructed with Customers' Advances for Construction and Contributions in Aid of Construction have been eliminated from this schedule.

By Order entered April 28, 1988, at Docket Nos. R-870769 and P-870225, the Commission approved the Company's proposal to account for income taxes on Customers' Advances for Construction ("Advances") and Contributions in Aid of Construction ("Contributions") pursuant to what is known as "Method 5" treatment. Under Method 5 treatment, the Company excluded, for ratemaking purposes, all income taxes paid by the Company as a result of receipt of Contributions or Advances and excluded, from the calculation of income taxes, the portion of tax depreciation that related to property constructed with Contributions or Advances. Under this procedure, customers did not bear the increased income taxes resulting from the receipt of Contributions or Advances, and the Company recovered, over the tax life of the property, reductions in income taxes in an amount equal to the increased income taxes resulting from receipt of Contributions and Advances. Under Method 5, it is necessary for the Company to retain the benefits resulting from depreciation on property constructed with a Contribution or Advance, so that York Water is compensated for the additional income taxes paid as a result of the TRA-86 requirement that a Contribution or Advance be recognized as taxable income in the year received.

The unamortized balance of deferred income taxes as of December 31, 2021, in the amount of $23,651,956 has been carried forward to Exhibit No. HV-1, page 2 and has been deducted from the original cost measure of value.

Page 2 of Exhibit No. HV-1-1 is a summary, by year, of the unamortized balance in the amount of $13,625,482, as of December 31, 2021, of excess deferred income taxes related to accelerated depreciation, that are deducted from the measure of value. Column 2 lists, by year, excess deferred federal income taxes resulting from accelerated depreciation from 1971 through 2017. The balance in Column 2 is $13,625,482.

The unamortized balance of excess deferred income taxes as of December 31, 2021, in the amount of $13,625,482 has been carried forward to Exhibit No. HV-1, page 2 and has been deducted from the original cost measure of value.

Q. Explain Exhibit No. HV-1-10.

A. Exhibit No. HV-1-10 is a summary, by year, of the unamortized balance in the amount of $1,525,613, as of December 31, 2021, of taxes on deposits for construction and customer advances, that are added to the original measure of value. Column 2 lists, by year, taxes on deposits for construction and customer advances from 2018 through 2020. The balance in Column 2 is $1,525,613.

Under the Tax Cuts and Jobs Act of 2017, the definition of tax contributions in aid of construction was modified under Section 118(b) and the exclusion from gross income under Section 118(c) was repealed. The modification to the definition of taxable contribution in aid of construction includes contributions from customers as well as any payment received from a governmental or civic entity. Under the Company's approved tariff, the Company will pay income taxes on any deposit, Customer Advance, Contribution in Aid of Construction, or other like amounts received from an applicant which shall constitute taxable income as defined by the Internal Revenue Service. Such income taxes shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income taxes associated with a deposit or advance will not be charged to the specific depositor of capital. This provision was rescinded under the Infrastructure Investment and Jobs Act of 2021.

The unamortized balance of taxes on deposits for construction and customer advances as of December 31, 2021, in the amount of $1,525,613 has been carried forward to Exhibit No. HV-1, page 2 and has been included in the original cost measure of value.

Q. Explain Exhibit No. HV-8-1 (g).

A. Exhibit No. HV-8-1 (g) is the calculation by service territory of the average lag days from the provision of service to receipt of operating revenues. Calculations of the lag days in receipt of operating revenues of 53.7 for metered repumped customers and lag days of 52.5 for metered gravity customers are shown in Columns 2 and 3, respectively. The components of the operating revenue lag day calculation, shown in Column 1, include the lag from the midpoints of the billing cycle (service lag), the lag from mid-point of the meter reading to billing (billing lag) and the lag from billing to collection ("collection lag"). "Billing" for purposes of determining the billing lag and the collection lag is the date that bills are entered into the Company's accounts receivable for that billing cycle. The calculation of the billing lag for metered repumped customers and metered gravity customers are presented on Exhibit No. HV-8-1 (g) 1, which I will explain later. The calculation of the collection period lag is presented in Exhibit No. HV-8-1 (g) 2, which I will explain later. The total lag days have been carried forward to Column 3 of Exhibit No. HV-8-1.

Q. Explain Exhibit No. HV-8-1 (g) 1.

A. Exhibit No. HV-8-1 (g) 1 provides the calculation of average lag days to read meters, enter data, validate and process data, and enter amounts into accounts receivable. The calculation of average lag days for repumped customers during the twelve months ended December 31, 2017, of 5.4 is shown on page 1 of Exhibit No. HV-8-1 (g) 1, and the calculation of average lag days for gravity customers during the twelve months ended December 31, 2017, of 4.2 is shown on page 2 of Exhibit No. HV-8-1 (g) 1.

For each service area, the date of the mid-point of the meter reading for each billing cycle is shown in Column 2, and the date amounts were entered into the Company's accounts receivable for each billing cycle is shown in Column 3. The number of days of lag between the date of the mid-point of the meter reading and the date amounts were entered into the Company's accounts receivable is calculated and shown in Column 4. The twelve-month average of lag days per billing cycle is determined by adding the lag days for each billing cycle shown in Column 4 and dividing by the number of billing cycles.

The average billing lag days of 5.4 and 4.2 for metered repumped and metered gravity billing cycles, respectively, have been carried forward to Exhibit HV-8-1 (g).

Under the Company's validation procedure, if a customer's meter reading meets certain criteria of either high or low consumption based on historical averages, the reading is listed on a report for review by the accounts receivable coordinator. If the coordinator is unable to determine the reason for the unusual consumption, a reread order is generated, and a meter reader is dispatched to the customer's premises to investigate the situation. The meter reader rereads the meter and, assuming the reading confirms the initial reading, checks for leaks, checks meter operation, and notifies the customer of the results of the investigation. Only after this process is completed is the meter reading considered to be validated. I note that internal controls set up within our accounting system require that validation for all bills be completed before all bills for each cycle are booked to accounts receivable.

Page 3 of Exhibit No. HV-8-1 (g) 1 is a summary of the Company's billing lag calculated during the period 1991 to 2021. The billing lag calculations demonstrate a significant improvement (reduction) in the billing lag during this period. As reflected on this exhibit, the billing lag for repumped and gravity customers has been reduced by 65.4% and 65.6%, respectively, since 1991 due to the installation of radio frequency reading for all meters and the realignment of meter reading routes and cycles. The Company continues to look at other automated meter reading options to make the meter reading process even more efficient.

Q. Explain Exhibit No. HV-8-1 (g) 2.

A. Exhibit No. HV-8-1 (g) 2 presents the calculation of the weighted average operating revenue collection lag. This is the average lag between billing customers and receipt of revenues.

The weighted average operating revenue collection lag of 33.1 days is determined by dividing the number of days in the test year by the calculated turnover ratio of 11.0 times (365 ÷ 11.0 = 33.1). The calculated turnover ratio of 11.0 times is determined by dividing test year sales of water and penalties (excluding unbilled) in the amount of $52,028,072 by the annual average of outstanding customers' monthly accounts receivable balances per books in the amount of $4,721,169 ($52,028,072 ÷ $4,721,169 = 11.0). The weighted average operating revenue collection lag of 32.7 days has been carried forward to Exhibit No. HV-8-1 (g).

Q. Are you sponsoring any other exhibits regarding the original cost measure of value?

A. Yes, I am also sponsoring Exhibit No. HV-10.

Q. Explain Exhibit No. HVII-1.

A. Exhibit No. HVII-1 provides capitalization and capitalization ratios for the five years ended December 31, 2021, and the projected capitalization and capitalization ratios for December 31, 2022, through February 29, 2024.

Exhibit No. HVII-1 also provides year-end interest coverages for the last three years.

Q. Explain Exhibit No. HVII-2.

A. Exhibit No. HVII-2 details the latest prospectus offered by the Company. A copy of the prospectus, dated April 1, 2022, issued in connection with the common stock offering is attached to Exhibit No. HVII-2.

Q. Explain Exhibit No. HVII-3.

A. Attached to Exhibit No. HVII-3 is a copy of Projected Five Year Capital Requirements for Five Years Ended December 31, 2026 and a Schedule of Projected Statement of Cash Flows for Five Years Ended December 31, 2026, which reflects the sources of funds for each of the future five years.

Q. Explain Exhibit No. HVII-6.

A. Exhibit No. HVII-6 provides information concerning the rate used for the Company's allowance for funds used during construction ("AFUDC"). The AFUDC rate used by the Company as of December 31, 2021, was 10.04%. The AFUDC rate is set by the Company based upon the sum of the weighted cost of debt and the weighted cost of common equity as determined in the Company's most recent fully litigated rate proceeding before the Commission. The AFUDC rate used by the Company has not changed since December 31, 1992.

Q. Explain Exhibit No. HVII-7.

A. Exhibit No. HVII-7 describes the Company's indenture requirements and dividend restrictions.

Q. Explain Exhibit No. HVII-9.

A. Exhibit No. HVII-9 describes long-term debt reacquisitions by the Company. There have been no long-term debt reacquisitions by the Company since 1969.

Q. Explain Exhibit No. HVII-11.

A. Exhibit No. HVII-11 provides information on the lines of credit available to the Company. The Company had average daily borrowings of $11,487,404 under its lines of credit during the twelve months ended December 31, 2021. Refer to Exhibit No. FVII-11 for the projected borrowings under the Company's lines of credit during the twelve months ending February 29, 2024.

Q. Explain Exhibit No. HVII-15.

A. Attached to Exhibit No. HVII-15 is a copy of the 2021 Annual Report to Shareholders, The York Water Company 2021 SEC Form 10-K, and the 2021 SEC Forms 10-Q.

Q. Explain Exhibit No. HVII-17

A. Exhibit No. HVII-17 provides the corporate and bond rating history for the Company. The Company has obtained a Standard & Poor's Corporate Rating to meet the criteria for the issuance of tax-free bonds through the Pennsylvania Economic Development Financing Authority. In addition to meeting the criteria to secure tax-free debt, obtaining an investment grade credit rating from Standard & Poor's allows the Company to issue tax-free debt at lower interest rates than the Company could otherwise obtain, thereby reducing the cost of debt paid by York Water's customers.

On October 9, 2019, Standard and Poor's assigned its 'A-' rating to the Company's Pennsylvania Economic Development Financing Authority $10,500,000 Exempt Facilities Revenue Refunding Bonds Series A of 2019 and the Company's Pennsylvania Economic Development Financing Authority $14,870,000 Exempt Facilities Revenue Refunding Bonds Series B of 2019. The rating on the bonds reflects the Company's credit rating without the use of credit enhancements.

The Company's overall corporate rating of 'A-' from Standard and Poor's has been reaffirmed every year since 2004.

Q. Explain Exhibit No. HVII-20.

A. Exhibit No. HVII-20 provides a listing of security issuances for the Company for the next two years.

It is important for York Water to maintain a strong financial profile so that it can raise both equity and debt capital needed to finance construction during 2022 and 2023. The Company expects to incur $100 million in construction expenditures (exclusive of acquisitions) during this two-year period. While a portion of these expenditures will be provided from internally generated funds and developer contributions, a strong financial profile is necessary to access capital markets for the remaining capital requirements at reasonable terms.

Capital is needed to meet the ongoing capital needs of providing water and wastewater service to customers in the Company's service territory.

In April 2022, the Company closed an underwritten public offering of 976,600 shares and an over-allotment of 146,340 shares. Janney Montgomery Scott LLC was the underwriter in the offering. The Company received net proceeds in the offering, after deducting offering expenses and underwriter's discounts and commissions, of approximately $43 million. No additional major equity issuances are planned in the next two years. The net proceeds were used to repay the Company's short-term debt generated in 2021.

In addition, the Company plans to continue to issue equity through its Dividend Reinvestment and Direct Stock Purchase and Sale Plan and its Employee Stock Purchase Plan. No additional major equity issuances are planned in the next two years.

In 2022, the Series D Senior Notes, which is one of the Company's long-term debt issuances, matures. The Company plans to refinance those issuances and the short-term debt expected to be generated in 2022. The amount of the borrowing is expected to be approximately $30 million. The Company expects to be able to borrow at a rate of 4%. This issuance will likely be taxable debt. The Company is also currently planning to refinance short-term debt generated in 2023 at the end of 2023. The amount of the borrowing is expected to be approximately $32.5 million. The Company expects to be able to borrow at a rate of 4.25%. This issuance will likely be taxable debt.

Q. Explain Exhibit No. HVII-27.

A. Exhibit No. HVII-27 provides the Company's capital structure target.

The Company's capital structure target is to maintain an equity ratio between 50% and 55% of capital.

The target capital structure is determined based on the Company's projected capital needs, the Company's size and the capital structures employed by other comparable investor-owned water utilities.

The Company believes that it must maintain a strong financial profile, including a strong equity ratio given its construction expenditures and external capital requirements over the next several years. The Company's relatively small size makes it more difficult and expensive to raise external capital, and a strong equity ratio offsets the increased risk to investors.

Q. Explain Exhibit No. HVII-28.

A. Exhibit No. HVII-28 shows the Company's short-term debt balance, the construction work in progress balance, and the balance of construction work in progress, which is eligible for AFUDC for the most recent twenty-four months.

Q. Explain Exhibit No. HVII-32.

A. Exhibit No. HVII-32 provides various financial ratios not provided elsewhere for the five years ended December 31, 2021.

Q. Are you sponsoring any other Exhibits relating to rate of return?

A. Yes, I am also sponsoring Exhibit Nos. HVII-4, HVII-5, HVII-8, HVII-10, HVII-12, HVII-13, HVII-14, HVII-16, HVII-18, HVII-19, HVII-21, HVII-22, HVII-23, HVII-24, HVII-25, HVII-26, HVII-29, HVII-30 and HVII-31.

Q. Explain Exhibit No. HX-1.

A. Exhibit No. HX-1 is the Company's comparative balance sheet, per books, as of December 31, 2021, and December 31, 2020. Page 2 of Exhibit HX-1 reflects the assets of the Company net of depreciation reserve and reserve for uncollectible accounts in the amount of $447,207,947 as of December 31, 2021, and $407,984,877 as of December 31, 2020. Page 3 of Exhibit No. HX-1 reflects the liabilities and total capitalization of the Company in the amount of $$447,207,947 as of December 31, 2021, and $407,984,877 as of December 31, 2020.

Q. Explain Exhibit No. HX-2.

A. Exhibit No. HX-2 sets forth the major items of Other Physical Property, Investment in Affiliated Companies and Other Investments as of December 31, 2021. Exhibit No. HX-2 reflects the Other Physical Property of the Company as of December 31, 2021, in the amount of $1,199,858 and other investments as of December 31, 2021, in the amount of $59,724. Other investments of $59,724 represent shares of stock of Columbia Water Company purchased by York Water. The Company has no affiliates.

Q. Explain Exhibit No. HX-3.

A. Exhibit No. HX-3 sets forth the amount and a description of Special Cash Deposits held by the Company as of December 31, 2021. As of December 31, 2021, the Company has deposited in an interest-bearing statement savings account funds of its employees in the amount of $43,602. These funds of the Company's employees in the amount of $43,602 are offset by a credit amount, reflected in Account 23100211, Employee Benefits Withheld-ESPP and can be used only for purchase of the Company's common stock on behalf of employees in accordance with the Company's Employee Stock Purchase Plan.

As of December 31, 2021, the Company has deposited $500 with York Township to be used to indemnify the Township against any loss or damage caused by the Company while working in the Township's streets.

Q. Explain Exhibit No. HX-4.

A. Exhibit No. HX-4 details and describes Notes Receivable, Accounts Receivable from Associated Companies and Other Accounts Receivable as of December 31, 2021. Page 1 of Exhibit No. HX-4 details Notes Receivable as of December 31, 2021, in the amount of $255,481, comprised of a note receivable from a water district. A general description of the water district procedure can be found in the Commission's Order in York Water's 1992 rate case (77 Pa. P.U.C. 367).

York Water had no accounts receivable from associated companies as of December 31, 2021.

York Water classifies other significant receivables, other than customer accounts, in Account 142, Other Accounts Receivable. A detail of Other Accounts Receivable as of December 31, 2021, in the amount of $449,617 is shown on page 2 of Exhibit No. HX-4.

A component of Other Accounts Receivable as of December 31, 2021, shown on page 2 of Exhibit No. HX-4 is The York Water Company Employees' Stock Purchase Plan in the amount of $43,602.

York Water has an Employee Stock Purchase Plan program. Stock purchases are paid entirely by employees through employee payroll deductions. Stock purchases are made on a quarterly basis. Pending the actual stock purchases, the employee payroll deductions are deposited in a segregated bank account and are credited on the Company's books as Employee Benefits Withheld-ESPP (See Exhibit No. HX-3). As an offsetting entry, the Company debits, to Other Accounts Receivable, an amount that matches the payroll deductions. Interest earned on the payroll deductions also is credited to the employees. When stock purchases are made, the purchase price of the stock is credited to Other Accounts Receivable and is debited to Amounts Withheld from Employees.

Q. Explain Exhibit No. HX-5.

A. York Water uses the reserve method of recording uncollectible accounts for book purposes. Exhibit No. HX-5 provides the amount of accumulated reserve for uncollectible accounts as of December 31, 2021, 2020 and 2019. Exhibit No. HX-5 also provides the annual accruals, amounts of accounts written off and recoveries of amounts previously written off for the twelve months ended December 31, 2021, 2020, and 2019.

Exhibit Nos. HIII-2-2 and HIII-2-38 present the Company's uncollectible accounts expense for ratemaking purposes.

Q. Explain Exhibit No. HX-6.

A. Exhibit No. HX-6 provides a list of prepayments as of December 31, 2021, in the amount of $1,073,706.

Q. Explain Exhibit No. HX-8.

A. Exhibit No. HX-8 details and describes Other Deferred Assets as of December 31, 2021. As of December 31, 2021, the Company reflected on its balance sheet Unamortized Debt Expense in the amount of $2,868,405. This account includes the unamortized portion of debt expense as of December 31, 2021, associated with the issuance of long-term debt. The debt expense is amortized over the respective terms of long-term debt by crediting this account and debiting Account 428, Amortization of Debt Expense.

As of December 31, 2021, the Company reflected on its balance sheet Deferred Rate Case Expense in the amount of $17,326. The normalization of rate case expenses for book purposes will be credited to this account and charged to Account No. 66680000, Rate Case Expenses. I note that the Company's claim for rate case expense is based upon a normalization of estimated expenses.

As of December 31, 2021, the Company reflected on its balance sheet Cash Value of Deferred Compensation Plans in the amount of $4,089,744. The Company has a supplemental retirement plan for eight key employees of the Company, consisting of the

President and Chief Executive Officer, Chief Operating Officer, Chief Administrative Officer and General Counsel, Vice-President-Customer Service, Chief Financial Officer, Vice President-Human Resources, Vice President-Engineering, Vice President-Technology and six retired former key employees. The plan is funded through life insurance policies. The Company has a deferred savings plan for twenty-five of its management and supervisory employees and eight retired former management employees. The plan is also funded through life insurance policies. The deferred debit related to both plans' benefits represents the current cash surrender value of the life insurance policies that have been purchased to reimburse the Company for the costs of the plans. The Company also reflects on its books of account as a deferred credit the current accrued amount of the Company's future liability with respect to the deferred compensation benefits.

The expenses and income associated with the Company's supplemental retirement and deferred savings plans have been eliminated from this rate case in accordance with the settlement approved by the Commission in the Company's 2001 base rate case at Docket No. R-00016236 with the exception of expenses from the deferred savings plan for employees not in the defined benefit pension plan.

As of December 31, 2021, the Company reflected on its balance sheet deferred preliminary survey costs in the amount of $137,144. This account includes expenditures for preliminary surveys, plans and investigations made for the purpose of determining the feasibility of projects under consideration. These expenditures are not included in the Company's rate base or in the cost of service in this case.

York Water does not have deferred asset accounts for temporary facilities, research and development and property losses, and therefore, there is no amortization with regard to such items, which would affect operating results.

Q. Explain Exhibit No. HX-10.

A. Exhibit No. HX-10 details and describes Other Deferred Credits as of December 31, 2021. As of December 31, 2021, the Company reflected on its corporate books deferred interest rate swap in the amount of $2,085,680. The Company utilizes an interest rate swap agreement to convert its variable rate debt to a fixed rate (a cash flow hedge). As of December 31, 2021, the Company recorded an unrealized loss on the interest rate swap. The interest rate swap agreement will expire on October 1, 2029.

Q. Explain Exhibit No. HX-12.

A. Page 2 of Exhibit No. HX-12 provides an analysis of Retained Earnings for the twelve months ended December 31, 2021, 2020, 2019, and 2018.

Q. Are you sponsoring any other exhibits regarding the Company's balance sheet?

A. Yes, I am also sponsoring Exhibit Nos. H (c)-2, HX-7, HX-9, HX-11, and HX-13.

Q. Are you sponsoring any other exhibits?

A. Yes, I am also sponsoring Exhibit Nos. H (a)-1, H (a)-6, H (a)-9, H (a)-10, H (a)-11, HVIII-1, HVIII-2, HXI-1, HXI-2, HX1-3, and HXI-4.

Q. Does this conclude your historic test year direct testimony at this time?

A. Yes.

YORK WATER STATEMENT NO. 4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF DANIEL E. COPPERSMITH JR.

Q. State your name and business address.

A. Daniel E. Coppersmith Jr. My business address is: 130 East Market Street, York, Pennsylvania.

Q. By whom are you employed?

A. I am employed by The York Water Company ("York Water" or the "Company").

Q. State your present position with the Company and explain your duties and responsibilities.

A. I am the Finance Manager for the Company. My duties and responsibilities include preparing the operating budget, managing the Property Records Department, and filing data requirements with the Pennsylvania Public Utility Commission ("Commission").

Q. How long have you been employed by the Company?

A. I have been employed by the Company since June 19, 2007.

Q. What is your educational background?

A. I have a Bachelor's of Science Degree in Accounting from Central Penn College.

Q. Have you previously testified before a regulatory commission?

A. Yes, I have presented testimony to the Commission in the Company's last rate case.

Q. Will you list the exhibits you are sponsoring in this proceeding?

A. I am sponsoring the following water operations exhibits prepared by me or under my direction and supervision:

Exhibit No. H (c)-3 relating to utility plant;

Exhibit No. HI-2-1 relating to depreciation expense included in the statement of operations for the water division; and

Exhibit Nos. H (c)-1, HV-1, HV-1-2, HV-1-3, HV-1-4, HV-1-5, HV-1-6, HV-1-7, HV-1-8, HV-1-9, HV-2, HV-3, HV-4, HV-5, HV-6, HV-7, HV-8, HV-8-1, HV-8-2, HV-8-3, HV-8-4, HV-9, HV-11, HV-13, HV-14, HV-15, HV-16, HV-16-1, and HV-16-2 relating to the original cost measure of value for the water division.

Q. Explain Exhibit No. H(c)-3.

A. Exhibit No. H(c)-3 provides a summary, by detailed plant account, of the book value of utility property as of December 31, 2021.

Q. Explain Exhibit No. HI-2-1.

A. Exhibit No. HI-2-1 adjusts the water depreciation accrual from the level reflected on the corporate books for the twelve months ended December 31, 2021, to the level determined in the depreciation study identified as Exhibit No. HVI. The adjustment in the amount of $1,387,135 is determined by subtracting the booked depreciation accrual for the twelve months ended December 31, 2021, in the amount of $8,665,148 from the pro forma annual depreciation accrual in the amount of $10,052,283. The adjustment in the amount of $1,387,135 has been carried forward to Exhibit No. HI-2, Column 2.

Q. Who will testify with respect to the pro forma depreciation expense for the twelve-month period ended December 31, 2021?

A. John J. Spanos, President, Depreciation and Valuation Studies, Gannett Fleming Valuation and Rate Consultants, Inc. will testify with respect to the annual water depreciation accrual.

Q. Are you sponsoring any other exhibits regarding the Company's water statement of operations?

A. No.

Q. Explain Exhibit No. HV-1.

A. Exhibit No. HV-1 provides a summary of the components of the water original cost measure of value in the amount of $260,841,584 as of December 31, 2021, net operating income available and rate of return under existing rates for the twelve months ended

December 31, 2021, net operating income and rate of return under existing rates after adjustments for ratemaking purposes ("pro forma") for the twelve months ended December 31, 2021, and net operating income and rate of return under proposed rates for the twelve months ended December 31, 2021.

A summary of the components of the original cost measure of value in the amount of $260,841,584 as of December 31, 2021, is shown on page 2 of Exhibit No. HV-1.

One component is the utility plant in service less book accrued depreciation as of December 31, 2021. The original cost of utility plant in service per books as of December 31, 2021, is $428,223,812 and the accrued depreciation as of December 31, 2021, is $95,636,498. The depreciated original cost of utility plant in service as of December 31, 2021, is $332,587,314 ($428,223,812 - $95,636,498 = $332,587,314). The details of original cost of utility plant in service and accrued depreciation by account, sub account and vintage are set forth in Exhibit No. HVI.

Q. Who will testify with respect to accrued depreciation in the amount of $95,636,498 as of December 31, 2021, related to utility plant in service?

A. John J. Spanos will testify with respect to water accrued depreciation (see York Water Statement No. 106).

Q. Will you continue with your explanation of Page 2 of Exhibit No. HV-1?

A. The unamortized balance, as of December 31, 2021, of deferred Federal income taxes related to water accelerated depreciation in the amount of $23,651,956 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. HV-1-1, which is explained in Mr. Poff's testimony (see York Water Statement No. 3).

The unamortized balance, as of December 31, 2021, of excess deferred Federal income taxes related to accelerated depreciation in the amount of $13,625,482 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. HV-1-1, which is explained in Mr. Poff's testimony (York Water Statement No. 3).

An amount of $33,658,658 representing contributions in aid of construction less accrued depreciation as of December 31, 2021, is deducted from the original cost measure of value. This amount consists of the original cost of contributions in aid of construction per books as of December 31, 2021, in the amount of $40,739,680 less accrued depreciation as of December 31, 2021, in the amount of $7,081,022 ($40,739,680 - $7,081,022 = $33,658,658). The details are shown by account, sub account and vintage in Exhibit No. HVI.

An amount of $4,714,578 for customers' advances for construction less accrued depreciation as of December 31, 2021, is deducted from the original cost measure of value. This component consists of the original cost of customers' advances for construction per books as of December 31, 2021, in the amount of $8,777,990 less accrued depreciation as of December 31, 2021, in the amount of $4,063,412 ($8,777,990 - $4,063,412 = $4,714,578). The details are shown by account, sub account, and vintage in Exhibit No. HVI.

Q. Who will testify with respect to the accrued depreciation related to contributions and advances?

A. John J. Spanos will testify with respect to accrued depreciation (see York Water Statement No. 106).

Q. Do the amounts set forth in Exhibit No. HV-1 for Contributions and Advances reflect any amounts related to income tax liabilities that the Company has incurred between January 1, 1987, and June 12, 1996, as a result of the TRA-86 requirement that Contributions and Advances be taxed or has incurred between January 1, 2018, and December 31, 2020, as a result of the Tax Cuts and Jobs Act of 2017 requirement that Contributions and Advances be taxed?

A. No. Consistent with the Company's ratemaking and accounting procedure in effect at the time with regard to the income taxes on Contributions and Advances, the Company has made no adjustment to amounts recorded between January 1, 1987, and June 12, 1996, or between January 1, 2018, and December 31, 2020, for Contributions or Advances to reflect additional income taxes that were required to be paid with respect to receipt of such Contributions or Advances as a result of Section 824 of TRA-86 or the Tax Cuts and Jobs Act of 2017. Contributions and Advances received between January 1, 1987, and June 12, 1996, and between January 1, 2018, and December 31, 2020, are reflected in the utility plant accounts and in the accounts for Contributions and Advances, as shown in Exhibit No. HVI at the original cost of the facilities constructed with the Contribution or Advance, without consideration of the associated income tax liability incurred by the Company. Under federal tax law provisions in effect at the time, contributions and advances received subsequent to June 12, 1996, through December 31, 2017, were not taxed. Under federal tax law provisions currently in effect, contributions and advances received subsequent to December 31, 2020, are not taxed.

Q. Will you continue with your explanation of Exhibit No. HV-1?

A. Funds supplied through Customer Advances in the amount of $1,475,804 are deducted from the original cost measure of value, and this amount is set forth in Exhibit No. HV-1-2, which I will explain later.

Materials and supplies in the amount of $1,278,155 are included in the original cost measure of value, and the details are set forth in Exhibit No. HV-11, which I will explain later.

An allowance for cash working capital in the amount of $2,678,411 is included in the original cost measure of value. The details are shown in Exhibit Nos. HV-8, HV-8-1, HV-8-1 (a), HV-8-1 (b), HV-8-1 (c), HV-8-1 (d), HV-8-1 (e), HV-8-1 (f), HV-8-1 (g), HV-8-1 (g) 1, HV-8-1 (g) 2, HV-8-2, HV-8-3, and HV-8-4, which Mr. Poff and I will explain later.

Unamortized utility plant adjustments for Margaretta Mobile Home Park, Section A Water Corporation, York Starview LP, Westwood Mobile Home Park, Lincoln Estates Mobile Home Park, The Meadows, and Wrightsville Borough Municipal Authority in the amount of ($101,433) ($39,781 + $6,946 + $7,179 + ($54,090) + ($55,316) + ($113,820) + $67,886) are included in the original cost measure of value. The details are set forth in Exhibit Nos. HV-1-3, HV-1-4, HV-1-5, HV-1-6, HV-1-7, HV-1-8, and HV-1-9.

Taxes on deposits for construction and customer advances in the amount of $1,525,613 are included in the original in the original cost measure of value. The details are set forth in Exhibit No. HV-1-10, which Mr. Poff will explain in his testimony (see York Water Statement No. 3).

Column 1 of page 3 of Exhibit No. HV-1 shows net operating income available for return under existing rates for the twelve months ended December 31, 2021, in the amount of $21,522,940 and the rate of return on the original cost measure of value as of December 31, 2021, of 8.25%. Column 3 of page 3 of Exhibit No. HV-1 shows the adjustments to net operating income in the amount of ($1,966,035). These water operation adjustments have been detailed in other exhibits, to which Mr. Poff and Mr. Winter are testifying (see York Water Statement Nos. 3 and 5, respectively). Column 4 of page 3 of Exhibit No. HV-1 shows pro forma net operating income available for return under existing rates for twelve months ended December 31, 2021, in the amount of $19,556,905 and the rate of return on the original cost of measure of value as of December 31, 2021, of 7.50%. Adjustments to pro forma net operating income for the twelve months ended December 31, 2021, related to the effect of proposed rates in the amount of $1,129,778 are shown in Column 6 of page 3 of Exhibit No. HV-1. These adjustments have been detailed in other exhibits, to which Mr. Poff and Mr. Winter are testifying (see York Water Statement Nos. 3 and 5, respectively). Column 7 of page 3 of Exhibit No. HV-1 shows pro forma net operating income available for return for the twelve months ended December 31, 2021, in the amount of $20,686,683 and the rate of return on the original cost measure of value as of December 31, 2021, of 7.93%.

Q. Explain Exhibit No. HV-1-2.

A. Exhibit No. HV-1-2 shows the thirteen-month average of customers' advances received from developers that have not been spent on construction projects as of December 31, 2021. The Company's normal procedure with respect to revenue-producing projects is to estimate the cost of the project and to require the developer to deposit the estimated cost prior to construction. Construction generally is completed within a period of several months, after which any advance in excess of construction costs is refunded. If construction costs exceed the original estimate, the developer must advance additional costs to make up the difference. The thirteen-month average of customer advances received from developers with respect to revenue-producing projects remaining under construction as of December 31, 2021, in the amount of $3,365,966 is shown in Column 2 of Exhibit No. HV-1-2. The thirteen-month average of advance dollars that have been spent as of December 31, 2021, in the amount of $1,890,162 are shown in Column 3 of Exhibit No. HV-1-2. The thirteen-month average of customers' advances remaining to be spent as of December 31, 2021, in the amount of $1,475,804 ($3,365,966 - $1,890,162) is shown in Column 4 of Exhibit No. HV-1-2. The customers' advances remaining to be spent as of December 31, 2021, of $1,475,804 has been carried forward to Exhibit No. HV-1, page 2 and has been deducted from the original cost measure of value.

Q. Explain Exhibit No. HV-1-3.

A. Exhibit No. HV-1-3 provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of Margaretta Mobile Home Park as of December 31, 2021, in the amount of $39,781 included in the original cost measure of value.

Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code.

The unamortized acquisition adjustment of $39,781 is determined by subtracting the depreciated original cost of waterworks property acquired from Margaretta Mobile Home Park in the amount of $46,159 and the amortization from March 1, 2019, the effective date of rates under the Order issued in the Company's 2018 base rate proceeding (Docket No. R-2018-3000019), to December 31, 2021, in the amount of $15,728 from the Margaretta Mobile Home Park acquisition costs of $101,667 ($101,667 - $46,159 - $15,728 = $39,781).

Q. Explain Exhibit No. HV-1-4.

A. Exhibit No. HV-1-4 provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of Section A Water Corporation as of December 31, 2021, in the amount of $6,946 included in the original cost measure of value.

Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code.

The acquisition adjustment subject to amortization of $34,728 is determined by subtracting the depreciated original cost of waterworks property acquired from the

Section A Water Corporation in the amount of $135,997 from the Section A Water Corporation waterworks acquisition costs of $170,725 ($170,725 - $135,997 = $34,728). The unamortized Section A Water Corporation acquisition adjustment as of December 31, 2021, of $6,946 is determined by subtracting the amortization during the period January 1, 2014, the effective date of rates under the Order issued in the Company's 2013 base rate proceeding (Docket No. R-2012-2336379), through December 31, 2021, of $27,782 from the acquisition adjustment subject to amortization of $34,728 ($34,728 - $27,782 = $6,946).

Q. Explain Exhibit No. HV-1-5.

A. Exhibit No. HV-1-5 provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of York Starview LP as of December 31, 2021, in the amount of $7,179 included in the original cost measure of value.

Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code.

The acquisition adjustment subject to amortization of $35,897 is determined by subtracting the depreciated original cost of waterworks property acquired from York Starview LP in the amount of $94,540 from York Starview LP waterworks acquisition costs of $130,437 ($130,437 - $94,540 = $35,897). The unamortized York Starview LP acquisition adjustment as of December 31, 2021, of $7,179 is determined by subtracting the amortization during the period January 1, 2014, the effective date of rates under the

Order issued in the Company's 2013 base rate proceeding (Docket No. R-2012-2336379), through December 31, 2021, of $28,718 from the acquisition adjustment subject to amortization of $35,897 ($35,897 - $28,718 = $7,179).

Q. Explain Exhibit No. HV-1-6.

A. Exhibit No. HV-1-6 provides the calculation of the unamortized negative utility plant acquisition adjustment relative to the acquisition of Westwood Mobile Home Park as of December 31, 2021, in the amount of $(54,090) deducted from the original cost measure of value.

The negative acquisition adjustment subject to amortization of $(75,474) is determined by subtracting the depreciated original cost of waterworks property acquired from Westwood Mobile Home Park in the amount of $96,795 from the Westwood Mobile Home Park acquisition costs of $21,321 [$21,321 - $96,795 = ($75,474)]. The unamortized Westwood Mobile Home Park negative acquisition adjustment as of December 31, 2021, of ($54,090) is determined by subtracting the amortization during the period March 1, 2019, the effective date of rates under the Order issued in the Company's 2018 base rate proceeding (Docket No. R-2018-3000019), through December 31, 2021, of ($21,384) from the negative acquisition adjustment subject to amortization of $(75,474) [$(75,474) – $21,384 = ($54,090)].

Q. Explain Exhibit No. HV-1-7.

A. Exhibit No. HV-1-7 provides the calculation of the unamortized negative utility plant acquisition adjustment relative to the acquisition of Lincoln Estates Mobile Home Park as of December 31, 2021, in the amount of $(55,316) deducted from the original cost measure of value.

The negative acquisition adjustment subject to amortization of $(77,185) is determined by subtracting the depreciated original cost of waterworks property acquired from Lincoln Estates Mobile Home Park in the amount of $146,957 from the Lincoln Estates Mobile Home Park acquisition costs of $69,772 [$69,772 - $146,957 = $(77,185)]. The unamortized Lincoln Estates Mobile Home Park negative acquisition adjustment as of December 31, 2021, of $(55,316) is determined by subtracting the amortization during the period March 1, 2019, the effective date of rates under the Order issued in the Company's 2018 base rate proceeding (Docket No. R-2018-3000019), through December 31, 2021, of $(21,869) from the negative acquisition adjustment subject to amortization of $(77,185) [($77,185) – $21,869 = $(55,316)].

Q. Explain Exhibit No. HV-1-8.

A. Exhibit No. HV-1-8 provides the calculation of the unamortized negative utility plant acquisition adjustment relative to the acquisition of The Meadows as of December 31, 2021, in the amount of $(113,820) deducted from the original cost measure of value.

The negative acquisition adjustment subject to amortization of $(158,818) is determined by subtracting the depreciated original cost of waterworks property acquired from The Meadows in the amount of $221,778 from The Meadows acquisition costs of $62,960 [$62,960 - $221,778 = $(158,818)]. The unamortized The Meadows negative acquisition adjustment as of December 31, 2021, of $(113,820) is determined by subtracting the amortization during the period March 1, 2019, the effective date of rates under the Order issued in the Company's 2018 base rate proceeding (Docket No. R-2018-3000019), through December 31, 2021, of $(44,998) from the negative acquisition adjustment subject to amortization of $(158,818) [$(158,818) – $44,998 = $(113,820)].

Q. Explain Exhibit No. HV-1-9.

A. Exhibit No. HV-1-9 provides the calculation of the acquisition adjustment subject to amortization relative to the acquisition of Wrightsville Borough Municipal Authority as of December 31, 2021, in the amount of $67,886 included in the original cost measure of value.

Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. Please see the testimony of Mr. Hand (York Water Statement No. 1) for details on this acquisition.

The acquisition adjustment subject to amortization of $67,886 is determined by subtracting the depreciated original cost of waterworks property acquired from Wrightsville Borough Municipal Authority in the amount of $45,227 from Wrightsville Borough Municipal Authority acquisition costs of $113,113 ($113,113 - $45,227 = $67,886).

The Company is proposing amortization over a ten-year period in Exhibit No. HIII-2-22.

Q. Explain Exhibit No. HV-8.

A. Exhibit No. HV-8 is the calculation of the cash working capital requirement in the amount of $2,678,411 to be included in the original cost measure of value. The cash working capital requirement consists of various amounts that are listed on Exhibit No. HV-8. The first amount on Exhibit No. HV-8 is $3,208,430 that is the cash working capital allowance calculated using the lead-lag methodology. The total of pro forma operating expenses including taxes, less uncollectible accounts and amortized expenses in the amount of $22,822,791 is divided by the number of days in the pro forma test year, 365 ($22,822,791 ÷ 365) to derive the average daily operating expense, including taxes, in the amount of $62,528 and this amount is then multiplied by the net lag relationship between the receipt of operating revenues and the payment of operating expenses and taxes of 51.3 days to arrive at the cash working capital requirement in the amount of $3,208,430 ($62,528 x 51.3). The calculation of the net lag of 51.3 days is shown on Exhibit No. HV-8-1, which will be explained later.

The second amount shown on Exhibit No. HV-8 is $109,505 and is for prepayment of the Commission, Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA"), and Damage Prevention Committee ("DPC") assessments. This represents a thirteen-month average of monthly prepayment balances of the Commission, OCA, OSBA, and DPC assessments reflected on the Company's balance sheet for the thirteen months ended December 31, 2021. Prepaid Commission, OCA OSBA, and DPC assessments have been excluded from the Company's lead-lag study. The calculation of the thirteen-month average prepayment balance is presented on Exhibit No. HV-8-4, which I will explain later.

The third amount shown on Exhibit No. HV-8 is $(263,818) that is a deduction with respect to builders' deposits and water revenues paid by customers in advance. This represents a thirteen-month average of builders' deposits and water revenues paid in advance. The calculation of the thirteen-month average is shown on Exhibit No. HV-8-2, which I will explain later.

The fourth amount is $(375,705) that is a deduction with respect to interest payments. The calculation of the deduction with respect to interest payments is shown on Exhibit No. HV-8-3, which I will explain later.

The total cash working capital requirement in the amount of $2,678,411, is carried forward to Exhibit No. HV-1 and is included in the Company's original cost measure of value.

Q. Explain Exhibit No. HV-8-1.

A. Exhibit No. HV-8-1 is the calculation of the net lag relationship of 51.3 days between the receipt of operating revenues and the payment of operating expenses including taxes. The 51.3-day net lag relationship, shown in Column 5, is determined by reducing the weighted average lag days in receipt of revenues of 53.4 days by the weighted average lag days in payment of expenses and taxes of 2.1 days (53.4 – 2.1 = 51.3). The weighted average lag days in receipt of operating revenues of 53.4 days is determined by multiplying pro forma sales of water under existing rates by class, shown in Column 2, by the estimated number of lag days by class, shown in Column 3, to arrive at dollar days of

2,749,544,505 shown in Column 4. The estimated number of lag days by class is calculated in Exhibit No. HV-8-1 (g), which Mr. Poff will explain in his testimony (York Water Statement No. 3). The dollar-day amount of 2,749,544,505 shown in Column 4 is divided by total pro forma revenues from sales of water at existing rates of $51,496,634 shown in Column 2 to produce 53.4 days (2,749,544,505 ÷ $51,496,634 = 53.4).

The weighted average lag days in payment of operating expenses and taxes of 2.1 days is determined by multiplying pro forma operating expenses including taxes, excluding uncollectible accounts and amortized expenses, shown in Column 2, in the amount of $22,822,791 by the estimated number of lag days in payment of expenses and taxes by class of expense and tax, shown in Column 3, to arrive at dollar days of 47,493,587, shown in Column 4. The dollar-day amount of 47,493,587, shown in Column 4, is divided by total pro forma operating expenses including taxes, excluding uncollectible accounts and amortized expenses, in the amount of $22,822,791 to produce 2.1 days (47,594,634 ÷ $22,826,199 = 2.1). The calculation of lag days for payroll expense is presented in footnotes (a) and (c) of Exhibit No. HV-8-1. The calculation of lag days for power purchased, insurance, other goods and services, and taxes is based on an analysis of invoices paid during twelve months ended December 31, 2021.

The net lag relationship of 51.3 days between the receipt of operating revenues and the payment of operating expenses including taxes has been carried forward to Exhibit No. HV-8.

Q. Explain Exhibit No. HV-8-2.

A. Exhibit No. HV-8-2 shows the calculation of the thirteen-month average of builders' deposits and water revenues paid in advance in the amount of $263,818 based upon the month-end balances of builders' deposits and water revenues paid in advance for the thirteen months ended December 31, 2021. The thirteen-month average of builders' deposits and water revenues in advance of $263,818 has been carried forward to Exhibit No. HV-8.

Q. Explain Exhibit No. HV-8-3.

A. Exhibit No. HV-8-3 presents the calculation of the payment lag for interest payments in the amount of $375,705. The amount of $375,705 is calculated by multiplying the average daily interest payments of $12,980 by the net interest payment lag of 28.9 days ($12,980 x 28.9). The average daily interest expense in the amount of $12,980 is calculated by dividing the interest payments in the amount of $4,737,816 by the number of days in the test year of 365 ($4,736,816 ÷ 365 = $12,980). The net interest payment lag of 28.9 days is determined by subtracting the weighted average lag days in receipt of operating revenues of 53.4 days from the weighted average lag days for interest payments of 82.3 days (82.3 days – 53.4 days = 28.9 days). The weighted average lag days for interest payments of 82.3 days is determined by dividing weighted interest payments of 390,097,289 shown in Column 3, by interest payments in the amount of $4,737,816, shown in Column 1 (390,097,289 ÷ $4,737,816 = 82.3). The interest available for working capital in the amount of $375,705 has been carried forward to Exhibit No. HV-8.

Q. Explain Exhibit No. HV-8-4.

A. Exhibit No. HV-8-4 shows the calculation of the thirteen-month average of prepaid Commission, OCA, OSBA, and DPC assessments of $109,505 based upon the month-end balances of prepaid Commission, OCA, OSBA, and DPC assessments for the thirteen months ended December 31, 2021. Prepaid Commission, OCA, OSBA, and DPC assessments have been excluded from the Company's lead-lag study. The thirteen-month average of prepaid Commission, OCA, OSBA, and DPC assessments of $109,505 has been carried forward to Exhibit No. HV-8.

Q. Explain Exhibit No. HV-11.

A. Exhibit No. HV-11 describes the Company's materials and supplies methodology. In addition, this Exhibit shows the calculation of the thirteen-month average, in the amount of $1,278,155, of materials and supplies based upon month-end balances for the thirteen months ended December 31, 2021. I note that under the Company's accounting procedure, amounts are included in the materials and supplies balance upon receipt of the materials and supplies. The total for the thirteen-month period is $16,616,018, and this amount is divided by 13 to arrive at the thirteen-month average of the materials and supplies balance in the amount of $1,278,155 ($16,616,018 ÷ 13). The thirteen-month average in the amount of $1,278,155 has been carried forward to Exhibit No. HV-1, page 2 and has been added to the original cost measure of value.

Q. Are you sponsoring any other exhibits regarding the original cost measure of value?

A. Yes, I am also sponsoring Exhibit Nos. H (c)-1, HV-2, HV-3, HV-4, HV-5, HV-6, HV-7, HV-9, HV-13, HV-14, HV-15, HV-16, HV-16-1, and HV-16-2.

Q. Does this conclude your historic test year direct testimony at this time?

A. Yes.

YORK WATER STATEMENT NO. 5

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF MICHAEL C. WINTER

Q. State your name and business address.

A. Michael C. Winter. My business address is: 130 East Market Street, York, Pennsylvania.

Q. By whom are you employed?

A. I am employed by The York Water Company ("York Water" or the "Company").

Q. State your present position with the Company and explain your duties and responsibilities.

A. I am Controller of the Company. My duties and responsibilities include managing the financial operations of the Company and overseeing the accounting department in order to meet the requirements of regulatory agencies.

Q. How long have you been employed by the Company?

A. I have been employed by the Company since May 22, 2017.

Q. What is your educational background?

A. I have a Bachelors Degree from the Pennsylvania State University, York, Pennsylvania and a Master's Degree in Business Administration from Strayer University, Owings Mills, Maryland.

Q. Are you a certified public accountant?

A. Yes, I am a certified public accountant licensed by the Commonwealth of Pennsylvania.

Q. What has been your other business experience?

A. From June 2014 to September 2016, I served as the Director of Operations for Simon Lever LLP, an accounting firm based in Lancaster, Pennsylvania. In that capacity, I managed the operations of the accounting firm including, financial operations, administration, human resources, marketing, and information technology. From July 2007 to June 2014, I worked at T. Rowe Price in Owings Mills, Maryland. I worked in several positions of increasing authority and my final position was Assistant Vice President. My responsibilities included overseeing various accounting and financial reporting duties for T. Rowe Price's Retirement Plan Services division.

Q. Have you previously testified before a regulatory commission?

A. No, this is the first time I have presented testimony to the Pennsylvania Public Utility Commission ("Commission").

Q. Will you list the exhibits you are sponsoring in this proceeding?

A. I am sponsoring the following exhibits prepared by me or under my direction and supervision:

Exhibit Nos. HIV-2, HIV-12, HIV-15, HIV-15-1, HIV-15-2, HIV-15-3, HIV-15-4, and HIV-15-5 related to operating taxes other than income taxes for the water division; and

Exhibit Nos. HIV-1, HIV-3, HIV-4, HIV-5, HIV-6, HIV-7, HIV-8, HIV-9, HIV-10, HIV-11, HIV-13, HIV-14, HIV-16, HIV-17, HIV-17-1, HIV-17-2, HIV-17-3, HIV-17-3 (a), HIV-17-4, HIV-17-5, and HIV-18 relating to operating income taxes for the water division.

Q. Explain Exhibit No. HIV-1.

A. Exhibit No. HIV-1 provides a copy of the Company's latest Pennsylvania corporate tax report (calendar year 2020). A Pennsylvania corporate tax settlement is not included as the Department of Revenue no longer sends tax settlements.

Q. Explain Exhibit No. HIV-5.

A. Exhibit No. HIV-5 provides a schedule of deferred water operations investment tax credits as of December 31, 2021. In 1972, the Company timely elected the special rule for ratable flow-through of investment tax credits under former Section 46(f)(2) (at that time, Section 46(e)(2)) of the Internal Revenue Code which requires that the Federal investment tax credits be flowed through to ratepayers as a reduction to federal income taxes ratably over the depreciable life of the property. The Company adopted a fifty-year amortization period for Federal investment tax credits to meet the requirements of former

Section 46(f)(2) of the Internal Revenue Code. The Company's books reflect the annual amortization for the test year. Because the Company timely elected in 1972 the special rule for ratable flow-through of Federal investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of the Internal Revenue Code, the only reduction that may be made to the Company's cost of service, with respect to Federal investment tax credits generated in calendar year 1972 and thereafter, is to amortize the Federal investment tax credits ratably over the life of the property. Under the special rule for ratable flow-through, the rate base of the utility cannot be reduced by any portion of deferred Federal investment tax credits.

Q. Explain Exhibit No. HIV-6.

A. Exhibit No. HIV-6 provides a schedule of the adjustments to water taxable net income per books for the twelve months ended December 31, 2021. Adjustments to taxable net income per books for the twelve months ended December 31, 2021, are classified as Expenses Recorded on Books Not Deducted on Return, Income on Books Not Included on Return, and Deductions Not Charged against Booked Income. Tax adjustments classified as expenses recorded on books not deducted on return include: (1) depreciation on the books in excess of tax depreciation in the amount of $990,122; (2) nondeductible lobbying expenses in the amount of $4,855 (for ratemaking purposes the Company does not include lobbying expenses in the cost of service); (3) amortization of rate case expense in the amount of $103,954 (the Company deducts rate case expense in the year incurred for tax purposes but amortizes the expense for book purposes); (4) amortization of service life study expense in the amount of $4,928 (the Company deducts service life study expense in the year incurred for tax purposes but amortizes the expense for book purposes); (5) debt expense amortization on the PEDFA Exempt Facilities Revenue Bonds, Series 2004, the PEDFA Exempt Facilities Revenue Bonds, Series 2008B, the PEDFA Exempt Facilities Revenue Bonds, Series 2004, Monthly Senior Notes, Series 2010A, YCIDA Revenue Bonds, Series 2006, and the PEDFA Exempt Facilities Revenue Refunding Bonds, Series 2014 in the amount of $107,409 (the Company deducted the debt expense in the year it was refinanced for tax purposes but amortizes the expense for book purposes); (6) postretirement benefits in the amount of $(13,001) (for ratemaking purposes the Company does not include the present value of postretirement benefits in the cost of service) (Refer to Exhibit No. HIII-2-24 for the elimination of postretirement benefits from the cost of service); (7) nondeductible vacation pay in the amount of $9,420 (for ratemaking purposes, the Company does not include accrued vacation pay in the cost of service); (8) amortization of acquisition adjustments in the amount of $(54,482) that are not deductible for income taxes (acquisition adjustments are reflected on the Company's income statement as "below the line"); (9) change in bad debt reserve in the amount of $200,000 (the Company deducts bad debt expense when it is incurred and not when it is reserved); (10) expenses relative to the Company's savings plan and supplemental retirement plan in the amount of $(77,552) (savings plan and supplemental retirement plan expenses are reflected on the Company's income statement as "below the line"); (11) stock based compensation in the amount of $17,902 (for ratemaking purposes, the Company does not include non-vested stock based compensation in the cost of service); (12) nondeductible parking expenses in the amount of $13,308 (pursuant to the Tax Cuts and Jobs Act of 2017, the cost of qualified parking expenses provided to employees are 50% deductible); (13) nondeductible business meals in the amount in the amount of $1,286 (100% of restaurant meals incurred for a business purpose are deductible under temporary rules in the Taxpayer Certainty and Disaster Tax Relief Act of 2020; other meals incurred for a business purpose are 50% deductible); and (14) a prior year state income tax adjustment in the amount of $(6,828) (included on 2021's Form 1120).

Tax adjustments classified as income on books not subject to income taxes include interest income received in the amount of $164,051, which is exempt from Federal and state income taxes, and the portion of dividends from domestic corporations (Columbia Water Company common stock) not subject to income tax of $8,801 (interest income and dividends are reflected on the Company's income statement as "below the line").

Tax adjustments classified as deductions not charged against book income include: (1) tax repair expense in the amount of $11,769,219 (the Company deducts repair items for tax purposes but capitalizes repair items for book purposes); (2) cost of customer-owned lead service line replacements in the amount of $79,621 (the Company deducts the cost of customer-owned lead service line replacements in the year incurred for tax purposes but amortizes the expense for book purposes); (3) cost of removal deducted currently in the amount of $3,090,826 (the Company deducts cost of removal for tax purposes but capitalizes cost of removal for book purposes); (4) tank painting deducted currently of $419,160 (the Company capitalizes tank painting for book purposes but deducts the costs immediately for tax purposes); and (5) changes in prepaid expenses during the current accounting period of $51,715 (the Company deducts prepaid expenses in the year incurred for tax purposes but amortizes the expense for book purposes).

Adjustments to pro forma taxable net income for ratemaking purposes for the twelve months ended December 31, 2021, are shown on Exhibit No. HIV-17-2, which I will explain later.

Q. Explain Exhibit No. HIV-12.

A. Page 2 of Exhibit No. HIV-12 provides a detail of taxes accrued per books as of December 31, 2021, as well as an explanation of the basis for the accrual of each tax. Page 3 of Exhibit HIV-12 provides a schedule of the amount of taxes accrued monthly for the twelve months ended December 31, 2021.

Q. Explain Exhibit No. HIV-14.

A. Exhibit No. HIV-14 provides a copy of the Company's corporate federal tax returns and supporting schedules for the calendar years 2020, 2019, and 2018. The 2021 corporate federal tax return is on extension and will not be filed until September or October 2022.

Q. Explain Exhibit No. HIV-15.

A. Exhibit No. HIV-15 summarizes adjustments to operating taxes other than income taxes for the twelve months ended December 31, 2021, for ratemaking purposes and to reflect additional operating taxes other than income taxes resulting from the proposed increase in operating revenues.

Operating taxes other than income taxes per books for the twelve months ended December 31, 2021, in the amount of $1,231,647 are shown in Column 1 of Exhibit No. HIV-15 page 2.

Adjustments to operating taxes other than income taxes of $47,846 are made to reflect the calculation of the pro forma level of taxes other than income taxes under existing rates for the twelve months ended December 31, 2021. Such adjustments are shown in Column 3 of Exhibit No. HIV-15 and are detailed in Exhibit Nos. HIV-15-1 through HIV-15-4, and HIII 2-6. Adjustments to operating taxes other than income taxes amounting to $10,783 are made to reflect the increased operating taxes other than income taxes that result from the increase in water operating revenues under proposed rates, and these adjustments are shown in Column 6 of Exhibit No. HIV-15 and are detailed in Exhibit No. HIV-15-5.

Q. Explain Exhibit No. HIV-15-1.

A. Exhibit No. HIV-15-1 presents an adjustment to reflect FICA payroll taxes on pro forma payroll for twelve months ended December 31, 2021, at the tax rate and wage bases effective January 1, 2022. The January 1, 2022 hospitalization insurance ("HI") component of the FICA tax of 1.45% is applied to taxable pro forma payroll of $8,605,691 (Refer to Exhibit No. HIII-2-4 (a), page 1) to determine pro forma HI component of FICA taxes of $124,783 ($8,605,691 x 0.0145 = $124,783). Total pro forma payroll in the amount of $8,605,691 is reduced by $496,231, which is that portion of pro forma payroll not subject to old age, survivors, and disability insurance component ("OASDI") of FICA tax to arrive at taxable pro forma payroll of $8,109,459 ($8,605,691 - $496,231 = $8,109,459). The January 1, 2022 OASDI component of FICA tax rate of 6.2% is applied to the taxable pro forma payroll of $8,109,459 to determine pro forma OASDI component of FICA taxes of $502,786 ($8,109,459 x 0.062). The HI component in the amount of $124,783 and the OASDI component in the amount of $502,786 FICA taxes are totaled to determine pro forma FICA taxes in the amount of $627,569 ($124,783+ $502,786 = $627,569). The adjustment to FICA taxes, in the amount of $41,321, is determined by subtracting the test year FICA taxes of $586,248 from the calculated pro forma FICA taxes of $627,569 ($627,569 - $586,248 = $41,321). The FICA adjustment, in the amount of $41,321, has been carried forward to Exhibit No. HIV-15, Column 3.

I note that a portion of pro forma FICA taxes for the twelve months ended December 31, 2021, was capitalized and is reflected, as a reduction to operating expenses, in Account 40801201, Taxes Other than Income Taxes-FICA on Exhibit No. HIII-2-6.

Q. Explain Exhibit No. HIV-15-2.

A. Exhibit No. HIV-15-2 presents an adjustment to reflect Federal unemployment tax on pro forma payroll for twelve months ended December 31, 2021, at the tax rate and wage base effective January 1, 2022. Total pro forma payroll in the amount of $8,605,691 (Refer to Exhibit No. HIII-2-4 (a), page 1) is reduced by $7,758,816, which is that portion of pro forma payroll that exceeds the 2022 taxable wage base per employee of $7,000, to arrive at taxable pro forma payroll of $846,875 ($8,605,691 - $7,758,816 = $846,875). The 2022 Federal unemployment tax rate of 0.6% is applied to the taxable pro forma payroll of $846,875 to determine pro forma Federal unemployment tax of $5,081. The adjustment to Federal unemployment tax in the amount of $(587) is determined by subtracting the test year Federal unemployment tax of $5,668 from the calculated pro forma Federal unemployment tax of $5,081 [$5,081 - $5,668 = $(587)]. The Federal unemployment tax adjustment, in the amount of $(587), has been carried forward to Exhibit No. HIV-15, Column 3.

I note that a portion of pro forma Federal unemployment tax for the twelve months ended December 31, 2021, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 40801202, Taxes Other than Income Taxes-Federal Unemployment on Exhibit No. HIII-2-6.

Q. Explain Exhibit No. HIV-15-3.

A. Exhibit No. HIV-15-3 presents an adjustment to reflect Pennsylvania unemployment tax on pro forma payroll for twelve months ended December 31, 2021, at the tax rate and wage base effective January 1, 2022. Total pro forma payroll in the amount of $8,605,691 (Refer to Exhibit No. HIII-2-4 (a), page 1) is reduced by $7,413,456, which is that portion of pro forma payroll expense that exceeds the 2022 taxable wage base per employee of $10,000, to arrive at taxable pro forma payroll of $1,192,235 ($8,605,691 - $7,413,456 = $1,192,235). The 2022 Pennsylvania unemployment tax rate of 1.2905% is applied to the taxable pro forma payroll of $1,192,235 to determine pro forma Pennsylvania unemployment tax of $15,386. The adjustment to Pennsylvania unemployment tax in the amount of $(8,812) is determined by subtracting the test year Pennsylvania unemployment tax of $24,198 from the calculated pro forma Pennsylvania unemployment tax of $15,386 [$15,386 - $24,198 = $(8,812)]. The Pennsylvania unemployment tax adjustment, in the amount of $(8,812), has been carried forward to Exhibit No. HIV-15, Column 3.

I note that a portion of pro forma Pennsylvania unemployment tax for the twelve months ended December 31, 2021, was capitalized and is reflected as a reduction to operating expenses in Account No. 40801203, Taxes Other than Income Taxes-State Unemployment on Exhibit No. HIII-2-6.

Q. Explain Exhibit No. HIV-15-4.

A. Exhibit No. HIV-15-4 presents an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment based on pro forma operating revenues under existing rates for twelve months ended December 31, 2021, and the 2021-2022 assessment factors. The currently-effective combined 2021-2022 assessment rate of 0.671560% for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment is applied to pro forma operating revenues at existing rates for combined assessment purposes for the twelve months ended December 31, 2021, in the amount of $50,209,281. The pro forma operating revenues at existing rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-11 and Exhibit No. FII-12 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at existing rates on Exhibit No. HII-2, Page 2, Column 3. Sales for resale customers and priced out bulk truck sales are not included in the combined assessment calculation. The currently-effective combined 2021-2022 assessment rate of 0.671560% is applied to the pro forma operating revenues at existing rates for combined assessment purposes for the twelve months ended December 31, 2021, in the amount of $50,209,281 to determine the pro forma combined assessment under existing rates for twelve months ended December 31, 2021, in the amount of $337,186 ($50,209,281 x 0.671560%). The adjustment in the amount of $16,717 is determined by subtracting the test year assessments of $320,469 from the calculated pro forma amount of $337,186 [$337,186 - $320,469 = $16,717]. The adjustment in the amount of $16,717 has been carried forward to Exhibit No. HIV-15, Page 2, Column 3.

Q. Explain Exhibit No. HIV-15-5.

A. Exhibit No. HIV-15-5 presents an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment based on pro forma operating revenues at proposed rates. The currently effective combined 2021-2022 assessment rate of 0.671560% for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment is applied to pro forma operating revenues under proposed rates in the amount of $51,814,984. The pro forma operating revenues at existing rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-11 and Exhibit No. FII-12 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at proposed rates on Exhibit No. HII-2, Page 2, Column 6. Sales for resale customers and priced out bulk truck sales are not included in the combined assessment calculation. The currently effective combined 2021-2022 assessment rate of 0.671560% is applied to the pro forma operating revenues at proposed rates for combined assessment purposes for the twelve months ended December 31, 2021, in the amount of $51,814,984 to determine the pro forma combined assessment under existing rates for twelve months ended December 31, 2021, in the amount of $347,969 ($51,815,024 x 0.00671560). The adjustment in the amount of $10,783 is determined by subtracting the calculated pro forma expense for the combined assessment under existing rates in the amount of $337,186 (Refer to Exhibit No. HIV-15-4) from the calculated pro forma expense under proposed rates in the amount of $347,969 [$347,969 - $337,186 = $10,783]. The adjustment in the amount of $10,783 has been carried forward to Exhibit No. HIV-15, Column 3.

Q. Explain Exhibit No. HIV-17.

A. Exhibit No. HIV-17 summarizes adjustments to water operating income taxes for the twelve months ended December 31, 2021, for ratemaking purposes and to reflect additional operating income taxes resulting from the proposed increase in operating revenues.

Operating income taxes per books for the twelve months ended December 31, 2021, in the amount of $1,438,629 are shown in Column 1 of Exhibit No. HIV-17. Pro forma adjustments to operating income taxes of $(723,771) are shown in Column 3 of Exhibit No. HIV-17 and are detailed in Exhibit Nos. HIV-17-1 through HIV-17-4. Adjustments to operating income taxes amounting to $459,044 are made to reflect the increased operating income taxes that result from the increase in operating revenues under proposed rates, and these adjustments are shown in Column 6 of Exhibit No. HIV-17 and are detailed in Exhibit No. HIV-17-5.

Q. Explain Exhibit No. HIV-17-1.

A. Exhibit No. HIV-17-1 presents an annualized amortization of Federal investment tax credits for the twelve months ended December 31, 2021. The Tax Reform Act of 1986 repealed the investment tax credit provisions effective December 31, 1985. The investment tax credits for 1986 through 2021 are claimed under the transitional property provisions of TRA-86.

Federal investment tax credits as of December 31, 2021, generated during the period 1972 through 2021 are shown on Column 2 of Exhibit No. HIV-17-1. The Company adopted a fifty-year amortization period for Federal investment tax credits to meet the requirements of former Section 46(f)(a) of the Internal Revenue Code. The pro forma annual amortization of Federal investment tax credits in the amount of $(39,242) shown in Column 4 of Exhibit No. HIV-17-1 is determined by dividing the Federal investment tax credits generated, shown in Column 2, by the fifty-year amortization period shown in Column 3.

In 1972, the Company timely elected the special rule for ratable flow-through of investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of the Internal Revenue Code, which requires that Federal investment tax credits be flowed through to ratepayers as a reduction to Federal income taxes ratably over the depreciable life of the property. The Company's books reflect the annual amortization for the twelve months ended December 31, 2021. An adjustment of the annual amortization of Federal investment tax credits in the amount of $(1,717) is determined by subtracting the amortization of Federal investment tax credits recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $(37,525) from the calculated pro forma annual amortization of Federal investment tax credits in the amount of $(39,242), shown in Column 4 [$(39,242) - $(37,525) = $(1,717)]. The adjustment of the annual amortization of Federal investment tax credits in the amount of $(1,717) has been carried forward to Exhibit HIV-17, Column 3.

Because the Company timely elected in 1972, the special rule for ratable flow-through of Federal investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of the Internal Revenue Code, the only reduction that may be made to the Company's cost of service, with respect to Federal investment tax credits generated in calendar year 1972 and thereafter, is to amortize the Federal investment tax credits ratably over the life of the property. Under the special rule for ratable flow-through, the rate base of the utility cannot be reduced by any portion of deferred Federal investment tax credits.

Q. Explain Exhibit No. HIV-17-2.

A. Exhibit No. HIV-17-2 presents an adjustment to reflect current Federal income tax and current Pennsylvania corporate net income tax based on pro forma water taxable income under existing rates at the currently effective Federal income tax rate of 21% and at the currently effective Pennsylvania corporate net income tax rate of 9.99%.

Total pro forma operating income before income taxes and excluding depreciation under existing rates in the amount of $30,324,046 is determined by subtracting pro forma operating expenses under existing rates in the amount of $21,048,786 (Refer to Exhibit No. HIII-2, Page 2 of 8, Column 4) and pro forma operating taxes other than income taxes under existing rates in the amount of $1,279,493 (Refer to Exhibit No. HIV-15, Page 2 of 2, Column 4) from pro forma operating revenues under existing rates in the amount of $52,652,325 (Refer to Exhibit No. HII-2, Page 2 of 3, Column 3) ($52,652,325 - $21,048,786 - $1,279,493 = $30,324,046). To arrive at taxable income at present rates, amounts are added for expenses of the Customer Survey of $2,323, Dividend Reinvestment and Direct Stock Purchase and Sale Plan of $8,305, Long-term Incentive Plan of $1,740, Employee Stock Purchase Plan of $1,277, Normalization of Rate Case Expenses of $238,125, Amortization of Acquisition Adjustments of $(11,746), Amortization of Lead Service Line Replacements of $238,064, Filter Plant Yard Piping Survey of $3,081, Service Life Study of $4,928, Long-term Infrastructure Improvement Plan of $844, Nondeductible Parking of $13,308, and Nondeductible Meals of $1,286, and amounts are then deducted for tax repair expense in the amount of $11,769,219, cost of removal in the amount of $3,090,826, tank painting in the amount of $419,160, state tax depreciation in the amount of $9,118,938, and pro forma interest expense deduction for ratemaking purposes in the amount of $4,612,965. Expenses of the Company's Customer Survey of $2,323, Dividend Reinvestment and Direct Stock Purchase and Sale Plan of $8,305, Long-term Incentive Plan of $1,740, Employee Stock Purchase Plan of $1,277, Normalization of Rate Case Expense of $238,125, Amortization of Acquisition Adjustments of $(11,746), Amortization of Lead Service Line Replacements of $283,064, Filter Plant Yard Piping Survey of $3,081, Service Life Study of $4,928, Long-term Infrastructure Improvement Plan of $844, Nondeductible Parking of $13,308, and Nondeductible Meals of $1,286 are not allowed as a deduction for income tax purposes. Since these amounts are included in operating expenses and deducted in arriving at the figure of $30,324,046, they must be added back in arriving at taxable income. Tax repair expense in the amount of $11,769,219 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Cost of removal in the amount of $3,090,826 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Tax depreciation in the amount of $9,118,938 is detailed on Exhibit No. HIV-17-3 and Exhibit No. HIV-17-3 (a). I note that the state tax depreciation is greater than Federal tax depreciation due to the provisions of Act 89 of 2002, which I will explain later with respect to Exhibit No. HIV-17-3 (a). Pro forma interest expense deduction for ratemaking purposes in the amount of $4,612,965 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $260,841,584 x Weighted Debt Cost Rate of 1.77%).

Pro forma taxable income under existing rates in the amount of $1,859,474 is determined by adding the expenses of the Customer Survey of $2,323, Dividend Reinvestment and Direct Stock Purchase and Sale Plan of $8,305, Long-term Incentive Plan of $1,740, Employee Stock Purchase Plan of $1,277, Normalization of Rate Case Expense of $238,125, Amortization of Acquisition Adjustments of $(11,746), Amortization of Lead Service Line Replacements of $283,064, Filter Plant Yard Piping Survey of $3,081, Service Life Study of $4,928, Long-term Infrastructure Improvement Plan of $844, Nondeductible Parking of $13,308, and Nondeductible Meals of $1,286, and deducting tax repair expense in the amount of $11,769,219, cost of removal in the amount of $3,090,826, tank painting in the amount of $419,160, state tax depreciation in the amount of $9,118,938, and pro forma interest expense in the amount of $4,612,965 from pro forma net operating income in the amount of $30,324,046 ($30,324,046 + $2,323 +

$8,305 + $1,740 + $1,277 + $238,125 + ($11,746) + $283,064 + $3,081 + $4,928 + $844 + $13,308 + $1,286 - $11,769,219 - $3,090,826 - $419,160 - $9,118,938 - $4,612,965 = $1,859,474).

Pro forma State income tax under existing rates in the amount of $185,761 is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to pro forma taxable income in the amount of $1,859,474 ($1,859,474 x 0.0999 = $185,761). Pro forma Federal taxable income under existing rates in the amount of $2,692,523 is determined by subtracting pro forma State income tax under existing rates in the amount of $185,761 and adding back State depreciation in excess of Federal depreciation of $1,018,811 [Refer to Exhibit No. HIV-17-3 (a)] from pro forma taxable income in the amount of $1,859,474 ($1,859,474 - $185,761 + $1,018,811 = $2,692,520). Pro forma Federal income tax under existing rates in the amount of $565,430 is determined by applying the presently effective Federal income tax rate of 21% to the pro forma Federal taxable income under existing rates in the amount of $2,692,523 ($2,692,523 x 0.21 = $565,430). Total pro forma current income taxes under existing rates in the amount of $751,191 is determined by adding pro forma state income tax under existing rates in the amount of $185,761 and pro forma Federal income tax under existing rates in the amount of $565,430 ($185,761 + $565,430 = $751,191). The adjustment to income taxes in the amount of $(480,454) is determined by subtracting current income taxes recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $1,231,645 from total pro forma current income taxes under existing rates in the amount of $751,191 [$751,191 - $1,231,645 = $(480,454)]. The adjustment to income taxes at present rates in the amount of $(480,454) has been carried forward to Exhibit No. HIV-17, Column 3.

Q. Explain Exhibit No. HIV-17-3.

A. Exhibit No. HIV-17-3 provides information concerning income tax depreciation used to calculate current and deferred Federal Income Taxes for ratemaking purposes. To explain Exhibit HIV-17-3, a general explanation of the tax depreciation methods used by York Water for various vintages of property is required.

For property placed in service during calendar year 1970 and prior years, the Company's method of tax depreciation is the straight-line method. No provision has been made in the rate case exhibits for normalization of tax depreciation for property placed in service in 1970 and prior years.

For property placed in service during calendar years 1971 through 1978, the Company's method of tax depreciation is the double declining balance method. As explained later, normalization of the income tax deferrals resulting from use of an accelerated tax depreciation method for property placed in service during calendar years 1971 through 1978 is required by Internal Revenue Code Section 167(1)(2)(B) because the Company's "applicable 1968 method" was straight line. The Company also filed, as a precaution, a timely election with the Internal Revenue Service electing normalization of accelerated depreciation.

For property placed in service during calendar years 1979 and 1980, the Company's method of tax depreciation is the double declining balance method under the Internal Revenue Service's Asset Depreciation Range System. Normalization of the income tax deferrals resulting from use of an accelerated depreciation method for property placed in service during the calendar years 1979 and 1980 also is required by Internal Revenue Code Section 167(1)(2)(B).

Normalization of the income tax deferrals resulting from the use of an accelerated tax depreciation method for property placed in service during calendar years 1971 through 1980 is required because the Company's "applicable 1968 method," for purposes of Section 167 of the Internal Revenue Code, was the straight-line method. Under Section 167(1)(2)(B) of the Internal Revenue Code, because the Company's "applicable 1968 method" was straight line, the Company may not deduct accelerated depreciation for property placed in service during calendar years 1971 through 1980 for income tax purposes unless there is normalization for ratemaking purposes.

For property placed in service beginning with calendar year 1981 and continuing through 2021, the Company employs various methods of tax depreciation as permitted by law. Normalization of the tax deferrals resulting from the use of these accelerated depreciation methods is required by the Internal Revenue Code.

I note that for qualified property placed in service after September 10, 2001, and before January 1, 2005, the Company's method of tax depreciation includes either the Internal

Revenue Code's Special 30 Percent Depreciation Allowance or the Internal Revenue Code's Special 50 Percent Depreciation Allowance.

I note that for qualified property placed in service after January 1, 2008, and before January 1, 2018, the Company's method of tax depreciation includes either the Internal Revenue Code's 50 Percent First Year Bonus Depreciation or the Internal Revenue Code's 100 Percent First Year Bonus Depreciation.

If the Company is not permitted to recover revenues necessary to provide for normalization of the income tax effects of accelerated depreciation, the Company will not be permitted to deduct accelerated depreciation for Federal income tax purposes.

Tax depreciation by vintage year in the amount of $11,463,192 for property included in the measure of value is shown on Exhibit No. HIV-17-3, Column 3.

Deferred taxes must comply with the normalization requirements of Internal Revenue Code Sections 167 and 168. The amount of $11,463,192 is reduced by $9,398,575, which is the amount included for ratemaking purposes as depreciation to determine the difference of $2,064,617 to be used for calculating the deferred Federal income tax ($11,463,192 - $9,398,575 = $2,064,617). The Federal income tax rate of 21% is applied to the $2,064,617 to determine the deferred Federal income tax amount of $433,570 ($2,064,617 x 0.21). The adjustment to deferred Federal income tax in the amount of $(245,244) is determined by subtracting deferred Federal income tax recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of

$678,814 from the calculated deferred Federal income tax amount of $433,570 [$433,570 - $678,814 = $(245,244)]. The adjustment to deferred Federal income tax in the amount of $(245,244) has been carried forward to Exhibit No. HIV-17, Column 3.

Q. Explain Exhibit No. HIV-17-3 (a).

A. Exhibit No. HIV-17-3 (a) presents the calculation of the state tax decoupling from the Federal Special 30-Percent and 50 Percent Depreciation Allowance in accordance with Act 89 of 2002 signed into law June 29, 2002 and the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Economic Stimulus Act of 2008, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. These acts require corporate taxpayers who elect the Federal Special 30-Percent and 50 Percent Depreciation Allowance to make adjustments that eliminate the effect of the Federal Special 30-Percent and 50 Percent Depreciation Allowance in arriving at Pennsylvania taxable income. Because Act 89 of 2002 eliminated the effect of the first-year Federal bonus depreciation, additional State depreciation deductions are allowed in subsequent years.

The recovery of a portion of the bonus depreciation of $1,018,811 is carried forward to Exhibit No. HIV-17-2 as an adjustment to State Tax Depreciation.

The basis of property qualified for the additional first year depreciation allowance is reflected in Column 2 of Exhibit No. HIV-17-3 (a). Total Federal tax depreciation is shown in Column 3 of Exhibit No. HIV-17-3 (a). The adjustment for additional allowed state depreciation in lieu of the Federal Special 30-Percent and 50 Percent depreciation is reflected in Column 6 and is determined by multiplying Federal depreciation shown in Column 5 by 0.42857 (3/7). The factor of 0.42857 (3/7) is reflected in the Bureau of Corporation Taxes Adjustment for Bonus Depreciation (Form REV-784).

Q. Explain Exhibit No. HIV-17-4.

A. Exhibit No. HIV-17-4 calculates the reversal of excess deferred Federal income taxes related to accelerated depreciation on property. Upon passage of the Tax Cuts and Jobs Act of 2017, the Company adjusted the balance of its deferred Federal income taxes related to accelerated depreciation on property to the newly enacted statutory Federal income tax rate of 21%. The difference between the existing balance of deferred Federal income taxes related to accelerated depreciation on property and the adjusted balance of deferred Federal income taxes related to accelerated depreciation on property was recorded as a regulatory liability for the excess deferred Federal income taxes related to accelerated depreciation on property.

A reversal is recorded for the excess deferred Federal income taxes whose normalized depreciation exceeds tax depreciation, that is, the tax life of the property has reached what is commonly referred to as the "turnaround point." The vintage years that have reached the turnaround point are 1971, 1979, 1981 through 1996, and 2011 through 2017. Tax depreciation for these vintage years subject to normalization requirements of Internal Revenue Code Section 167 and 168 is $1,176,049. The amount of tax depreciation of $1,176,049 is less than $2,450,784, which is the amount included for ratemaking purposes as depreciation on property placed in service during these vintage years. The difference of $(1,274,735) is to be used for calculating the return of excess previously deferred Federal income tax to be reversed [$1,176,049 - $2,450,784 = $(1,274,735)]. Tax depreciation, and thus excess deferred Federal income taxes recovered from customers, was computed to the turnaround point for all of these properties at a rate of 21%, 34%, 46%, or 48%. The excess of 2% between 48% and 46% has been amortized as a reduction to the cost of service in prior rate proceedings. However, the Tax Reform Act of 1986 and the Tax Cuts and Jobs Act of 2017 prohibits flow back of the excess between the prior rates and the current rate any faster than ratably over the tax life of the property following the property attaining the turnaround point. This ratable flow back is to be achieved by using a weighted average tax rate, representing the weighted average rate for each vintage for all years prior to the turnaround year. The weighted average rate for each vintage year, which has reached the turnaround point, is shown in Column 6. The weighted average tax rate is applied to the tax depreciation subject to deferral shown in Column 4 to determine the reversal of deferred Federal income taxes in the amount of $(439,206). This was compared to the value of the deferred Federal income taxes at the newly enacted rate of $267,694 determined by multiplying the total tax depreciation subject to deferral of $(1,274,735) by the newly enacted rate of 21% [$(1,274,735) x 0.21 = $(267,694)]. The difference between the deferred Federal income taxes at prior rates of $(439,206) and those at the newly enacted rate of $267,694 is the reversal of the excess deferred Federal income taxes of $(171,511) [$(439,206) - $267,694 = $(171,511)]. An adjustment of the excess deferred Federal income taxes in the amount of $3,644 is determined by subtracting the reversal of excess deferred Federal income taxes recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $(175,155), from the calculated pro forma reversal of excess deferred Federal income taxes in the amount of $(171,511) [$(171,155) - $(175,155) = $3,644]. The adjustment of the reversal of deferred Federal income taxes in the amount of $3,644 has been carried forward to Exhibit HIV-17, Column 3.

Q. Please explain Exhibit No. HIV-17-5.

A. Exhibit No. HIV-17-5 presents an adjustment to reflect increased Federal income tax and state income tax based on the calculated revenue increase using historic test year data.

The total calculated water operating revenue increase using historic test year data in the amount of $1,605,703 (Refer to Exhibit No. HII-2, page 2, Column 5) is increased by the increase in late charges of $2,273 (Refer to Exhibit No. HII-2-15) and is reduced by the increase in pro forma expense for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment under calculated rates in the amount of $10,783 (Refer to Exhibit No. HIV-15-5) and the increase in pro forma uncollectible accounts expense under calculated rates of $8,370 (Refer to Exhibit No. HIII-2-38) to arrive at the net increase in taxable income subject to state income tax in the amount of $1,588,863 [$1,605,703 + $2,273 - $10,783 - $8,370 = $1,588,823]. The state income tax rate of 9.99% is applied to the net increase in taxable income subject to state income tax in the amount of $1,588,823 to determine the increase of $158,723 in the state income tax as a result of the proposed revenue increase [$1,588,823 x 0.0999]. The increase in the amount of $158,723 in the state income tax has been carried forward to Exhibit No. HIV-17, Column 6.

The proposed revenue increase subject to state income tax of $1,588,823 is reduced further by the increase of $158,723 in state income tax to determine the proposed revenue decrease in the amount of $1,430,099 subject to Federal income tax [$1,588,823 - $158,723 = $1,430,099]. The presently effective Federal income tax rate of 21% is applied to determine the increase in the amount of $300,321 in the Federal income tax that results from the proposed revenue increase [$1,430,099 x 0.21], and this amount has been carried forward to Exhibit No. HIV-17, Column 6.

Q. Explain Exhibit No. HIV-18.

A. Exhibit No. HIV-18 provides an explanation of the debt interest expense utilized for the income tax calculation reflected on the Company's corporate books, and an explanation and the calculation of debt interest expense utilized for the income tax calculation on pro forma income for the twelve months ended December 31, 2021.

Debt interest expense utilized for the income tax calculation reflected on the Company's corporate books for the twelve months ended December 31, 2021, is actual debt expense incurred during that period. Debt interest expense utilized for the income tax calculation on pro forma income for the twelve months ended December 31, 2021, is determined by reflecting the interest charges to ratepayers in the cost of capital determination (interest synchronization).

The original cost measure of value as of December 31, 2021 (Refer to Exhibit No. HV-1, page 2) of $260,841,584 times the weighted debt cost rate of 1.77% equals the interest expense utilized for income tax calculation on pro forma income for the twelve months ended December 31, 2021, of $4,612,965 ($260,841,584 x 1.77% = $4,612,965).

Debt interest expense on pro forma income for the twelve months ended December 31, 2021, in the amount of $4,612,965 has been carried forward to Exhibit No. HIV-17-2, which I explained previously.

Q. Are you sponsoring any other exhibits regarding the Company's operating taxes?

A. Yes, I am also sponsoring Exhibit Nos. HIV-2, HIV-3, HIV-4, HIV-7, HIV-8, HIV-9, HIV-10, HIV-11, HIV-13, and HIV-16.

Q. Does this conclude your historic test year direct testimony at this time?

A. Yes.