**YORK WATER STATEMENT NO. 103**

**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 case.

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

Exhibit Nos. F (a)-2, F (a)-3, F (a)-4, F (a)-5, F (b)-3, F (b)-4, F (b)-5, F (b)-6, FII-1, FII-2, FII-2-1, FII-2-2, FII-2-3, FII-2-4, FII-2-5, FII-2-6, FII-2-7, FII-2-8, FII-2-11, FII-2-12, FII-2-13, FII-2-14, FII-2-15, FII-2-16, FII-2-17, FII-2-18, FII-2-20, FII-2-21, FII-2-22, FII-2-23, FII-2-24, FII-2-25, FII-2-26, FII-2-27, FII-2-28, FII-2-29, FII-2-30, FII-2-31, FII-2-34, FII-2-35, FII-2-36, FII-2-37, FII-2-38, FII-2-39, FII-2-40, FII-2-41, FII-2-42, FII-3, FII-4, FII-5, FII-6, FII-7, FII-8, FII-9, FII-10, FII-11, FII-12, and FII-13 relating to operating revenues for the water division;

Exhibit Nos. FIII-1, FIII-2, FIII-2-1, FIII-2-1(a), FIII-2-1(b), FIII-2-2, FIII-2-3, FIII-2-4, FIII-2-5, FIII-2-6, FIII-2-7, FIII-2-8, FIII-2-9, FII-2-10, FIII-2-11, FIII-2-12, FIII-2-15, FIII-2-15(a), FIII-2-15(b), FIII-2-16, FIII-2-17, FIII-2-18, FIII-2-19, FIII-2-20, FIII-2-21, FIII-2-22, FIII-2-25, FIII-2-25(a), FIII-2-25(b), FIII-2-26, FIII-2-27, FIII-2-28, FIII-2-29, FIII-2-30, FIII-2-31, FIII-2-32, FIII-2-33, FIII-2-34, FIII-2-35FIII-2-36, FIII-2-37, FIII-2-40, FIII-2-40(a), FIII-2-40(b), FIII-2-41, FIII-2-42, FIII-2-43, FIII-2-44, FIII-2-45, FIII-2-46, FIII-2-47, FIII-2-48, FIII-2-49, FIII-2-50, FIII-2-51, FIII-2-55, FIII-3, FIII-4, FIII-5, FIII-6, FIII-7, FIII-8, FIII-9, FIII-10, FIII-11, FIII-12, FIII-13, FIII-14, FIII-15, FIII-16, FIII-17, FIII-18, FIII-19, FIII-20, FIII-21, FIII-23, FIII-24, FIII-25, FIII-26, FIII-27, and FIII-28 relating to operating expenses for the water division;

Exhibit Nos. FV-1-1, FV-1-10, FV-8-1(g), FV-8-1(g)1, FV-8-1(g)2, and FV-10 relating to the original cost measure of value for the water division;

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

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

Exhibit Nos. F (a)-1, F (a)-6, F (a)-9, F (a)-10, F (a)-11, F (b)-1, FVIII-2, FXI-1, FXI-2, FXI-3, and FXI-4.

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

A. Exhibit No. F (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 for the following reasons: (1) to provide sufficient revenues to recover the cost of providing water service to its customers; (2) to allow the Company to properly discharge its public duties by continuing to furnish adequate, safe, and reliable service; (3) to maintain its facilities properly; and (4) to 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. FI-2.

A. Exhibit No. FI-2 summarizes the projections of income for the twelve months ending December 31, 2022, and February 29, 2024, and the adjustments to such projected income to: (1) annualize and normalize the effect of changes occurring during the twelve months ending December 31, 2022, and February 29, 2024; and (2) reflect changes in operating revenues, uncollectible accounts, Commission, Consumer Advocate, Small Business Advocate, and Damage Prevention Control assessments, and income taxes due to the increase in operating revenues resulting from the proposed increase in rates.

Projected net income for the twelve months ending December 31, 2022, in the amount of $13,878,544 is shown in Column 4 of Exhibit No. FI-2, pages 2 through 4. 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. In deriving the projected net operating income, I began with the pro forma net operating income at present rates for the twelve months ended December 31, 2021, in the amount of $15,335,053, which is shown in Column 1 of Exhibit No. FI-2, pages 2 through 4, and which is taken from Exhibit No. HI-2. The net of all adjustments to revenues and expenses results in projected future test year level of income adjustments of $(1,432,589) at present rates as shown in Column 3 of Exhibit No. FI-2, pages 2 and 3. These adjustments are detailed in other exhibits, which will be explained later. The net operating income of $18,124,316 represents net operating income for the projected future test year. It is necessary to adjust such net operating income to reflect and annualize various changes during the future test year to determine operating income at the level of operations at the end of the test year at present rates to be used for ratemaking purposes.

Exhibit No. FI-2, pages 5 and 6 summarize the pro forma adjustments to the projected future test year net operating income. Projected net operating income for the twelve months ending December 31, 2022, in the amount of $18,124,316 is shown in Column 1 of Exhibit No. FI-2, pages 5 and 6. Adjustments to operating income in the net amount of $(51,736), to annualize and normalize the effect of changes during the twelve months ending December 31, 2022, are shown in Column 3 of Exhibit No. FI-2, pages 5 and 6. These adjustments are detailed in other exhibits, which I will explain later. The net operating income of $18,072,580 represents net operating income for the pro forma future test year.

In deriving the projected net operating income for the fully projected future test year, I began with the pro forma net operating income at present rates for the twelve months ended December 31, 2022, in the amount of $18,072,580, which is shown in Column 1 of Exhibit No. FI-2, pages 8 and 9. The net of all adjustments to revenues and expenses results in fully projected future test year income adjustments of $(1,379,463) at present rates as shown in Column 3 of Exhibit No. FI-2, pages 8 and 9. These adjustments are detailed in other exhibits, which I will explain later. The net operating income of $16,693,117 represents net operating income for the fully projected future test year ending February 29, 2024. It is necessary to adjust such net operating income to reflect and annualize various changes during the future test year to determine operating income at the level of operations at the end of the test year at present rates to be used for ratemaking purposes.

Exhibit No. FI-2, pages 11 and 12 summarize the pro forma adjustments to the fully projected future test year net operating income. Projected net operating income for the twelve months ending February 29, 2024, in the amount of $16,693,117 is shown in Column 1 of Exhibit No. FI-2, pages 11 and 12. Adjustments to operating income in the net amount of $(242,168), to annualize and normalize the effect of changes during the twelve months ending February 29, 2024, are shown in Column 3 of Exhibit No. FI-2,pages 11 and 12. These adjustments are detailed in other exhibits, which I will explain later. The net operating income of $16,450,948 represents net operating income for the pro forma fully projected future test year.

Column 6 of Exhibit No. FI-2 pages 11 and 12 provides a summary of the increases to net operating income under proposed base rates at the fully projected future test year level of operations. The net increase to net operating income at proposed rates would be $11,370,241 after reflecting increases in operating revenues, and related increase in uncollectible accounts, Commission, Consumer Advocate, and Small Business Advocate assessments and income taxes. These adjustments are shown in Column 6 of Exhibit No. FI-2, pages 11 and 12 and are detailed in other exhibits, which I will explain later. Pro forma net operating income for the twelve months ending February 29, 2024, in the amount of $27,821,190 is shown in Column 7 of Exhibit No. FI-2, pages 11 and 12.

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

A. Yes, I am also sponsoring Exhibit Nos. F (b)-2, F (c)-5, F (c)-6, FI-1, FI-3, FI-4, and FI-5.

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

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

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

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

Q. Explain Exhibit No. FII-1.

A. Exhibit No. FII-1 is a comparative statement of gallons sold and operating revenues by class for the twelve months ending December 31, 2022, and ending February 29, 2024, and the number of customers by class as of December 31, 2022, and February 29, 2024.

Q. Explain Exhibit No. FII-2.

A. Exhibit No. FII-2 summarizes the projections of operating revenues under existing rates for the twelve months ending December 31, 2022, and February 29, 2024, as well as the adjustments to such projected operating revenues to: (1) annualize the effect of changes occurring during the twelve months ending December 31, 2022, and February 29, 2024, under existing rates; (2) reflect the increase in operating revenues resulting from the proposed increase in rates for water service; and (3) reflect the combined proposed increase in water rates after allocating a portion of the wastewater revenue requirement.

Projected operating revenues under existing rates for the twelve months ending December 31, 2022, in the amount of $52,852,095 are shown in Column 3 of Exhibit No. FII-2, page 2. In deriving the projected operating revenues under existing rates, I began with the pro forma operating revenues at present rates for the twelve months ended December 31, 2021, in the amount of $52,652,325, which are shown in Column 1 of Exhibit No. FII-2, page 2, and which are taken from Exhibit No. HII-2. Adjustments to the pro forma historic test year operating revenues to project the future test year operating revenues under existing rates in the amount of $199,770 are shown in Column 2 of Exhibit No. FII-

2, page 2. These adjustments are detailed in Exhibit Nos. FII-2-1 through FII-2-8, which I will explain later and are summarized in Exhibit No. FII-2, page 3.

Exhibit No. FII-2, page 4 summarizes the pro forma adjustments to the projected future test year operating revenues. Projected operating revenues under existing rates for the twelve months ending December 31, 2022, in the amount of $52,852,095 are shown in Column 1 of Exhibit No. FII-2, page 4. Adjustments to operating revenues under existing rates in the amount of $227,963 to annualize the effect of changes during the twelve months ending December 31, 2022, are shown in Column 2 of Exhibit No. FII-2, page 4. These adjustments are detailed in Exhibit Nos. FII-2-11 through FII-2-18, which I will explain later, and are summarized in Exhibit No. FII-2, page 5. Column 3 of Exhibit No. FII-2, page 4 shows the pro forma operating revenues under existing rates of $53,080,058 for the twelve months ending December 31, 2022.

Projected operating revenues under existing rates for the twelve months ending February 29, 2024, in the amount of $53,404,281 are shown in Column 3 of Exhibit No. FII-2, page 6. In deriving the projected operating revenues under existing rates, I began with the pro forma operating revenues at present rates for the twelve months ended December 31, 2022, in the amount of $53,080,058, which are shown in Column 1 of Exhibit No. FII-2, page 6. Adjustments to the pro forma future test year operating revenues to project the fully projected future test year operating revenues under existing rates in the amount of $324,223 are shown in Column 2 of Exhibit No. FII-2, page 6. These adjustments are detailed in Exhibit Nos. FII-2-20 through FII-2-31, which I will explain later, and are summarized in Exhibit No. FII-2, page 7.

Exhibit No. FII-2, page 9 summarizes the pro forma adjustments to the fully projected future test year operating revenues. Projected operating revenues under existing rates for the twelve months ending February 29, 2024, in the amount of $53,404,281 are shown in Column 1 of Exhibit No. FII-2, page 9. Adjustments to operating revenues under existing rates in the amount of $238,179 to annualize the effect of changes during the twelve months ending February 29, 2024, are shown in Column 2 of Exhibit No. FII-2, page 9. These adjustments are detailed in Exhibit Nos. FII-2-34 through FII-2-41, which I will explain later, and are summarized in Exhibit No. FII-2, page 8.

Pro Forma Distribution System Improvement Charge revenues at existing rates of $2,121,928 based upon current DSIC rates are shown in Column 4, page 9. Adjustments to operating revenues in the amount of $16,182,882 reflect the increase in operating revenues due to the application of proposed base rates set forth in Supplement No. 143 to Tariff Water-Pa. P.U.C. No. 14 are shown in Column 8 of Exhibit No. FII-2, page 9. Pro forma operating revenues under proposed rates for the twelve months ending February 29, 2024, in the amount of $69,825,342 are shown in Column 9 of Exhibit No. FII-2, page 9.

Page 10 of Exhibit No. FII-2 shows pro forma revenue under existing rates for wastewater customers of $4,162,262 (Refer to Exhibit No. FII-2W) and the additional revenue required for wastewater customers as shown on Exhibit No. FV-1W, page 6 of $4,127,648. The revenue increase would amount to 99.2% if the additional revenue were spread to just the wastewater customers. The Company does not believe that it is appropriate for wastewater customers to incur a 99.2% increase at this time. Therefore, the Company is proposing to limit the increase in rates for wastewater customers to 35%.

This 35% increase is more than the overall water rate increase percentage and will move wastewater customers closer to cost of service. A 35% increase for wastewater customers is $1,456,792 ($4,162,262 x 0.35). The Company proposes to allocate the remaining additional revenue requirement of $2,670,856 ($4,127,648 - $1,456,792) to water customers, increasing the water revenue requirement by 4.8% (33.8% - 29.0%).

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

A. Exhibit No. FII-2-1 projects operating revenues under existing rates for estimated metered residential gravity customers connected and disconnected during the twelve months ending December 31, 2022. The projected net gain in number of metered residential gravity customers during the twelve months ending December 31, 2022, is 58. This projection is based on the average net gain in metered residential gravity customers for the two years ended December 31, 2021. The projected net gain of metered residential gravity customers during the twelve months ending December 31, 2022, of 58 is multiplied by the annual average revenue per average metered residential gravity customer during the historic test year ended December 31, 2021, of $467.16 to derive the annualized revenue adjustment of $27,095 (58 x $467.16).

In order to present the projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $27,095 that will occur during the twelve months ending December 31, 2022. The projected net gain of metered residential gravity customers for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year. Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The

portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $13,548 ($27,095 x 0.50) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-11, which I will explain later.

Q. Explain Exhibit No. FII-2-2.

A. Exhibit No. FII-2-2 projects operating revenues under existing rates for estimated metered residential repumped customers connected and disconnected during the twelve months ending December 31, 2022. The projected net gain in number of metered residential repumped customers during the twelve months ending December 31, 2022, is 535. This projection is based on the average net gain in metered residential repumped customers for the two years ended December 31, 2021. The projected net gain of metered residential repumped customers during the twelve months ending December 31, 2022, of 535 is multiplied by the annual average revenue per average metered residential repumped customer during the historic test year ended December 31, 2021 of $563.34 to derive the annualized revenue adjustment of $301,387 (535 x $563.34).

In order to present projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $301,387 that will occur during the twelve months ending December 31, 2022. The projected net gain of metered residential repumped customers for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The

portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $150,693 ($301,387 x 0.50) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-12, which I will explain later.

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

A. Exhibit No. FII-2-3 projects operating revenues under existing rates for estimated metered commercial gravity customers connected and disconnected during the twelve months ending December 31, 2022. The projected net gain in number of metered commercial gravity customers during the twelve months ending December 31, 2022, is 13. This projection is based on the average net gain in metered commercial gravity customers for the two years ended December 31, 2021. The projected net gain of metered commercial gravity customers during the twelve months ending December 31, 2022, of 13 is multiplied by the annual average revenue per average metered commercial gravity customer during the historic test year ended December 31, 2021 of $1,393.26 to derive the annualized revenue adjustment of $18,112 (13 x $1,393.26).

In order to present projected future test year metered sales to commercial customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $18,112 that will occur during the twelve months ending December 31, 2022. The projected net gain of metered commercial gravity customers for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year.

Accordingly, one-half (.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The

portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $9,056 ($18,112 x 0.50) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-13, which I will explain later.

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

A. Exhibit No. FII-2-4 projects operating revenues under existing rates for estimated metered commercial repumped customers connected and disconnected during the twelve months ending December 31, 2022. The projected net gain in number of metered commercial repumped customers during the twelve months ending December 31, 2022, is 18. This projection is based on the average net gain in metered commercial repumped customers for the two years ended December 31, 2021. The projected net gain of metered commercial customers during the twelve months ending December 31, 2022, of 18 is multiplied by the annual average revenue per average metered commercial repumped customer during the historic test year ended December 31, 2021 of $3,278.73 to derive the annualized revenue adjustment of $59,017 (18 x $3,278.73).

In order to present projected future test year metered sales to commercial customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $59,017 that will occur during the twelve months ending December 31, 2022. The projected net gain of metered commercial repumped customers for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year.

Accordingly, one-half (.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $29,509 ($59,017 x 0.50) has been carried forward to Exhibit No.FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-14, which I will explain later.

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

A. Exhibit No. FII-2-5 projects private fire protection revenues under existing rates based on the projected number of private fire hydrants and standby private fire service connections placed in service during the future test year ending December 31, 2022. The projected net gain in the number of private fire hydrants and standby private fire service connections is multiplied by the present annual rate for private fire hydrants and standby private fire service connections as approved by the Commission effective March 1, 2019, to derive the annualized private fire protection revenue adjustment in the amount of $59,309. The projected net gain in the number of private fire hydrants and standby private fire service connections is based on the average gain in private fire hydrants and standby private fire service connections for the two years ended December 31, 2021.

In order to present projected future test year private fire protection revenues, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $59,309 that will occur during the twelve months ending December 31, 2022. The projected net gain of private fire hydrants and standby private fire service connections for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year.

Accordingly, one half (.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $29,654 ($59,309 x 0.50) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-15, which I will explain later.

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

A. Exhibit No. FII-2-6 projects public fire protection revenues under existing rates based on the projected number of public fire hydrants placed in service during the future test year ending December 31, 2022. The projected net gain in the number of public fire hydrants is multiplied by the present annual rate for public fire hydrants as approved by the Commission effective March 1, 2019, to derive the annualized public fire protection revenue adjustment in the amount of $8,930. The projected net gain in the number of public fire hydrants is based on the average net gain in public fire hydrants for the two years ended December 31, 2021.

In order to present projected future test year public fire protection revenues, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $8,930 that will occur during the twelve months ending December 31, 2022. The projected net gain of public fire hydrants for the twelve months ending December 31, 2022, is presumed to occur evenly throughout the future test year.

Accordingly, one half (.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2022. The

portion of the annualized revenue adjustment included in the twelve months ending December 31, 2022, or $4,465 ($8,930 x 0.50) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-16, which I will explain later.

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

A. Exhibit No. FII-2-7 projects lease payments received for communication equipment installed on the Company's standpipes in accordance with the non-exclusive license agreements between the Company and non-affiliated cellular telephone companies. 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. Projected rent from water property for the twelve months ending December 31, 2022, of $502,100 reflects actual lease payments to be received during the twelve months ending December 31, 2022. The adjustment of $(37,491) is determined by subtracting the pro forma lease payments for the installation of communication equipment for the twelve months ended December 31, 2021, in the amount of $539,590 (Refer to Exhibit No. HII-2-12) from the projected lease payments to be received and recorded as rental income during the twelve months ending December 31, 2022, of $502,100 [$502,100 - $539,590 = $(37,491)]. The revenue adjustment in the amount of $(37,491) has been carried forward to Exhibit No. FII-2, page 3.

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

A. Exhibit No. FII-2-8 projects customers' penalties based on projected sales of water under existing rates and a two-year average ratio of customers' penalties to total sales of water. Projected sales of water under existing rates (Refer to Exhibit No. FII-2) of $51,733,559 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% to determine the projected customers' penalties under existing rates of $73,235 ($51,733,559 x 0.14%).

The adjustment to customers' accounts in the amount of $335 is determined by subtracting pro forma customers' penalties under existing rates for twelve months ended December 31, 2021, of $72,899 (Refer to Exhibit No. HII-2-14) from projected customers' penalties under existing rates for twelve months ending December 31, 2022, of $73,235 ($73,235 - $72,899 = $335). The adjustment to customers' penalties of $335 has been carried forward to Exhibit No. FII-2, page 3 as an adjustment to Account No. 47100500.

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

A. Exhibit No. FII-2-11 annualizes operating revenues for estimated metered residential gravity customers connected and disconnected during the twelve months ending December 31, 2022. As explained previously, the Company projects a net gain of 58 in the number of metered residential gravity customers during the twelve months ending December 31, 2022. The projected net gain of metered residential gravity customers during the twelve months ending December 31, 2022, of 58 is multiplied by the annual average revenue per average metered residential gravity customer during the historic test year ended December 31, 2021 of $467.16 to derive the annualized revenue adjustment of $27,095 (58 x $467.16).

As explained previously with respect to Exhibit No. FII-2-1, I have already reflected in projected future test year revenues that portion of the increased revenues from these 58 customers that are projected to be gained during the future test year ending December 31, 2022. That projected amount is $13,548, or one half of the annualized revenue adjustment of $27,095. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-11 as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment of $13,548 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-12 annualizes operating revenues for estimated metered residential repumped customers connected and disconnected during the twelve months ending December 31, 2022. As explained previously, the Company projects a net gain of 535 in the number of metered residential repumped customers during the twelve months ending December 31, 2022. The projected net gain of metered residential repumped customers during the twelve months ending December 31, 2022, of 535 is multiplied by the annual average revenue per average metered residential repumped customer during the historic test year ended December 31, 2021 of $563.34 to derive the annualized revenue adjustment of $301,387 (535 x $563.34).

As explained previously with respect to Exhibit No. FII-2-2, I have already reflected in projected future test year revenues that portion of the additional revenues from these 535 customers that are projected to be received during the future test year ending December 31, 2022. That projected amount is $150,693, or one half of the annualized revenue adjustment of $301,387. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-12 as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment of $150,693 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-13 annualizes operating revenues for estimated metered commercial gravity customers connected and disconnected during the twelve months ending December 31, 2022. As explained previously, the Company projects a net gain of 13 in the number of metered commercial gravity customers during the twelve months ending December 31, 2022. The projected net gain of metered commercial gravity customers during the twelve months ending December 31, 2022, of 13 is multiplied by the annual average revenue per average metered commercial gravity customer during the historic test year ended December 31, 2021 of $1,393.26 to derive the annualized revenue adjustment of $18,112 (13 x $1,393.26).

As explained previously with respect to Exhibit No. FII-2-3, I have already reflected in projected future test year revenues that portion of the reduced revenues from these 13 customers that are projected to be gained during the future test year ending December 31, 2022. That projected amount is $9,056, or one half of the annualized revenue adjustment of $18,112. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-13 as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment of $9,056 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-14 annualizes operating revenues for estimated metered commercial repumped customers connected and disconnected during the twelve months ending December 31, 2022. As explained previously, the Company projects a net gain of 18 in the number of metered commercial repumped customers during the twelve months ending December 31, 2022. The projected net gain of metered commercial repumped customers during the twelve months ending December 31, 2022, of 18 is multiplied by the annual average revenue per average metered commercial repumped customer during the historic test year ended December 31, 2021 of $3,278.73 to derive the annualized revenue adjustment of $59,017 (18 x $3,278.73).

As explained previously with respect to Exhibit No. FII-2-4, I have already reflected in projected future test year revenues that portion of the additional revenues from these 18 customers that are projected to be lost during the future test year ending December 31, 2022. That projected amount is $29,509, or one half of the annualized revenue adjustment of $59,017. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-14 as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment of $29,509 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-15 annualizes private fire protection revenues under existing rates based on the estimated number of private fire hydrants and standby private fire service connections placed in service during the future test year ending December 31, 2022. The projected net gain in the number of private fire hydrants and standby private fire service connections is multiplied by the present annual rate for private fire hydrants and standby private fire service connections as approved by the Commission effective March 1, 2019, to derive the annualized private fire protection revenue adjustment in the amount of $59,309.

As explained previously with respect to Exhibit No. FII-2-5, I have already reflected in projected future test year revenues that portion of the additional revenues from these connections that are projected to be received during the future test year ending December 31, 2022. That projected amount is $29,654, or one half of the annualized revenue adjustment of $59,309. The remaining half of the annualized revenue adjustment in the amount of $29,654 is reflected on Exhibit No. FII-2-15 as an annualization adjustment to the future test year projection. The remaining half of the annualization adjustment in the amount of $29,654 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-16 annualizes public fire protection revenues under existing rates based on the estimated number of public fire hydrants placed in service during the future test year ending December 31, 2022. The projected net gain in the number of public fire hydrants is multiplied by the present annual rate for public fire hydrants as approved by the Commission effective March 1, 2019, to derive the annualized public fire protection revenue adjustment in the amount of $8,930.

As explained previously with respect to Exhibit No. FII-2-6, I have already reflected in projected future test year revenues that portion of the additional revenues from these connections that are projected to be received during the future test year ending December

31, 2022. That projected amount is $4,465, or one half of the annualized revenue adjustment of $8,930. The remaining half of the annualized revenue adjustment in the amount of $4,465 is reflected on Exhibit No. FII-2-16 as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment in the amount of $4,465 has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-17 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 ending December 31, 2022, reflects annualized lease payments from the license agreements of $492,802. The adjustment of $(9,298) is determined by subtracting the lease payments to be received and recorded as rental income during the twelve months ending December 31, 2022, of $502,100 from the annual lease payments for the installation of communication equipment in the amount of $492,802 [$492,802 - $502,100 = $(9,298)]. This amount of $(9,298) has been carried forward to Exhibit No. FII-2, page 5.

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

A. Exhibit No. FII-2-18 annualizes 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. Pro forma sales of water under existing rates (Refer to Exhibit No. FII-2) of $51,970,485 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% to determine the pro forma customers' penalties under existing rates of $73,570 ($51,970,485 x 0.14%).

The adjustment to customers' penalties in the amount of $335 is determined by subtracting projected customers' penalties under existing rates for twelve months ending December 31, 2022, of $73,235 (Refer to Exhibit No. FII-2-8) from pro forma customers' penalties under existing rates for twelve months ending December 31, 2022, of $73,570 ($73,570 - $73,235 = $335). The adjustment to customers' penalties of $335 has been carried forward to Exhibit No. FII-2, page 5 as an adjustment to Account No. 47100500.

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

A. Exhibit No. FII-2-20 projects operating revenues for the estimated metered residential gravity and repumped customers connected and disconnected during January and February 2023. Although these customers are projected to be added prior to the fully projected future test year, the revenues from these customers will be included in the revenues earned for the twelve months ending February 29, 2024, so it is appropriate to include these revenues.

As was the case for the twelve months ending December 31, 2022, the Company projects a net gain of 58 in the number of metered residential gravity customers during the twelve months ending December 31, 2023. The projected net gain of metered residential gravity customers during the twelve months ending December 31, 2023 of 58 is divided by twelve and multiplied by two to yield the number of customers expected to be gained during the two-month period ending February 28, 2023, which is 10 (58 / 12 x 2). Next, the number of customers gained during the two-month period is multiplied by the annual average revenue per average metered residential gravity customer during the future test year ended December 31, 2022, of $467.16 to derive the annualized revenue adjustment for residential gravity customers of $4,516 (10 x $467.16).

Next, the same process is followed for residential repumped customers. The Company projects a net gain of 535 in the number of metered residential repumped customers during the twelve months ending December 31, 2023. The projected net gain of metered residential repumped customers during the twelve months ending December 31, 2023, is divided by twelve and multiplied by two to yield the number of customers expected to be gained during the two-month period ending February 28, 2023, which is 89 (535 / 12 x 2). Next, the number of customers gained during the two-month period is multiplied by the annual average revenue per average metered residential repumped customer during the future test year ended December 31, 2022, of $563.34 to derive the annualized revenue adjustment for residential repumped customers of $50,231 (89 x $563.34).

The total adjustment for the estimated residential gravity and repumped customers to be added during January and February 2023, of $54,747 ($4,516 + $50,231) has been carried forward to Exhibit No. FII-2, page 7.

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

A. Exhibit No. FII-2-21 projects operating revenues for the estimated metered commercial gravity and repumped customers connected and disconnected during January and February 2023. Although these customers are projected to be added prior to the fully projected future test year, the revenues from these customers will be included in the revenues earned for the twelve months ending February 29, 2024, so it is appropriate to include these revenues.

As was the case for the twelve months ending December 31, 2022, the Company projects a net gain of 13 in the number of metered commercial gravity customers during the twelve months ending December 31, 2022. The projected net gain of metered commercial gravity customers during the twelve months ending December 31, 2022, of 13 is divided by twelve and multiplied by two to yield the number of customers expected to be gained during the two-month period ending February 28, 2023, which is 2 (13 / 12 x 2). Next, the number of customers gained during the two-month period is multiplied by the annual average revenue per average metered commercial gravity customer during the future test year ended December 31, 2022, of $1,393.26 to derive the annualized revenue adjustment for commercial gravity customers of $3,019 (2 x $1,393.26).

Next, the same process is followed for commercial repumped customers. The Company projects a net gain of 18 in the number of metered commercial repumped customers during the twelve months ending December 31, 2023. The projected net gain of metered commercial repumped customers during the twelve months ending December 31, 2023 is divided by twelve and multiplied by two to yield the number of customers expected to be gained during the two-month period ending February 28, 2023, which is 3 (18 / 12 x 2).

Next, the number of customers gained during the two-month period is multiplied by the annual average revenue per average metered commercial repumped customer during the future test year ended December 31, 2022, of $3,278.73 to derive the annualized revenue adjustment for commercial repumped customers of $9,836 (3 x $3,278.73).

The total adjustment for the estimated commercial gravity and repumped customers to be added during January and February 2023, of $12,855 ($3,019 + $9,836) has been carried forward to Exhibit No. FII-2, page 7.

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

A. Exhibit No. FII-2-22 projects private fire protection revenues under existing rates based on the projected number of private fire hydrants and standby private fire service connections placed in service during the two-month period ending February 28, 2023. Although these hydrants and connections are projected to be added prior to the fully projected future test year, the revenues from these customers will be included in the revenues earned for the twelve months ending February 29, 2024, so it is appropriate to include these customers.

The projected net gain in the number of private fire hydrants and standby private fire service connections is divided by twelve and multiplied by two to get the prorated gain in customers for the two-month period ending February 28, 2023, for each service type. The prorated gain in customers is multiplied by the present annual rate for private fire hydrants and standby private fire service connections as approved by the Commission effective March 1, 2019, to derive the annualized private fire protection revenue adjustment in the amount of $9,885.

The adjustment for private fire protection hydrants and connections projected to be added during the two months ending February 28, 2023 of $9,885 has been carried forward to Exhibit No. FII-2, page 7.

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

A. Exhibit No. FII-2-23 projects public fire protection revenues for hydrant customers projected to be added during the two months ending February 28, 2023. Although these hydrants are projected to be added prior to the fully projected future test year, the revenues from these customers will be included in the revenues earned for the twelve months ending February 29, 2024, so it is appropriate to include these customers.

The projected net gain in the number of public fire hydrants is divided by twelve and multiplied by two to get the prorated gain in hydrants for the two-month period ending February 28, 2023. The prorated gain in customers is multiplied by the present annual rate for public fire hydrants as approved by the Commission effective March 1, 2019, to derive the annualized public fire protection revenue adjustment in the amount of $1,488.

The adjustment for public fire protection hydrants projected to be added during the two months ending February 28, 2023 of $1,488 has been carried forward to Exhibit No. FII-2, page 7.

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

A. Exhibit No. FII-2-24 projects operating revenues under existing rates for estimated metered residential gravity customers connected and disconnected during the twelve months ending February 29, 2024. The projected net gain in number of metered residential gravity customers during the twelve months ending February 29, 2024, is 58. This projection is based on the average net gain in metered residential gravity customers for the two years ended December 31, 2021. The projected net gain of metered residential gravity customers during the twelve months ending February 29, 2024, of 58 is multiplied by the annual average revenue per average metered residential gravity customer of $467.16 to derive the annualized revenue adjustment of $27,095 (58 x $467.16).

In order to present the fully projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $27,095 that will occur during the twelve months ending February 29, 2024. The projected net gain of metered residential gravity customers for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $13,548 ($27,095 x 0.50) has been carried forward to Exhibit No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-34, which I will explain later.

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

A. Exhibit No. FII-2-25 projects operating revenues under existing rates for estimated metered residential repumped customers connected and disconnected during the twelve months ending February 29, 2024. The projected net gain in number of metered residential repumped customers during the twelve months ending February 29, 2024, is 535. This projection is based on the average net gain in metered residential repumped customers for the two years ended December 31, 2021. The projected net gain of metered residential repumped customers during the twelve months ending February 29, 2024, of 535 is multiplied by the annual average revenue per average metered residential repumped customer of $563.34 to derive the annualized revenue adjustment of $301,387 (535 x $563.34).

In order to present fully projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $301,387 that will occur during the twelve months ending February 29, 2024. The projected net gain of metered residential repumped customers for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $150,693 ($301,387 x 0.50) has been carried forward to Exhibit No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-35, which I will explain later.

Q. Explain Exhibit No. FII-2-26.

A. Exhibit No. FII-2-26 projects operating revenues under existing rates for estimated metered commercial gravity customers connected and disconnected during the twelve months ending February 29, 2024. The projected net gain in number of metered commercial gravity customers during the twelve months ending February 29, 2024, is 13. This projection is based on the average net gain in metered commercial gravity customers for the two years ended December 31, 2021. The projected net gain of metered commercial gravity customers during the twelve months ending February 29, 2024, of 13 is multiplied by the annual average revenue per average metered commercial gravity customer of $1,393.26 to derive the annualized revenue adjustment of $18,112 (13 x $1,393.26).

In order to present fully projected future test year metered sales to commercial customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $18,112 that will occur during the twelve months ending February 29, 2024. The projected net gain of metered commercial gravity customers for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $9,056 ($18,112 x 0.50) has been carried forward to Exhibit No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-36, which I will explain later.

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

A. Exhibit No. FII-2-27 projects operating revenues under existing rates for estimated metered commercial repumped customers connected and disconnected during the twelve months ending February 29, 2024. The projected net gain in number of metered commercial repumped customers during the twelve months ending February 29, 2024, is 18. This projection is based on the average net loss in metered commercial repumped customers for the two years ended December 31, 2021. The projected net gain of metered commercial customers during the twelve months ending February 29, 2024, of 18 is multiplied by the annual average revenue per average metered commercial repumped customer of $3,278.73 to derive the annualized revenue adjustment of $59,017 (18 x $3,278.73).

In order to present fully projected future test year metered sales to commercial customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $59,017 that will occur during the twelve months ending February 29, 2024. The projected net gain of metered commercial repumped customers for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $29,509 ($59,017 x 0.50) has been carried forward to Exhibit

No.FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-37, which I will explain later.

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

A. Exhibit No. FII-2-28 projects private fire protection revenues under existing rates based on the projected number of private fire hydrants and standby private fire service connections placed in service during the fully projected future test year ending February 29, 2024. The projected net gain in the number of private fire hydrants and standby private fire service connections is multiplied by the present annual rate for private fire hydrants and standby private fire service connections as approved by the Commission effective March 1, 2019, to derive the annualized private fire protection revenue adjustment in the amount of $59,309. The projected net gain in the number of private fire hydrants and standby private fire service connections is based on the average gain in private fire hydrants and standby private fire service connections for the two years ended December 31, 2021.

In order to present fully projected future test year private fire protection revenues, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $59,309 that will occur during the twelve months ending February 29, 2024. The projected net gain of private fire hydrants and standby private fire service connections for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $29,654 ($59,309 x 0.50) has been carried forward to Exhibit No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-38, which I will explain later.

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

A. Exhibit No. FII-2-29 projects public fire protection revenues under existing rates based on the projected number of public fire hydrants placed in service during the fully projected future test year ending February 29, 2024. The projected net gain in the number of public fire hydrants is multiplied by the present annual rate for public fire hydrants as approved by the Commission effective March 1, 2019, to derive the annualized public fire protection revenue adjustment in the amount of $8,930. The projected net gain in the number of public fire hydrants is based on the average net gain in public fire hydrants for the two years ended December 31, 2021.

In order to present fully projected future test year public fire protection revenues, it is necessary to determine the portion of the annualized revenue adjustment in the amount of $8,930 that will occur during the twelve months ending February 29, 2024. The projected net gain of public fire hydrants for the twelve months ending February 29, 2024, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 29, 2024. The portion of the annualized revenue adjustment included in the twelve months ending February 29, 2024, or $4,465 ($8,930 x 0.50) has been carried forward to Exhibit No. FII-

2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-39, which I will explain later.

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

A. Exhibit No. FII-2-30 projects lease payments received for communication equipment installed on the Company's standpipes in accordance with the non-exclusive license agreements between the Company and non-affiliated cellular telephone companies. Projected rent from water property for the twelve months ending February 29, 2024, of $500,677 reflects actual lease payments to be received during the twelve months ending February 29, 2024. The adjustment of $7,875 is determined by subtracting the pro forma lease payments for the installation of communication equipment for the twelve months ended December 31, 2022, in the amount of $492,802 (Refer to Exhibit No. FII-2-17) from the projected lease payments to be received and recorded as rental income during the twelve months ending February 29, 2024, of $500,677 ($500,677 - $492,802 = $7,875). The revenue adjustment in the amount of $7,875 has been carried forward to Exhibit No. FII-2, page 7.

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

A. Exhibit No. FII-2-31 projects customers' penalties based on projected sales of water under existing rates and a two-year average ratio of customers' penalties to total sales of water. Projected sales of water under existing rates (Refer to Exhibit No. FII-2) of $52,286,385 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% to determine the projected customers' penalties under existing rates of $74,017 ($52,286,385 x 0.14%).

The adjustment to customers' accounts in the amount of $447 is determined by subtracting pro forma customers' penalties under existing rates for twelve months ended December 31, 2022, of $73,570 (Refer to Exhibit No. FII-2-18) from projected customers' penalties under existing rates for twelve months ending February 29, 2024, of $74,017 ($74,017 - $73,570 = $447). The adjustment to customers' penalties of $447 has been carried forward to Exhibit No. FII-2, page 7 as an adjustment to Account No. 47100500.

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

A. Exhibit No. FII-2-34 annualizes operating revenues for estimated metered residential gravity customers connected and disconnected during the twelve months ending February 29, 2024. As explained previously, the Company projects a net gain of 58 in the number of metered residential gravity customers during the twelve months ending February 29, 2024. The projected net gain of metered residential gravity customers during the twelve months ending February 29, 2024, of 58 is multiplied by the annual average revenue per average metered residential gravity customer of $467.16 to derive the annualized revenue adjustment of $27,095 (58 x $467.16).

As explained previously with respect to Exhibit No. FII-2-24, I have already reflected in fully projected future test year revenues that portion of the increased revenues from these 58 customers that are projected to be gained during the fully projected future test year ending February 29, 2024. That projected amount is $13,548, or one half of the annualized revenue adjustment of $27,095. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-34 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment of $13,548 has been carried forward to Exhibit No. FII-2, page 8.

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

A. Exhibit No. FII-2-35 annualizes operating revenues for estimated metered residential repumped customers connected and disconnected during the twelve months ending February 29, 2024. As explained previously, the Company projects a net gain of 535 in the number of metered residential repumped customers during the twelve months ending February 29, 2024. The projected net gain of metered residential repumped customers during the twelve months ending February 29, 2024, of 535 is multiplied by the annual average revenue per average metered residential repumped customer of $563.34 to derive the annualized revenue adjustment of $301,387 (535 x $563.34).

As explained previously with respect to Exhibit No. FII-2-25, I have already reflected in fully projected future test year revenues that portion of the additional revenues from these 535 customers that are projected to be received during the fully projected future test year ending February 29, 2024. That projected amount is $150,693, or one half of the annualized revenue adjustment of $301,387. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-35 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment of $150,693 has been carried forward to Exhibit No. FII-2, page 8.

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

A. Exhibit No. FII-2-36 annualizes operating revenues for estimated metered commercial gravity customers connected and disconnected during the twelve months ending February

29, 2024. As explained previously, the Company projects a net gain of 13 in the number of metered commercial gravity customers during the twelve months ending February 29, 2024. The projected net gain of metered commercial gravity customers during the twelve months ending February 29, 2024, of 13 is multiplied by the annual average revenue per average metered commercial gravity customer of $1,393.26 to derive the annualized revenue adjustment of $18,112 (13 x $1,393.26).

As explained previously with respect to Exhibit No. FII-2-26, I have already reflected in fully projected future test year revenues that portion of the reduced revenues from these 13 customers that are projected to be gained during the fully projected future test year ending February 29, 2024. That projected amount is $9,056, or one half of the annualized revenue adjustment of $18,112. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-36 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment of $9,056 has been carried forward to Exhibit No. FII-2, page 8.

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

A. Exhibit No. FII-2-37 annualizes operating revenues for estimated metered commercial repumped customers connected and disconnected during the twelve months ending February 29, 2024. As explained previously, the Company projects a net gain of 18 in the number of metered commercial repumped customers during the twelve months ending February 29, 2024. The projected net gain of metered commercial repumped customers during the twelve months ending February 29, 2024, of 18 is multiplied by the annual average revenue per average metered commercial repumped customer of $3,278.73 to derive the annualized revenue adjustment of $59,017 (18 x $3,278.73).

As explained previously with respect to Exhibit No. FII-2-27, I have already reflected in fully projected future test year revenues that portion of the additional revenues from these 18 customers that are projected to be gained during the fully projected future test year ending February 29, 2024. That projected amount is $29,509, or one half of the annualized revenue adjustment of $59,017. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-37 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment of $29,509 has been carried forward to Exhibit No. FII-2, page 8.

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

A. Exhibit No. FII-2-38 annualizes private fire protection revenues under existing rates based on the estimated number of private fire hydrants and standby private fire service connections placed in service during the fully projected future test year ending February 29, 2024. The projected net gain in the number of private fire hydrants and standby private fire service connections is multiplied by the present annual rate for private fire hydrants and standby private fire service connections as approved by the Commission effective March 1, 2019, to derive the annualized private fire protection revenue adjustment in the amount of $59,309.

As explained previously with respect to Exhibit No. FII-2-28, I have already reflected in fully projected future test year revenues that portion of the additional revenues from these connections that are projected to be received during the fully projected future test year ending February 29, 2024. That projected amount is $29,654, or one half of the annualized revenue adjustment of $59,309. The remaining half of the annualized revenue adjustment in the amount of $29,654 is reflected on Exhibit No. FII-2-28 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualization adjustment in the amount of $29,654 has been carried forward to Exhibit No. FII-2, page 8.

Q. Explain Exhibit No. FII-2-39.

A. Exhibit No. FII-2-39 annualizes public fire protection revenues under existing rates based on the estimated number of public fire hydrants placed in service during the fully projected future test year ending February 29, 2024. The projected net gain in the number of public fire hydrants is multiplied by the present annual rate for public fire hydrants as approved by the Commission effective March 1, 2019, to derive the annualized public fire protection revenue adjustment in the amount of $8,930.

As explained previously with respect to Exhibit No. FII-2-29, I have already reflected in fully projected future test year revenues that portion of the additional revenues from these connections that are projected to be received during the fully projected future test year ending February 29, 2024. That projected amount is $4,465, or one half of the annualized revenue adjustment of $8,930. The remaining half of the annualized revenue adjustment in the amount of $4,465 is reflected on Exhibit No. FII-2-39 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment in the amount of $4,465 has been carried forward to Exhibit No. FII-2, page 8.

Q. Explain Exhibit No. FII-2-40.

A. Exhibit No. FII-2-40 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. Rent from water property for the twelve months ending February 29, 2024, reflects annualized lease payments from the license agreements of $501,595. The adjustment of $918 is determined by subtracting the lease payments to be received and recorded as rental income during the twelve months ending February 29, 2024, of $500,677 from the annual lease payments for the installation of communication equipment in the amount of $501,595 ($501,595 - $500,677 = $918). This amount of $918 has been carried forward to Exhibit No. FII-2, page 8.

Q. Explain Exhibit No. FII-2-41.

A. Exhibit No. FII-2-41 annualizes 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. Pro forma sales of water under existing rates (Refer to Exhibit No. FII-2) of $52,523,311 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% to determine the pro forma customers' penalties under existing rates of $74,353 ($52,523,311 x 0.14%).

The adjustment to customers' penalties in the amount of $335 is determined by subtracting projected customers' penalties under existing rates for twelve months ending February 29, 2024, of $74,017 (Refer to Exhibit No. FII-2-31) from pro forma customers' penalties under existing rates for twelve months ending February 29, 2024, of $74,353

($74,353 - $74,017 = $335). The adjustment to customers' penalties of $335 has been carried forward to Exhibit No. FII-2, page 8 as an adjustment to Account No. 47100500.

Q. Explain Exhibit No. FII-2-42.

A. Exhibit No. FII-2-42 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 of $68,683,317 are multiplied by the two-year average ratio of customers' penalties to total sales of water of 0.14% to determine the pro forma customers' penalties under proposed rates of $97,229 ($68,683,317 x 0.0014).

The adjustment to customers' penalties in the amount of $22,876 is determined by subtracting pro forma customers' penalties under existing rates of $74,353 (Refer to Exhibit No. FII-2-41) from pro forma customers' penalties under proposed rates of $97,229 ($97,229 - $74,353 = $22,876). The adjustment to customers' penalties of $22,876 has been carried forward to Exhibit No. FII-2, page 9, Column 6, as an adjustment to Account No. 47100500.

Q. Explain Exhibit No. FII-3.

A. Exhibit No. FII-3 provides a comparison of present and proposed base rates. The present base rates are those set forth in Supplement No. 134 to Water-Pa P.U.C. No. 14 approved by the Commission March 1, 2019. The proposed base rates are set forth in Supplement No. 143 to Water-Pa. P.U.C. No. 14. A copy of the Company's proposed tariff supplement is attached to Exhibit No. FII-3.

Q. Explain Exhibit No. FII-4.

A. Exhibit No. FII-4 provides a detailed customer consumption analysis by customer classification and meter size. Pages 2 through 7 of Exhibit No. FII-4 provides the application of present metered base rates, which became effective March 1, 2019, to the pro forma customer consumption analysis for the twelve months ending February 29, 2024.

Q. Explain Exhibit No. FII-9

A. Exhibit No. FII-9, page 2 provides the number of customers by class as of December 31, 2019, 2020, and 2021 and the projected number of customers by class as of December 31, 2022, and as of February 29, 2024, February 28, 2025, and February 28, 2026. Page 3 of Exhibit No. FII-9 provides consumption by customer class for the twelve months ended December 31, 2019, 2020, and 2021 and the projected consumption by customer class for the twelve months ending December 31, 2022, and as of February 29, 2024, February 28, 2025, and February 28, 2026.

Q. Explain Exhibit No. FII-11.

A. Exhibit No. FII-11 provides revenues from sales for resale to four municipalities for years ended December 31, 2019, 2020, and 2021. These revenues are for single-point customers covered by the Company’s tariff provisions and are included as commercial customer sales on the Company’s books.

Q. Explain Exhibit No. FII-12.

A. Exhibit No. FII-12 provides consumption and billings at current metered base rates and proposed metered base rates for the Company’s ten largest customers for the twelve months ended December 31, 2021. Exhibit No. FII-12 also provides consumption and billing at metered base rates for the Company's ten largest customers for the twelve months ended December 31, 2020 and 2019.

Q. Explain Exhibit No. FII-13.

A. Exhibit No. FII-13 provides consumption and billings for the twelve months ended December 31, 2021, 2020, and 2019 for the one (1) sale for resale customer not included in Exhibit No. FII-12.

Q. Are you sponsoring any other exhibits relative to operating revenues?

A. Yes, I am also sponsoring Exhibit Nos. F (a)-2, F (a)-3, F (a)-4, F (a)-5, F (b)-4, F (b)-6, FII-5, FII-6, FII-7, FII-8, and FII-10.

Q. Explain Exhibit No. FIII-1.

A. Exhibit No. FIII-1 is a comparative statement of operating expenses per books for the twelve months ended December 31, 2021, and projected operating expenses, by account, for the twelve months ending December 31, 2022, and February 29, 2024.

Q. Explain Exhibit No. FIII-2.

A. The purpose of Exhibit No. FIII-2 is to summarize adjustments to operating expenses for the twelve months ending December 31, 2022, to annualize and normalize the effect of changes occurring during the twelve months ending December 31, 2022, to summarize adjustments to operating expenses for the twelve months ending February 29, 2024, to annualize and normalize the effect of changes occurring during the twelve months ending

February 29, 2024, and to reflect changes in uncollectible accounts expenses due to the increase in operating revenues resulting from the proposed increase in rates.

Pro forma operating expenses for the twelve months ended December 31, 2021, in the amount of $21,048,786 are shown in Column 1 of Exhibit FIII-2, pages 2 through 8. Adjustments required to project operating expenses for the twelve months ending December 31, 2022, in the amount of $1,349,424 are shown in Column 3 of Exhibit FIII-2, pages 2 through 8, and are detailed in Exhibit Nos. FIII-2-1 through FIII-2-12. Projected operating expenses for the twelve months ending December 31, 2022, in the amount of $22,398,210 are shown in Column 4 of Exhibit FIII-2, pages 2 through 8.

Adjustments to operating expenses in the amount of $284,677 to annualize and normalize the effect of changes projected to occur during the twelve months ending December 31, 2022, are shown in Column 6 of Exhibit FIII-2, pages 2 through 8, and are detailed in Exhibit Nos. FIII-2-15 through FIII-2-22. Pro forma operating expenses for the twelve months ending December 31, 2022, in the amount of $22,682,887 are shown in Column 7 of Exhibit FIII-2, pages 2 through 8.

Pro forma operating expenses for the twelve months ending December 31, 2022, in the amount of $22,682,887 are shown in Column 1 of Exhibit FIII-2, pages 9 through 15. Adjustments required to project operating expenses for the twelve months ending February 29, 2024, in the amount of $458,930 are shown in Column 3 of Exhibit FIII-2, pages 9 through 15, and are detailed in Exhibit Nos. FIII-2-25 through FIII-2-37. Projected operating expenses for the twelve months ending February 29, 2024, in the amount of $23,141,818 are shown in Column 4 of Exhibit FIII-2, pages 9 through 15.

Projected operating expenses for the twelve months ending February 29, 2024, in the amount of $23,141,818 are shown in Column 1 of Exhibit FIII-2, pages 16 through 22. Adjustments to operating expenses in the amount of $560,565 to annualize and normalize the effect of changes projected to occur during the twelve months ending February 29, 2024, are shown in Column 3 of Exhibit FIII-2, pages 16 through 22, and are detailed in Exhibit Nos. FIII-2-40 through FIII-2-51. Pro forma operating expenses for the twelve months ending February 29, 2024, in the amount of $23,702,383 are shown in Column 4 of Exhibit FIII-2, pages 16 through 22.

Adjustments to operating expenses in the amount of $84,234 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 FIII-2, pages 16 through 22, and are detailed in Exhibit FIII-2-55. Pro forma operating expenses for the twelve months ending February 29, 2024, in the amount of $23,786,617 are shown in Column 7 of Exhibit FIII-2, pages 16 through 22.

Q. Explain Exhibit FIII-2-1.

A. Exhibit FIII-2-1 is a projection of payroll expense for union and nonunion employees for the future test year ending December 31, 2022. It reflects projected hourly and salary rates effective in 2022, annual cash and equity incentive awards effective in 2022, and projected new employees. The Company included year-end bonuses in an amount of $37,103 in projected payroll expense. The Company has consistently provided year-end bonuses to employees for over 26 years as a part of the employee's overall compensation package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1 reflects pro forma payroll expense for the twelve months ended December 31, 2021, in the amount of $7,756,320 (Refer to Exhibit No. HIII-2-4). Column 2 of Exhibit No. FIII-2-1 reflects the effect during the twelve months ending December 31, 2022, of the projected hourly and salary rate increases effective in 2022, annual cash and equity incentive awards effective in 2022, and projected new employees, in the amount of $687,500. The effect of the projected hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees is determined and shown on Exhibit No. FIII-2-1 (a), which I will explain later. The effect during the twelve months ending December 31, 2022, of the projected hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees in the amount of $687,500 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 2 through 8. Column 3 of Exhibit No. FIII-2-1 reflects the projected payroll expense for the twelve months ending December 31, 2022, in the amount of $8,443,820.

I note that a portion of projected payroll expense for certain specified supervisory and general office employees for twelve months ending December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-10, which I will explain later.

Q. Explain Exhibit No. FIII-2-1 (a).

A. Exhibit No. FIII-2-1 (a) is a projection of the effect during the twelve months ending December 31, 2022, of the projected hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees. Column 1 of Exhibit No. FIII-2-1 (a) reflects the projected payroll expense for the twelve months ending December 31, 2022, in the amount of $8,443,820. The projected payroll expense for the twelve months ending December 31, 2022, in the amount of $8,443,820 is determined and shown on Exhibit No. FIII-2-1 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-2 (a) reflects the annualized payroll expense for the historic test year in the amount of $7,556,320 (Refer to Exhibit No. HIII-2-4). Column 3 of Exhibit No. FIII-2-2 (a) is the projected increase in payroll expense in the amount of $687,500 as a result of the projected union employee increases effective May 1, 2022, the projected nonunion employee increases effective October 1, 2022, annual cash and equity incentive awards, and projected new employees. The projected increase in payroll expense is determined by subtracting the annualized historic test year payroll expense of $7,756,320, shown in Column 2 from the projected payroll expense for the twelve months ending December 31, 2022, of $8,443,820, shown in Column 1 ($8,443,820 - $7,756,320 = $687,500). The amount of the projected payroll expense increases to be incurred during the twelve months ending December 31, 2022, in the amount of $687,500 has been carried forward to Exhibit No. FIII-2-1, Column 2.

Q. Explain Exhibit No. FIII-2-1 (b).

A. Exhibit No. FIII-2-1 (b) provides the distribution of projected labor based on Company labor for the two years ended December 31, 2021. Company labor for the twelve months ended December 31, 2021, of $8,252,050, is shown in Column 1 of Exhibit No. FIII-2-1 (b). Company labor for the twelve months ended December 31, 2020 of $7,882,196 is shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of $16,134,246, which represents the addition of Company labor for the twelve months ended December 31, 2021, and Company labor for the twelve months ended December 31, 2020, is shown in Column 3 on Exhibit No. FIII-2-1 (b). Projected payroll of

$9,368,477 is distributed among the various capital and expense accounts based on the Two-Year Company Labor. The allocation factor of 0.58066 shown in Column 4 of Exhibit No. FIII-2-1 (b) used to distribute projected payroll among the various capital and expense accounts is calculated by dividing Projected Company Labor of $9,368,477 by Two-Year Company Labor of $16,134,246. The allocation factor of 0.58066 is multiplied by each capital and expense amount of Two-Year Company Labor shown in Column 3 of Exhibit No. FIII-2-1 (b) to determine the projected Company labor amount allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-1 (b). Projected Company Labor Expense is carried forward to Column 1 of Exhibit No. FIII-2-1 (a).

Q. Explain Exhibit No. FIII-2-2.

A. Exhibit No. FIII-2-2 projects trustee and portfolio management fees for the twelve months ending December 31, 2022, for the Company's qualified defined benefit pension plans based on projected plan asset values during 2022. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values. The adjustment in trustee and portfolio management fees in the amount of $5,940 is determined by subtracting pro forma trustee and portfolio management fees for the twelve months ended December 31, 2021, of $163,959 (Refer to Exhibit No. HIII-2-13) from the projected trustee and portfolio management fees based on projected plan asset values during the twelve months ending December 31, 2022, of $169,899, which is calculated based on a trustee and portfolio management fee of 0.25%, the current rate, of the average projected plan assets for 2022 of $67,959,721 ($67,959,721 x 0.0025). The average projected plan assets for 2022 of $67,959,721 is determined by averaging the actual plan assets as of December 31, 2021, of $65,583,553 and projected plan assets as of December 31, 2022, of $70,335,889, based on a 6.5% annual growth rate, assumed contributions and distributions. The adjustment in the amount of $5,940 for projected trustee and portfolio management fees as an adjustment to Account No. 60480001 has been carried forward to Exhibit No. FIII-2, Column 3.

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

A. Exhibit No. FIII-2-3 projects health insurance expense and group life insurance expense for the twelve months ending December 31, 2022, 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 projected annual health insurance expense of $1,992,688. The adjustment in the amount of $161,794 is determined by subtracting the portion of health insurance expense to be borne by all employees of $396,116 and the pro forma health insurance expense for the twelve months ended December 31, 2021, in the amount of $1,434,778 from the projected annual health insurance expense of $1,992,688 ($1,992,688 - $396,116 - $1,434,778 = $161,794). The adjustment to Account No. 60480005 of $161,794 has been carried forward to Exhibit No. FIII-2, Column 3.

I note that a portion of projected health insurance expense for the twelve months ended December 31, 2022, was capitalized in accordance with Appendix “B” to the Settlement Agreement 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. FIII-2-10, which I will explain later.

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

A. Exhibit No. FIII-2-4 adjusts auditing fees for the twelve months ending December 31, 2022, based upon the Audit Committee approved proposal for services of the Company’s independent registered public accountants.

The costs of auditing fees for twelve months ending December 31, 2022, are $198,600. The adjustment of $9,032 is determined by subtracting auditing fees incurred and recorded during the twelve months ended December 31, 2021, of $189,568 from proposed auditing fees for the twelve months ending December 31, 2022, of $198,600 ($198,600 - $189,568 = $9,032). The adjustment of auditing fees for the twelve months ending December 31, 2022, of $9,032 as an adjustment to Account No. 63280 has been carried forward to Exhibit No. FIII-2, Column 3.

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

A. Exhibit No. FIII-2-5 projects property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee and highway restoration bond insurance expense for the twelve months ending December 31, 2022, to reflect actual insurance premiums effective January 1, 2022. The projected property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee and highway restoration bond insurance expense for the twelve months ending December 31, 2021, is shown in Column 2 of Exhibit No. FIII-2-5. Property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee and highway restoration bond insurance expense of $869,572 for the twelve months ended December 31, 2021, shown in Column 3 of Exhibit No. FIII-2-5, is subtracted from the projected insurance expense of $1,000,281 to derive the adjustments to property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee and highway restoration bond insurance expense shown in Column 4. The adjustments totaling $130,709 for the insurance premiums have been carried forward to Exhibit No. FIII-2, Column 3.

A portion of projected property insurance expense for twelve months ending December 31, 2022, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the Company's 1987 rate case (Docket No. R-870769) and is reflected as a reduction to operating expenses in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-10, which I will explain later.

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

A. Exhibit No. FIII-2-6 projects workers' compensation insurance expense based on projected payroll for the twelve months ending December 31, 2022, at workers compensation rates in effect as of January 1, 2022. Total projected payroll of $9,368,477 is detailed by workers' compensation insurance classifications of waterworks employees, outside sales and clerical employees in the amounts of $4,855,365, $1,164,616, and $3,348,496, 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 projected payroll by classification to determine the projected initial workers' compensation insurance premiums. The projected initial premiums are $140,320 for waterworks employees, $3,261 for outside sales, and $4,353 for clerical employees. The projected 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 projected premiums subject to experience modification of $147,934 ($140,320 + $3,261 + $4,353 = $147,934) are multiplied by the increased employer's liability limit factor of 1.10% to determine the cost of the increased employer's liability limit of $1,627 ($147,934 x 0.011). The total of initial premiums of $147,934 and increased employer's liability limit cost of $1,637 are multiplied by the Pennsylvania Experience Modification of 1.098 to arrive at adjusted workers' compensation insurance premiums of $164,218 [($147,934 + $1,627) x 1.098]. Adjusted workers' compensation insurance premiums of $164,218 are reduced by a 5.0% schedule rating premium of $(8,211) [$164,218 x (0.05)] and decreased by a 5% safety credit of $7,800 [($164,218 - $8,211) x 0.05] to arrive at premiums adjusted by application of schedule rating and safety credit of $148,207 ($164,218 - $8,211 - $7,800). Premiums adjusted by application of schedule rating and safety credit of $148,207 are decreased by a 11.0% premium discount of $16,303 [$148,207 x (0.11)] and increased by the Pennsylvania Compensation Rating Bureau Fee of $175, a foreign and domestic terrorism surcharge of $2,811, a catastrophe (other than terrorism) surcharge of $1,874 and a 2.48% Pennsylvania Employer Assessment of $3,392 [($148,207 - $16,303 + $175 + $2,811 + $1,874) x 0.0248] to determine projected workers' compensation insurance expense of $140,155 ($148,207 - $16,303 + $175 + $2,811 + $1,874 + $3,392). The adjustment to Workers' Compensation Insurance expense of $12,377 is determined by subtracting pro forma Workers' Compensation Insurance expense for the twelve months ended December 31, 2021, of $127,778 from projected workers' compensation insurance expense of $140,155 ($140,155 - $127,778 = $12,377). The adjustment to Account No. 65880000 of $12,377 has been carried forward to Exhibit No. FIII-2, Column 3.

A portion of projected workers' compensation insurance expense for twelve months ending December 31, 2022, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the Company's 1987 rate case (Docket No. R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-10, which I will explain later.

Q. Explain Exhibit FIII-2-7.

A. Exhibit FIII-2-7 projects uncollectible accounts expense for the twelve months ending December 31, 2022, in the amount of $269,660 by applying the two-year average percent of uncollectible accounts actually written off less recoveries of 0.52% to projected operating revenues under existing rates for the twelve months ending December 31, 2022, of $51,733,559 (Refer to Exhibit No. FII-1) ($51,733,559 x 0.0052). The adjustment to uncollectible accounts in the amount of $1,235 is determined by subtracting pro forma uncollectible accounts during the twelve months ended December 31, 2021, in the amount of $268,425 (Refer to Exhibit No. HIII-2-2) from the calculated projected uncollectible accounts for ratemaking purposes in the amount of $269,660 ($269,660 - $268,425 = $1,235). The adjustment to uncollectible accounts expense in the amount of $1,235 to Account No. 67070000 has been carried forward to Exhibit FIII-2, Column 3.

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

A. Exhibit No. FIII-2-8 projects the allocations to wastewater for the twelve months ending December 31, 2022, based on the Company's current allocation methodology and projected expense adjustments to the accounts that are allocated. Various expenses that are for both the water and wastewater portions of the business are recorded on the water side of the business. At the end of each accounting period, a portion of those allocable expenses are recorded as a reduction to expense on the water side of the business and an addition to expense on the wastewater side of the business.

The allocable portion of indirect labor, indirect fringe benefits, and operating expense to wastewater based on the projected balances of the accounts to be allocated for the twelve months ending December 31, 2022, is calculated to be $(493,323). The payroll taxes and fringe benefits on the direct labor recorded on the wastewater side of the business is calculated to be $(112,121). The adjustment of $(15,683) is determined by subtracting the allocation to wastewater for the twelve months ended December 31, 2021, of $(589,761) by the calculated allocable portion of indirect labor, indirect fringe benefits, and operating expense of $(493,323) and calculated payroll taxes and fringe benefits on the direct labor of $(112,121) [$(493,323) + $(112,121) - $(589,761) = $(15,683)]. The adjustment of allocations to wastewater for the twelve months ending December 31, 2022, of $(15,683) as an adjustment to Account No. 67580005 has been carried forward to Exhibit No. FIII-2, Column 3.

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

A. Exhibit No. FIII-2-9 projects director's fees for the twelve months ending December 31, 2022, based on the Company's current complement of directors, schedule of Board of Director and Board committee meetings, and fee increase as of May 1, 2022. Directors who are also current employees of the Company receive no additional compensation for Board service.

The projected costs of director's fees for twelve months ending December 31, 2022, are $386,960. The adjustment of $36,737 is determined by subtracting pro forma director's fees for the twelve months ended December 31, 2021, of $350,224 from Exhibit No. HIII-2-8, from projected director's fees for the twelve months ending December 31, 2022, of $386,960 ($386,960 - $350,224 = $36,737). The projection of director's fees for the twelve months ending December 31, 2022, of $36,737 as an adjustment to Account No. 67580800 has been carried forward to Exhibit No. FIII-2, Column 3.

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

A. Exhibit No. FIII-2-10 projects administrative and general expenses capitalized for the twelve months ending December 31, 2022, as previously agreed to in the Settlement Agreements under Docket Nos. R-870769 and R-963619 based on projected indirect labor, employee benefit costs, property insurance, workers' compensation insurance, and pension expense for the twelve months ending December 31, 2022, 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 Company has updated the specified supervisory and general office employees to reflect the current complement of employee positions. Some employee positions described in the settlement of the Company's 1987 base rate proceeding no longer exist, and many new employee positions have been created. 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<br>Chief Operating Officer<br>Chief Financial Officer<br>Chief Administrative Officer and General Counsel<br>Controller<br>Finance Manager<br>CPR Clerk<br>CPR Clerk<br>Buyer<br>Materials and Supplies Clerk<br>Operations Manager | Ratio of total payroll directly Capitalized to total payroll |
| (b) | GIS Administrator<br>Assistant Distribution Superintendent<br>Assistant Distribution Superintendent<br>Distribution Superintendent<br>Distribution Line Representative<br>Distribution Customer Service Manager<br>Distribution Services Representative<br>Engineering Technician | Ratio of directly capitalized payroll of Distribution System Department employees to total Distribution System Department payroll |

| | | |
|---|---|---|
| | Engineering Technician<br>Dispatcher<br>Relief Dispatcher | |
| (c) | Maintenance & Grounds Superintendent<br>Maintenance & Grounds Assistant Superintendent<br>Maintenance & Grounds Assistant Superintendent | Ratio of directly capitalized payroll of Maintenance and Grounds Department employees to total Maintenance and Grounds Department payroll |

The two-year average general and administrative employees’ capitalized ratio is 13.38%. This ratio was applied to projected payroll of $1,554,502 for the specified administrative and general employees to determine the projected capitalized indirect labor for general and administrative employees of $207,980 ($1,554,502 x 0.1338). The two-year average distribution employees’ capitalized ratio is 17.95%. This ratio was applied to projected payroll of $645,486 for the specified distribution employees to determine the projected capitalized indirect labor for distribution employees of $115,890 ($645,486 x 0.1795).

The two-year average maintenance and grounds employees’ capitalized ratio is 5.94%. This ratio was applied to projected payroll of $232,040 for the specified maintenance and grounds employees to determine the projected capitalized indirect labor for maintenance and grounds employees’ of $13,773 ($232,040 x 0.0594).

As further provided in the settlement of the Company’s 1987 base rate proceeding at Docket No. R-870769, a portion of group life and health insurance expense and property insurance expense will be 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 will be 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 projected group life and health insurance expense, property insurance expense and pension expense of $1,596,572, $146,100, and $2,516,019, respectively, to determine the projected capitalized employee benefits, property insurance expense and pension expense of $153,404, $14,038, and $241,748, respectively.

The capitalized payroll ratio of 9.61% used to capitalize these expenses is different than the capitalized ratios used for indirect labor because the calculations are based on different allocation factors as prescribed by the Settlement Agreement. The latter ratio compares total capitalized payroll to total payroll, while the ratios used for indirect labor concern only a portion of the Company's employees.

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 FIII-2-1 (b) of $918,246 to determine capitalized workers' compensation expense of $13,725. The 8.01% ratio of payroll taxes (including FICA, FUTA, and SUTA) was applied to pro forma capitalized labor from Exhibit FIII-2-1 (b) of $918,246 to determine capitalized payroll tax expense of $73,562. 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.

Projected capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense total $834,118 ($207,980 + $115,890 + $13,773 + $153,404 + $14,038 + $13,725 + $73,562 + $241,748). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense in the amount of $33,593 is determined by subtracting pro forma capitalized indirect labor, employee benefits, property insurance expenses, payroll taxes and pension expense for the twelve months ended December 31, 2021, of $800,525 from calculated projected capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense of $834,118 ($834,118 - $800,525). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense in the amount of $(33,593) as an adjustment to Account No. 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2, Column 3 and Exhibit No. FIV-15.

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

A. Exhibit No. FIII-2-11 projects increased operating expenses for additional costs of customer accounting and collecting expenses (excluding uncollectible accounts), purchased power and chemicals resulting from the projection of the net increase in number of customers served during the twelve months ending December 31, 2022.

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 $236,925 representing projected increases from load growth, as calculated on Exhibit Nos. FII-2-1 through FII-2-6, to derive an adjustment of $16,887 ($236,925 x 0.071). The adjustment in the amount of $16,887 for additional costs of customer accounting and collecting, purchased power and chemicals has been carried forward to Exhibit No. FIII-2, Column 3.

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

A. Exhibit No. FIII-2-12 projects the effect of inflation during the twelve months ending December 31, 2022, on operating expenses, which have not been specifically adjusted to future test year levels. Amounts specifically adjusted in this rate filing are identified and deducted from total operating expenses for twelve months ended December 31, 2021, to determine the remaining expenses for twelve months ended December 31, 2021, which have not been specifically adjusted to reflect the effects of inflation of $5,628,687. The projected effect of inflation on operating expenses not specifically adjusted in the amount of $360,236 is determined by applying the annual percent change in the CPI-U Index between February 2021 and February 2022 of 6.4% to the total operating expenses not specifically adjusted of $5,628,687 ($5,628,687 x 0.064). The adjustment of $360,236 has been carried forward to Exhibit No. FIII-2, Column 3 and identified as General Price Level Adjustment.

Q. Explain Exhibit FIII-2-15.

A. Exhibit FIII-2-15 is a pro forma of payroll expense for union and nonunion employees for the future test year ending December 31, 2022. It reflects projected hourly and salary rates effective in 2022, annual cash and equity incentive awards effective in 2022, and projected new employees. The Company included year-end bonuses in an amount of $37,103 in projected payroll expense. The Company has consistently provided year-end bonuses to employees for over 26 years as a part of the employee's overall compensation package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1 reflects projected payroll expense for the twelve months ended December 31, 2021, in the amount of $8,443,820 (Refer to Exhibit No. FIII-2-1). Column 2 of Exhibit No. FIII-2-1 reflects the effect during the twelve months ending December 31, 2022, of the pro forma hourly and salary rate increases effective in 2022, annual cash and equity incentive awards effective in 2022, and projected new employees in the amount of $301,810. The effect of the pro forma hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees is determined and shown on Exhibit No. FIII-2-15 (a), which I will explain later. The effect during the twelve months ending December 31, 2022, of the pro forma hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees in the amount of $301,810 has been carried forward to Column 6 of Exhibit No. FIII-2. Column 3 of Exhibit No. FIII-2-1 reflects the pro forma payroll expense for the twelve months ending December 31, 2022, in the amount of $8,745,630.

I note that a portion of pro forma payroll expense for certain specified supervisory and general office employees for twelve months ending December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-21, which I will explain later.

Q. Explain Exhibit No. FIII-2-15 (a).

A. Exhibit No. FIII-2-15 (a) is a pro forma of the effect during the twelve months ending December 31, 2022, of the projected hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees. Column 1 of Exhibit No. FIII-2-1 (a) reflects the pro forma payroll expense for the twelve months ending December 31, 2022, in the amount of $8,745,630. The pro forma payroll expense for the twelve months ending December 31, 2022, in the amount of $8,745,630 is determined and shown on Exhibit No. FIII-2-15 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-15 (a) reflects the projected payroll expense for the twelve months ending December 31, 2022 in the amount of $8,443,820 (Refer to Exhibit No. FIII-2-1). Column 3 of Exhibit No. FIII-2-15 (a) is the pro forma increase in payroll expense in the amount of $301,810 as a result of the projected union employee increases effective May 1, 2022, the projected nonunion employee increases effective October 1, 2022, annual cash and equity incentive awards, and projected new employees. The pro forma increase in payroll expense is determined by subtracting the projected payroll expense for the twelve months ending December 31, 2022, of $8,443,820, shown in Column 2 from the pro forma payroll expense for the twelve months ending December 31, 2022, of $8,745,630, shown in Column 1 ($8,745,630 - $8,443,820 = $301,810). The amount of the pro forma payroll expense increases to be incurred during the twelve months ending December 31, 2022, in the amount of $301,810 has been carried forward to Exhibit No. FIII-2-15, Column 2.

Q. Explain Exhibit No. FIII-2-15 (b).

A. Exhibit No. FIII-2-15 (b) provides the distribution of pro forma labor based on Company labor for the two years ended December 31, 2021. Company labor for the twelve months ended December 31, 2021, of $8,252,050, is shown in Column 1 of Exhibit No. FIII-2-1 (b). Company labor for the twelve months ended December 31, 2020 of $7,882,196 is shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of $16,134,246, which represents the addition of Company labor for the twelve months ended December 31, 2021, and Company labor for the twelve months ended December 31, 2020, is shown in Column 3 on Exhibit No. FIII-2-1 (b). Pro forma payroll of $9,703,337 is distributed among the various capital and expense accounts based on the Two-Year Company Labor. The allocation factor of 0.60141 shown in Column 4 of Exhibit No. FIII-2-15 (b) used to distribute pro forma payroll among the various capital and expense accounts is calculated by dividing Pro Forma Company Labor of $9,703,337 by Two-Year Company Labor of $16,134,246. The allocation factor of 0.60141 is multiplied by each capital and expense amount of Two-Year Company Labor shown in Column 3 of Exhibit No. FIII-2-1 (b) to determine the pro forma Company labor amount allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-15 (b). Pro Forma Company Labor Expense is carried forward to Column 1 of Exhibit No. FIII-2-15 (a).

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

A. Exhibit No. FIII-2-16 adjusts trustee and portfolio management fees for the twelve months ending December 31, 2022, for the Company's qualified defined benefit pension plans based on projected plan asset values as of December 31, 2022. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values. The adjustment in trustee and portfolio management fees in the amount of $5,940 is determined by subtracting projected trustee and portfolio management fees for the twelve months ending December 31, 2022, of $169,899 (Refer to Exhibit No. FIII-2-2) from the pro forma trustee and portfolio management fees based on projected plan asset values as of December 31, 2022, of $175,840, which is calculated based on a trustee and portfolio management fee of 0.25% of the projected plan assets as of December 31, 2022, of $70,335,889 ($70,335,889 x 0.0025). The projected plan assets as of December 31, 2022, of $70,335,889 are based on a 6.5% annual growth rate, assumed contributions and assumed distributions. The adjustment in the amount of $5,940 for pro forma trustee and portfolio management fees as an adjustment to Account No. 60480001 has been carried forward to Exhibit No. FIII-2, Column 6.

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

A. Exhibit No. FIII-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 $9,703,337 is detailed by workers' compensation insurance classifications of waterworks employees, outside sales and clerical employees in the amounts of $4,949,871, $1,225,298 and $3,528,168, 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 pro forma initial workers' compensation insurance premiums. The initial premiums are $143,051 for waterworks employees, $3,431 for outside sales, and $4,587 for clerical employees. The initial premiums are subject to an increased employer's liability limits 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 $151,069 ($143,051 + $3,431 + $4,587 = $151,069) are multiplied by the increased employer's liability limit factor of 1.10% to determine the cost of the increased employer's liability limits of $1,662 ($151,069 x 0.011). The total of initial premiums of $151,069 and increased employer's liability limits cost of $1,662 are multiplied by the Pennsylvania Experience Modification of 1.098 to arrive at adjusted workers' compensation insurance premiums of $167,698 [(151,069 + $1,662) x 1.098]. Adjusted workers' compensation insurance premiums of $167,698 are decreased by a 5.0% schedule rating premium of $(8,385) [$167,698 x 0.05)] and decreased by a 5% safety credit of $(7,966) [($167,698 - $8,385) x 0.05] to arrive at premiums adjusted by application of schedule rating and safety credit of $151,348 ($167,698 - $8,385 - $7,966). Premiums adjusted by application of schedule rating and safety credit of $151,348 are decreased by a 11.0% premium discount of $(16,648) ($151,348 x 0.11) and increased by the Pennsylvania Compensation Rating Bureau Fee of $175, a foreign and domestic terrorism surcharge of $2,911, a catastrophe (other than terrorism) surcharge of $1,941 and a 2.48% Pennsylvania Employer Assessment of $2,782 [($151,348 - $16,648 + $175 + $2,911 + $1,941) x 0.0248] to determine pro forma workers' compensation insurance expense of $143,191 ($151,348 - $16,648 + $175 + $2,911 + $1,941 + $3,465). The adjustment to Workers' Compensation Insurance expense of $3,036 is determined by subtracting projected Workers' Compensation Insurance expense during the twelve months ending December 31, 2022, of $140,155 from pro forma workers' compensation insurance expense of $143,191 ($143,191 - $140,155 = $3,036). The adjustment to Account No. 65880000 of $3,036 has been carried forward to Exhibit No. FIII-2, Column 6.

A portion of pro forma workers' compensation insurance expense for twelve months ending December 31, 2022, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the Company's 1987 rate case (Docket R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-21, which I will explain later.

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

A. Exhibit No. FIII-2-18 annualizes uncollectible accounts expense for the twelve months ending December 31, 2022, in the amount of $270,895 by applying the two-year average percent of uncollectible accounts actually written off less recoveries of 0.52% to pro forma operating revenues under existing rates for the twelve months ending December 31, 2022, of $51,970,485 (Refer to Exhibit No. FII-2) ($51,970,485 x 0.0052). The adjustment to uncollectible accounts in the amount of $1,235 is determined by subtracting projected uncollectible accounts during the twelve months ending December 31, 2022, in the amount of $269,660 (Refer to Exhibit No. FIII-2-7) from the calculated pro forma uncollectible accounts for ratemaking purposes in the amount of $270,895 ($270,895 - $269,660 = $1,235). The adjustment of $1,235 to Account No. 67070000 has been carried forward to Exhibit No. FIII-2, Column 6.

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

A. Exhibit No. FIII-2-19 annualizes the allocations to wastewater for the twelve months ending December 31, 2022, based on the Company's current allocation methodology and pro forma expense adjustments to the accounts that are allocated. Various expenses that are for both the water and wastewater portions of the business are recorded on the water side of the business. At the end of each accounting period, a portion of those allocable expenses are recorded as a reduction to expense on the water side of the business and an addition to expense on the wastewater side of the business.

The allocable portion of indirect labor, indirect fringe benefits and operating expense to wastewater based on the pro forma balances of the accounts to be allocated for the twelve months ending December 31, 2022, is calculated to be $(502,945). The payroll taxes and fringe benefits on the direct labor recorded on the wastewater side of the business is calculated to be $(116,129). The adjustment of $(13,629) is determined by subtracting the projected allocation to wastewater for the twelve months ending December 31, 2022, of $(605,444) (see Exhibit No. FIII-2-8) by the calculated allocable portion of indirect labor, indirect fringe benefits and operating expense of $(502,945) and calculated payroll taxes and fringe benefits on the direct labor of $(116,129) [$(502,945) + $(116,129) - $(605,444) = $(13,629)]. The adjustment of allocations to wastewater for the twelve months ending December 31, 2022, of $(13,629) as an adjustment to Account No. 67580005 has been carried forward to Exhibit No. FIII-2, Column 6.

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

A. Exhibit No. FIII-2-20 annualizes director's fees for the twelve months ending December 31, 2022, based on the Company's current complement of directors, schedule of meetings, and the increased rates effective in May 2022. The adjustment to annualize, in the amount of $9,010, is determined by subtracting the projected director's fees for the twelve months ending December 31, 2022 (see Exhibit No. FIII-2-9) in the amount of $386,960 from the calculated pro forma director's fees for the twelve months ended December 31, 2022, of $359,970 ($359,970 - $386,960 = $9,010). The annualization adjustment of $9,010 is carried forward to Exhibit No. FIII-2, Column 6. Directors who are also current employees of the Company receive no additional compensation for Board service.

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

A. Exhibit No. FIII-2-21 adjusts administrative and general expenses capitalized for the twelve months ending December 31, 2022, in accordance with the Settlement Agreements under Docket Nos. R-870769 and R-963619 based on pro forma indirect labor, employee benefit costs, property insurance, workers' compensation insurance and pension expense for the twelve months ending December 31, 2022, 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 Company has updated the specified supervisory and general office employees to reflect the current complement of employee positions. Some employee positions described in the Settlement of the Company's 1987 base rate proceeding no longer exist, and many new employee positions have been created. 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<br>Chief Operating Officer<br>Chief Financial Officer<br>Chief Administrative Officer and General Counsel<br>Controller<br>Finance Manager<br>CPR Clerk | Ratio of total payroll directly Capitalized to total payroll |

| | | |
|---|---|---|
| | CPR Clerk<br>Buyer<br>Materials and Supplies Clerk<br>Operations Manager | |
| (b) | GIS Administrator<br>Assistant Distribution Superintendent<br>Assistant Distribution Superintendent<br>Distribution Superintendent<br>Distribution Line Representative<br>Distribution Customer Service Manager<br>Distribution Services Representative<br>Engineering Technician<br>Engineering Technician<br>Dispatcher<br>Relief Dispatcher | Ratio of directly capitalized payroll of Distribution System Department employees to total Distribution System Department payroll |
| (c) | Maintenance & Grounds Superintendent<br>Maintenance & Grounds Assistant Superintendent<br>Maintenance & Grounds Assistant Superintendent | Ratio of directly capitalized payroll of Maintenance and Grounds Department employees to total 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 $1,648,045 for the specified administrative and general employees to determine the pro forma capitalized indirect labor for general and administrative employees of $220,495 ($1,648,045 x 0.1338).

The two-year average distribution employees' capitalized ratio is 17.95%. This ratio was applied to pro forma payroll of $714,959 for the specified distribution employees to determine the pro forma capitalized indirect labor for distribution employees of $128,363 ($714,959 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 $240,600 for the specified maintenance and grounds employees to determine the pro forma capitalized indirect labor for maintenance and grounds employees of $14,281 ($240,600 x 0.0594).

As further provided in the settlement of the Company's 1987 base rate proceeding at Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense, workers' compensation insurance expense, and property insurance will be 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 $1,596,572, $146,100, and $2,521,960, respectively, to determine the pro forma capitalized employee benefits, property insurance expense, and pension expense of $153,404, $14,038, and $242,318, respectively.

The capitalized payroll ratio of 9.61% used to capitalize a portion of pension expense is lower than the capitalized ratios used for indirect labor because the calculations are based on different allocation factors as prescribed by the Settlement Agreement. The latter ratio compares total capitalized payroll to total payroll, while the ratios used for indirect labor concern only a portion of the Company's employees.

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 FIII-2-15 (b) of $951,067 to determine capitalized workers' compensation expense of $14,215.

The 8.01% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro forma capitalized labor from Exhibit FIII-2-15 (b) of $951,067 to determine capitalized payroll tax expense of $76,191. 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.

Total pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense total $863,305 ($220,495 + $128,363 + $14,281 + $153,404 + $14,038 + $14,215 + $76,191 + $242,318). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense in the amount of $29,187 is determined by subtracting projected capitalized indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension expense for the twelve months ending December 31, 2022, of $834,118 from calculated pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense of $863,305 ($863,305 - $834,118). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense in the amount of $(29,187) as an adjustment to Account No. 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2, Column 6 and Exhibit No. FIV-15, Column 6.

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

A. Exhibit No. FIII-2-22 adjusts operating expenses in the amount of $16,887 for additional costs of customer accounting and collecting expenses (excluding uncollectible accounts), purchased power and chemicals resulting from the annualization of the net increase in number of customers served during the twelve months ending December 31, 2022. 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 $236,925 representing pro forma increases from load growth, as calculated on Exhibit Nos. FII-2-11 through FII-2-16, to derive the adjustment of $16,887 ($236,925 x 0.071). The adjustment in the amount of $16,887 for additional costs of customer accounting and collecting, purchased power and chemicals has been carried forward to Exhibit No. FIII-2, Column 6.

Q. Explain Exhibit FIII-2-25.

A. Exhibit FIII-2-25 is a projection of payroll expense for union and nonunion employees for the fully projected future test year ending February 29, 2024. It reflects projected hourly and salary rates effective in 2023 and annual cash and equity incentive awards effective in 2023. The Company included year-end bonuses in an amount of $37,103 in projected payroll expense. The Company has consistently provided year-end bonuses to employees for over 26 years as a part of the employee's overall compensation package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1 reflects pro forma payroll expense for the twelve months ending December 31, 2022, in the amount of $8,745,630 (Refer to Exhibit No. FIII-2-15). Column 2 of Exhibit No. FIII-2-25 reflects the effect during the twelve months ending February 29, 2024, of the projected hourly and salary rate increases effective in 2023 and annual cash and equity incentive awards effective in 2023 in the amount of $136,051. The effect of the projected hourly and salary rate increases and annual cash and equity incentive awards is determined and shown on

Exhibit No. FIII-2-25 (a), which I will explain later. The effect during the twelve months ending February 29, 2024, of the projected hourly and salary rate increases and annual cash and equity incentive awards in the amount of $136,051 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15. Column 3 of Exhibit No. FIII-2-25 reflects the projected payroll expense for the twelve months ending February 29, 2024, in the amount of $8,881,681.

I note that a portion of projected payroll expense for certain specified supervisory and general office employees for twelve months ending February 29, 2024, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-34, which I will explain later.

Q. Explain Exhibit No. FIII-2-25 (a).

A. Exhibit No. FIII-2-25 (a) is a projection of the effect during the twelve months ending February 29, 2024, of the projected hourly and salary rate increases and annual cash and equity incentive awards. Column 1 of Exhibit No. FIII-2-25 (a) reflects the projected payroll expense for the twelve months ending February 29, 2024, in the amount of $8,881,681. The projected payroll expense for the twelve months ending February 29, 2024, in the amount of $8,881,681 is determined and shown on Exhibit No. FIII-2-25 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-25 (a) reflects the pro forma payroll expense for the future test year in the amount of $8,745,630 (Refer to Exhibit No. FIII-2-15). Column 3 of Exhibit No. FIII-2-25 (a) is the projected increase in payroll expense in the amount of $136,051 as a result of the projected union employee increases effective May 1, 2023, the projected nonunion employee increases effective October 1, 2023, and annual cash and equity incentive awards. The projected increase in payroll expense is determined by subtracting the pro forma future test year payroll expense of $8,745,630, shown in Column 2 from the projected payroll expense for the twelve months ending February 29, 2024, of $8,881,681, shown in Column 1 ($8,881,681 - $8,745,630 = $136,051). The amount of the projected payroll expense increases to be incurred during the twelve months ending February 29, 2024, in the amount of $136,051 has been carried forward to Exhibit No. FIII-2-25, Column 2.

Q. Explain Exhibit No. FIII-2-25 (b).

A. Exhibit No. FIII-2-1 (b) provides the distribution of projected labor based on Company labor for the two years ended December 31, 2021. Company labor for the twelve months ended December 31, 2021, of $8,252,050, is shown in Column 1 of Exhibit No. FIII-2-1 (b). Company labor for the twelve months ended December 31, 2020 of $7,882,196 is shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of $16,134,246, which represents the addition of Company labor for the twelve months ended December 31, 2021, and Company labor for the twelve months ended December 31, 2020, is shown in Column 3 on Exhibit No. FIII-2-1 (b). Projected payroll of $9,854,287 is distributed among the various capital and expense accounts based on the Two-Year Company Labor. The allocation factor of 0.61077 shown in Column 4 of Exhibit No. FIII-2-25 (b) used to distribute projected payroll among the various capital and expense accounts is calculated by dividing Projected Company Labor of $9,854,287 by Two-Year Company Labor of $16,134,246. The allocation factor of 0.61077 is multiplied by each capital and expense amount of Two-Year Company Labor shown in Column 3 of Exhibit No. FIII-2-25 (b) to determine the projected Company labor amount allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-

25 (b). Projected Company Labor Expense is carried forward to Column 1 of Exhibit No. FIII-2-25 (a).

Q. Explain Exhibit No. FIII-2-26.

A. Exhibit No. FIII-2-26 projects trustee and portfolio management fees for the twelve months ending February 29, 2024, for the Company's qualified defined benefit pension plans based on projected plan asset values. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values. The adjustment in trustee and portfolio management fees in the amount of $7,550 is determined by subtracting pro forma trustee and portfolio management fees for the twelve months ended December 31, 2022, of $175,840 (Refer to Exhibit No. HIII-2-16) from the projected trustee and portfolio management fees based on projected plan asset values during the twelve months ending February 29, 2024, of $183,390, which is calculated based on a trustee and portfolio management fee of 0.25%, the current rate, of the average projected plan assets of $73,356,023 ($73,356,023 x 0.0025). The average projected plan assets of $73,356,023 is determined by averaging the projected plan assets as of February 28, 2023, of $71,181,996 and projected plan assets as of February 29, 2024, of $75,350,051, based on a 6.5% annual growth rate, assumed contributions and distributions. The adjustment in the amount of $7,550 for projected trustee and portfolio management fees as an adjustment to Account No. 60480001 has been carried forward to Column 3 of Exhibit No. FIII-2, Pages 9 through 15.

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

A. Exhibit No. FIII-2-27 projects health insurance expense for the twelve months ending February 29, 2024, based on the Company's complement of employees and the annualization of projected monthly premiums effective in 2023, 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 projected 2023 monthly insurance premiums by class, as determined through consultation with the Company's actuary, are annualized to determine the projected annual health insurance expense of $2,123,831. The adjustment in the amount of $99,136 is determined by subtracting the portion of health insurance expense to be borne by all employees of $428,123 and the projected health insurance expense for the twelve months ended December 31, 2022, in the amount of $1,596,572 from the projected annual health insurance expense of $2,123,831 ($2,123,831 - $428,123 - $1,596,572 = $99,136). The adjustment to Account No. 60480005 of $99,136 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

I note that a portion of projected health insurance expense for the twelve months ended February 29, 2024, was capitalized in accordance with Appendix "B" to the Settlement Agreement 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. FIII-2-34, which I will explain later.

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

A. Exhibit No. FIII-2-28 projects auditing fees for the twelve months ending February 29, 2024, based upon the increase in 2022 fees over 2021 fees of 3.0% for services of the Company's independent registered public accountants for the integrated audits of the financial statements and internal controls, quarterly reviews, and tax preparation of the federal income tax return, and upon the increase in 2022 fees over 2021 fees of 1.0% for service of the Company's independent auditors for the limited scope audits of the employee benefit plans.

The costs of auditing fees for twelve months ending December 31, 2022, are $198,600 as shown on Exhibit No. FIII-2-4. Projected auditing fees for the twelve months ending February 29, 2024, of $204,250 are calculated by taking the 2022 auditing fees for the integrated audits of the financial statements and internal controls, quarterly reviews, and tax preparation of the federal income tax return and applying a 3.0% increase ($180,600 x 1.03 = $186,050) and by taking the 2022 auditing fees for the limited scope audits of the employee benefit plans and applying a 1.0% increase ($18,000 x 1.01 = $18,200). The adjustment of $5,650 is determined by subtracting auditing fees for the twelve months ending December 31, 2022, of $198,600 from proposed auditing fees for the twelve months ending February 29, 2024, of $204,250 ($204,250 - $198,600 = $5,650). The adjustment to auditing fees for the twelve months ending February 29, 2024, of $5,650 as an adjustment to Account No. 63280 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-29 projects property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee and highway restoration bond insurance expense for the twelve months ending February 29, 2024, based upon actual insurance premiums effective January 1, 2022, with an average inflationary increases and anticipated increases in coverage amounts of certain lines of insurance. The projected property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee, and highway restoration bond insurance expense for the twelve months ending February 29, 2024, is shown in Column 2. Property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee, and highway restoration bond insurance expense of $1,000,281 for the future test year ended December 31, 2022, shown in Column 3 of Exhibit No. FIII-2-5, is subtracted from the projected insurance expense of $1,172,131 to derive the adjustments to property, miscellaneous property floater, crime and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and officers liability, pollution and underground storage tank liability, employment practices, flood, kidnap and ransom, service fee, and highway restoration bond insurance expense shown in Column 4. The adjustments totaling $171,850 for the insurance premiums have been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

A portion of projected property insurance expense for twelve months ending February 29, 2024, is capitalized in accordance with Appendix “B” to the Settlement Agreement in the Company’s 1987 rate case (Docket No. R-870769) and is reflected as a reduction to operating expenses in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-34, which I will explain later.

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

A. Exhibit No. FIII-2-30 projects workers' compensation insurance expense based on projected payroll for the twelve months ending February 29, 2024, at workers compensation rates in effect as of January 1, 2022. Total projected payroll of $9,854,287 is detailed by workers' compensation insurance classifications of waterworks employees, outside sales and clerical employees in the amounts of $5,033,456, $1,242,969 and $3,577,862, 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 projected payroll by classification to determine the projected initial workers' compensation insurance premiums. The projected initial premiums are $145,467 for waterworks employees, $3,480 for outside sales and $4,651 for clerical employees. The projected 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 projected premiums subject to experience modification of $153,598 ($145,467 + $3,480 + $4,651 = $153,598) are multiplied by the increased employer's liability limit factor of 1.10% to determine the cost of the increased employer's liability limit of $1,690 ($153,598 x 0.011). The total of initial premiums of $153,598 and increased employer's liability limit cost of $1,690 are multiplied by the Pennsylvania Experience Modification of 1.098 to arrive at adjusted workers' compensation insurance premiums of $170,506 [($153,598 + $1,690) x 1.098]. Adjusted workers' compensation insurance premiums of $170,506 are decreased by a 5.0% schedule rating premium of $(8,525) [$170,506 x (0.05)] and decreased by a 5% safety credit of $(8,099) [($170,506 - $8,525) x 0.05] to arrive at premiums adjusted by application of schedule rating and safety credit of $153,882 ($170,506 - $8,525 - $8,099). Premiums adjusted by application of schedule rating and safety credit of $153,882 are decreased by a 11.0% premium discount of $(16,927) [$153,882 x (0.11)] and increased by the Pennsylvania Compensation Rating Bureau Fee of $175, a foreign and domestic terrorism surcharge of $2,956, a catastrophe (other than terrorism) surcharge of $1,971, and a 2.48% Pennsylvania Employer Assessment of $3,523 [($153,882 - $16,927 + $175 + $2,956 + $1,971) x 0.0248] to determine projected workers' compensation insurance expense of $145,580 [($153,882 - $16,927 + $175 + $2,956 + $1,971 + $3,523). The adjustment to Workers' Compensation Insurance expense of $2,389 is determined by subtracting pro forma Workers' Compensation Insurance expense for the twelve months ended December 31, 2022, of $143,191 from projected workers' compensation insurance expense of $145,580 ($145,580 - $143,191 = $2,389). The adjustment to Account No. 65880000 of $2,389 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

A portion of projected workers' compensation insurance expense for twelve months ending February 29, 2024, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the Company's 1987 rate case (Docket No. R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-34, which I will explain later.

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

A. Exhibit No. FIII-2-31 projects uncollectible accounts expense for the twelve months ending February 29, 2024, in the amount of $272,542 by applying the two-year average percent of uncollectible accounts actually written off less recoveries of 0.52% to projected operating revenues under existing rates for the twelve months ending February 29, 2024, of $52,286,385 (Refer to Exhibit No. FII-1) ($52,286,385 x 0.0052). The adjustment to uncollectible accounts in the amount of $1,647 is determined by subtracting pro forma uncollectible accounts during the twelve months ending December 31, 2022, in the amount of $270,895 (Refer to Exhibit No. FIII-2-18) from the calculated projected uncollectible accounts for ratemaking purposes in the amount of $272,542 ($272,542 - $270,895 = $1,647). The adjustment to uncollectible accounts expense in the amount of $1,647 to Account No. 67070000 has been carried forward to Column 3 of Exhibit FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-32 projects the allocations to wastewater for the twelve months ending February 29, 2024, based on the Company's current allocation methodology and projected expense adjustments to the accounts that are allocated. Various expenses that are for both the water and wastewater portions of the business are recorded on the water side of the business. At the end of each accounting period, a portion of those allocable expenses are recorded as a reduction to expense on the water side of the business and an addition to expense on the wastewater side of the business.

The allocable portion of indirect labor, indirect fringe benefits, and operating expense to wastewater based on the projected balances of the accounts to be allocated for the twelve months ending February 29, 2024, is calculated to be $(484,130). The payroll taxes and fringe benefits on the direct labor recorded on the wastewater side of the business is calculated to be $(117,935). The adjustment of $17,008 is determined by subtracting the allocation to wastewater for the future test year ended December 31, 2022, of $(619,073) (see Exhibit No. FIII-2-19) by the calculated allocable portion of indirect labor, indirect fringe benefits and operating expense of $(484,130) and calculated payroll taxes and fringe benefits on the direct labor of $(117,935) [$(484,130) + $(117,935) - $(619,073) = $17,008]. The adjustment of allocations to wastewater for the twelve months ending February 29, 2024, of $17,008 as an adjustment to Account No. 67580005 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-33 projects director's fees for the twelve months ending February 29, 2024, based on the Company's 2022 complement of directors, schedule of Board of Director and Board committee meetings, and projected fee increase as of May 1, 2023. Directors who are also current employees of the Company receive no additional compensation for Board service.

The projected costs of director's fees for the twelve months ending February 29, 2024, are $422,833. The adjustment of $26,863 is determined by subtracting pro forma director's fees for the twelve months ended December 31, 2022, of $395,970 from Exhibit No. FIII-2-25, from projected director's fees for the twelve months ending February 29, 2024, of $422,833 ($422,833 - $395,970 = $26,863). The projection of director's fees for the twelve months ending February 29, 2024, of $26,863 as an adjustment to Account No. 67580800 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-34 projects administrative and general expenses capitalized for the twelve months ending February 29, 2024, as previously agreed to in the Settlement Agreements under Docket Nos. R-870769 and R-963619 based on projected indirect labor, employee benefit costs, property insurance, workers' compensation insurance, and pension expense for the twelve months ending February 29, 2024, 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 Company has updated the specified supervisory and general office employees to reflect the current complement of employee positions. Some employee positions described in the settlement of the Company's 1987 base rate proceeding no longer exist, and many new employee positions have been created. Please refer to my testimony with regard to Exhibit No. FIII-2-10 for a listing of employee positions capitalized and the allocation ratio for each.

The two-year average general and administrative employees' capitalized ratio is 13.38%. This ratio was applied to projected payroll of $1,668,606 for the specified administrative and general employees to determine the projected capitalized indirect labor for general and administrative employees of $223,246 ($1,658,606 x 0.1338). The two-year average distribution employees' capitalized ratio is 17.95%. This ratio was applied to projected payroll of $723,858 for the specified distribution employees to determine the projected capitalized indirect labor for distribution employees of $129,960 ($723,858 x 0.1795).

The two-year average maintenance and grounds employees' capitalized ratio is 5.94%. This ratio was applied to projected payroll of $243,597 for the specified maintenance and grounds employees to determine the projected capitalized indirect labor for maintenance and grounds employees' of $14,459 ($243,597 x 0.0594).

As further provided in the settlement of the Company's 1987 base rate proceeding at Docket No. R-870769, a portion of group life and health insurance expense and property insurance expense will be 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 will be 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 projected group life and health insurance expense, property insurance expense, and pension expense of $1,695,708, $160,710, and $1,785,510, respectively, to determine the projected capitalized employee benefits, property insurance expense, and pension expense of $162,929, $15,442 and $171,558, respectively.

The capitalized payroll ratio of 9.61% used to capitalize these expenses is different than the capitalized ratios used for indirect labor because the calculations are based on different allocation factors as prescribed by the Settlement Agreement. The latter ratio compares total capitalized payroll to total payroll, while the ratios used for indirect labor concern only a portion of the Company's employees.

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 FIII-2-25 (b) of $965,862 to determine capitalized workers' compensation expense of $14,436. The 8.01% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro forma capitalized labor from Exhibit FIII-2-25 (b) of $965,862 to determine capitalized payroll tax expense of $77,376. 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.

Projected capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense total $809,406 ($223,246 + $129,960 + $14,459 + $162,929 + $15,442 + $14,436 + $77,376 + $171,558). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense in the amount of $(53,899) is determined by subtracting pro forma capitalized indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension expense for the twelve months ended December 31, 2022, of $863,305 from calculated projected capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense of $809,406 ($809,406 - $863,305). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense in the amount of $53,899 as an adjustment to Account No.

67580002 and Account No. 40801302 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15 and Exhibit No. FIV-15.

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

A. Exhibit No. FIII-2-35 is to adjust pension expense included in the cost of service for the Company's two defined benefit pension plans (one plan for general and administrative employees and one plan for union-represented employees) to reflect the cash contribution to the pension trust. 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 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-00061322, dated September 16, 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 expense as part of full settlements of those cases.

The Company intends to make cash contributions to its two defined benefit pension plans equal to the Service Cost as of January 1, 2021, the Amortization of Net Loss as of January 1, 2021, and the Amortization of Prior Service Cost as of January 1, 2021. The service cost represents the cost of benefits that are earned each year by the participants. The amortization of the net loss is the recognition of losses from the annual remeasurement of the plan over a period of time the Company believes is consistent with the recognition of the ongoing service cost. The amortization of the prior service cost is the recognition of the benefit of previous plan amendments the Company believes is consistent with the recognition of the ongoing service cost.

For the general and administrative employees pension plan, the service cost is $771,920, the amortization of the net loss is $389,249, and the amortization of the prior service cost is $(12,379). For the union-represented employees pension plan, the service cost is $313,584, the amortization of the net loss is $93,798, and the amortization of the prior service cost is $(375). The total to be contributed is rounded to $1,556,000 [$771,920 + $389,249 + $(12,379) + $313,584 + $93,798 + $(375) = $1,555,797].

The Company believes that it is in the best interest of the plans, their participants, and York Water's customers to make cash contributions to the plans to ensure that the plans are fully funded. The Company is recommending a contribution to the plans to fund the service cost, the amortization of the net loss, and the amortization of the prior service cost that will maintain the fully funded status of the plans.

The adjustment in pension expense in the amount of $(744,000) is determined by subtracting actual pension contributions made during the twelve months ended December 31, 2021, in the amount of $2,300,000 from the projected cash contributions during the twelve months ending February 29,2024 of $1,556,000. The pension adjustment in the amount of $(744,000) ($1,556,000 - $2,300,000) to account 67580003 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-36 projects increased operating expenses for additional costs of customer accounting and collecting expenses (excluding uncollectible accounts), purchased power and chemicals resulting from the projection of the net increase in number of customers served during the twelve months ending February 29, 2024.

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 $315,901 representing projected increases from load growth, as calculated on Exhibit Nos. FII-2-20 through FII-2-29, to derive an adjustment of $22,516 ($315,901 x 0.071).

The adjustment in the amount of $22,516 for changes in costs of customer accounting and collecting, purchased power, and chemicals has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

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

A. Exhibit No. FIII-2-37 projects the effect of inflation during the twelve months ending February 29, 2024, on operating expenses, which have not been specifically adjusted to fully projected future test year levels. Amounts specifically adjusted in this rate filing are identified and deducted from total operating expenses for twelve months ending December 31, 2022, to determine the remaining expenses for twelve months ending December 31, 2022, which have not been specifically adjusted to reflect the effects of inflation of $8,880,421. The projected effect of inflation on operating expenses not specifically adjusted in the amount of $663,071 is determined by applying the annual percent change in the CPI-U Index between February 2021 and February 2022 of 6.4% to the total operating expenses not specifically adjusted of $8,880,421, for a period of 14 months ($8,880,421 x 0.064 x 14/12). The adjustment of $663,071 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15 and has been identified as General Price Level Adjustment.

Q. Explain Exhibit FIII-2-40.

A. Exhibit FIII-2-40 is a pro forma of payroll expense for union and nonunion employees for the fully projected future test year ending February 29, 2024. It reflects pro forma hourly and salary rates effective in 2023 and annual cash and equity incentive awards effective in 2023. The Company included year-end bonuses in an amount of $37,103 in pro forma payroll expense. The Company has consistently provided year-end bonuses to employees for over 26 years as a part of the employee's overall compensation package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1 reflects projected payroll expense for the twelve months ended February 29, 2024, in the amount of $8,881,681 (Refer to Exhibit No. FIII-2-25). Column 2 of Exhibit No. FIII-2-40 reflects the effect during the twelve months ending February 29, 2024 of the pro forma hourly and salary rate increases effective in 2023 and annual cash and equity incentive awards effective in 2023, in the amount of $294,902. The effect of the pro forma hourly and salary rate increases and annual cash and equity incentive awards is determined and shown on Exhibit No. FIII-2-40 (a), which I will explain later. The effect during the twelve months ending February 29, 2024, of the pro forma hourly and salary rate increases and annual cash and equity incentive awards in the amount of $294,902 has been carried forward to Column 3 of Exhibit No. FIII-2, page 16 through 22. Column 3 of Exhibit No. FIII-2-40 reflects the pro forma payroll expense for the twelve months ending February 29, 2024, in the amount of $9,176,583.

I note that a portion of pro forma payroll expense for certain specified supervisory and general office employees for twelve months ending February 29, 2024, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-49, which I will explain later.

Q. Explain Exhibit No. FIII-2-40 (a).

A. Exhibit No. FIII-2-40 (a) is a pro forma of the effect during the twelve months ending February 29, 2024, of the projected hourly and salary rate increases and annual cash and equity incentive awards. Column 1 of Exhibit No. FIII-2-1 (a) reflects the pro forma payroll expense for the twelve months ending February 29, 2024, in the amount of $9,176,583. The pro forma payroll expense for the twelve months ending February 29, 2024, in the amount of $9,176,583 is determined and shown on Exhibit No. FIII-2-40 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-15 (a) reflects the projected payroll expense for the twelve months ending February 29, 2024 in the amount of $8,881,681 (Refer to Exhibit No. FIII-2-25). Column 3 of Exhibit No. FIII-2-40 (a) is the pro forma increase in payroll expense in the amount of $294,902 as a result of the projected union employee increases effective May 1, 2023, the projected nonunion employee increases effective October 1, 2023, and annual cash and equity incentive awards. The pro forma increase in payroll expense is determined by subtracting the projected payroll expense for the twelve months ending February 29, 2024 of $8,881,681, shown in Column 2 from the pro forma payroll expense for the twelve months ending

February 29, 2024, of $9,176,583, shown in Column 1 ($9,176,583 - $8,881,681 = $294,902). The amount of the pro forma payroll expense increases to be incurred during the twelve months ending February 29, 2024, in the amount of $294,902 has been carried forward to Exhibit No. FIII-2-40, Column 2.

Q. Explain Exhibit No. FIII-2-40 (b).

A. Exhibit No. FIII-2-40 (b) provides the distribution of pro forma labor based on Company labor for the two years ended December 31, 2021. Company labor for the twelve months ended December 31, 2021, of $8,252,050, is shown in Column 1 of Exhibit No. FIII-2-1 (b). Company labor for the twelve months ended December 31, 2020 of $7,882,196 is shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of $16,134,246, which represents the addition of Company labor for the twelve months ended December 31, 2021, and Company labor for the twelve months ended December 31, 2020, is shown in Column 3 on Exhibit No. FIII-2-40 (b). Pro forma payroll of $10,181,483 is distributed among the various capital and expense accounts based on the Two-Year Company Labor. The allocation factor of 0.63105 shown in Column 4 of Exhibit No. FIII-2-40 (b) used to distribute pro forma payroll among the various capital and expense accounts is calculated by dividing Pro Forma Company Labor of $10,181,483 by Two-Year Company Labor of $16,134,246. The allocation factor of 0.63105 is multiplied by each capital and expense amount of Two-Year Company Labor shown in Column 3 of Exhibit No. FIII-2-40 (b) to determine the pro forma Company labor amount allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-40 (b). Pro Forma Company Labor Expense is carried forward to Column 1 of Exhibit No. FIII-2-40 (a).

Q. Explain Exhibit No. FIII-2-41.

A. Exhibit No. FIII-2-41 projects market adjustment to the Company's 401(k) match and contributions to be implemented during the twelve months ending December 31, 2023 and included in cost of service for the twelve months ending February 29, 2024. The Company believes that these changes are necessary to retain and recruit qualified employees in a competitive labor market.

There are two provisions within the Company's 401(k) plan. The basic 401(k) plan is available for employees that are eligible for the Company's defined benefit pension plans. The Company match in the basic 401(k) plan is 100% of employees contributions up to a flat amount of $2,800. The Company is projecting to increase this match by $500 for each participating employee. Currently there are 50 employees participating in this provision of the 401(k) plan. The adjustment will be $25,000 (50 x $500).

The enhanced 401(k) plan is available for employees that are not eligible for the Company's defined benefit pension plan. All employees hired after May 1, 2010, are included in the enhanced 401(k) plan. The Company makes an annual contribution of $1,200 to each employee's account whether or not they defer their own compensation. The Company is projecting to increase this contribution for each participating employee. Currently there are 63 employees participating in this provision of the 401(k) plan. The adjustment will be $31,500 (63 x $500). The Company match in the enhanced 401(k) plan is 100% of employees contributions up to 4% of the employee's compensation. The Company is projecting to increase this match to 6% of the employee's compensation. The adjustment will be $69,708 based on the increase from 4% to 6% for those participants currently contributing 4%.

The total adjustment of $126,208 is determined by combining the increase in the basis 401(k) match of $25,000, the increase in the enhanced 401(k) contributions of $31,500, and the increase in the enhanced 401(k) match of $69,708 ($25,000 + $31,500 + $69,708 = $126,208). The adjustment for 401(k) contributions for the twelve months ending February 29, 2024, of $126,208 as an adjustment to Account No. 60400002 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-42.

A. Exhibit No. FIII-2-42 projects annual Company 401(k) match and contributions for employees added during the future test year ending December 31, 2022, as of February 29, 2024. The Company has projected a net increase of ten employees during the future test year ending December 31, 2022. The Company is responsible for an annual contribution of $1,700 per employee. The Company's 401(k) contributions for the added employees will be $17,000 ($1,700 x 10 = $17,000). In addition, the Company is responsible to make matching contributions of 100% of the employee's contribution up to a maximum of 6% of the employee's compensation. The matching contribution for the added employees will be $39,436 based on the application of the 6% matching contribution rate multiplied by the annual wages of the added employees of $657,271 ($657,271 x 6% = $39,436) The total adjustment of $56,436 is determined by combining the Company contributions of $17,000 and the Company matching contributions of $39,436 ($17,000 + $39,436 = $56,436). The adjustment for 401(k) contributions for the twelve months ending February 29, 2024, of $56,436 as an adjustment to Account No. 60400002 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-43.

A. Exhibit No. FIII-2-43 projects annual deferred compensation matching contributions for employees currently participating, and salaried employees to be added during the future test year ending December 31, 2022, as of February 29, 2024. The Company sponsors a deferred compensation plan with members of its management that requires it to make matching contributions of 100% of the employee's contribution up to a maximum of 5% of the employee's compensation. Previous rate cases have eliminated the expenses associated with the deferred compensation plan in accordance with the Settlement Agreement approved by the Commission under Docket No. R-000016236. The Company is including in this rate case the deferred compensation matching contributions for employees not eligible for the Company's defined benefit plan. The employees will build their retirement savings through the 401(k) plan and the deferred compensation plan. Since the contributions to the defined benefit plan are included in the cost of service, the Company believes its contributions to the deferred compensation plan for those employees on whose behalf it is not making contributions to the defined benefit plan should be included in the cost of service.

There are currently eleven employees participating in the deferred compensation plan not eligible for the defined benefit pension plan. The annual matching contributions for these eleven employees based on their pro forma wages for the twelve months ending February 29, 2024, and their current matching percentages is $79,850. Four salaried employees projected to be added during the twelve months ended December 31, 2022, will be eligible for participation in the deferred compensation plan but not in the defined benefit pension plan. The annual matching contributions for these four employees based on their pro forma wages for the twelve months ending February 29, 2024, and the average matching percentage of the four employees currently participating of 3.75% is calculated to be $16,624. The total adjustment of $96,474 is determined by combining the Company matching contributions for the currently participating employees of $79,850 and the Company matching contributions for the added employees of $16,624 ($79,850 + $16,624 = $96,474). The adjustment for deferred compensation contributions for the twelve months ending February 29, 2024, of $96,474 as an adjustment to Account No. 60400002 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-44.

A. Exhibit No. FIII-2-44 adjusts trustee and portfolio management fees for the twelve months ending February 29, 2024, for the Company's qualified defined benefit pension plans based on projected plan asset values as of February 29, 2024. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values. The adjustment to trustee and portfolio management fees in the amount of $5,435 is determined by subtracting projected trustee and portfolio management fees for the twelve months ending February 29, 2024, of $183,390 (Refer to Exhibit No. FIII-2-26) from the pro forma trustee and portfolio management fees based on projected plan asset values as of February 29, 2024, of $188,825, which is calculated based on a trustee and portfolio management fee of 0.25% of the projected plan assets as of February 29, 2024, of $75,530,051 ($75,530,051 x 0.0025). The projected plan assets as of February 29, 2024, of $75,530,051 are based on a 6.5% annual growth rate, assumed contributions, and assumed distributions. The adjustment in the amount of $5,435 for pro forma trustee and portfolio management fees as an adjustment to Account No. 60480001 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-45.

A. Exhibit No. FIII-2-45 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 $10,181,483 is detailed by workers' compensation insurance classifications of waterworks employees, outside sales, and clerical employees in the amounts of $5,158,556, $1,295,983, and $3,726,944, 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 pro forma initial workers' compensation insurance premiums. The initial premiums are $149,082 for waterworks employees, $3,629 for outside sales, and $4,845 for clerical employees. The initial premiums are subject to an increased employer's liability limits 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 $157,556 ($149,082 + $3,629 + $4,845 = $157,556) are multiplied by the increased employer's liability limit factor of 1.10% to determine the cost of the increased employer's liability limits of $1,733 ($157,556 x 0.011). The total of initial premiums of $157,556 and increased employer's liability limits cost of $1,733 are multiplied by the Pennsylvania Experience Modification of 1.098 to arrive at adjusted workers' compensation insurance premiums of $174,900 [($157,556 + $1,733) x 1.098]. Adjusted workers' compensation insurance premiums of $174,900 are decreased by a 5.0% schedule rating premium of $(8,745) [$174,900 x (0.05)] and decreased by a 5% safety credit of $(8,308) [($174,900 - $8,745) x 0.05] to arrive at premiums adjusted by application of schedule rating and safety credit of $157,847 ($174,900 - $8,745 - $8,308). Premiums adjusted by application of schedule rating and safety credit of $157,847 are decreased by a 11.0% premium discount of $17,363 ($157,847 x 0.11) and increased by the Pennsylvania Compensation Rating Bureau Fee of $175, a foreign and domestic terrorism surcharge of $3,054, a catastrophe (other than terrorism) surcharge of $2,036 and a 2.48% Pennsylvania Employer Assessment of $3,615 [($157,847 - $17,363 + $175 + $3,054 + $2,036) x 0.0248] to determine pro forma workers' compensation insurance expense of $149,364 ($157,847 - $17,363 + $175 + $3,054 + $2,036 + $3,615). The adjustment to Workers' Compensation Insurance expense of $3,784 is determined by subtracting projected Workers' Compensation Insurance expense during the twelve months ending February 29, 2024, of $145,580 from pro forma workers' compensation insurance expense of $149,364 ($149,364 - $145,580 = $3,784). The adjustment to Account No. 65880000 of $3,784 has been carried forward to Exhibit No. FIII-2, Column 3.

A portion of pro forma workers' compensation insurance expense for twelve months ending February 29, 2024, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the Company's 1987 rate case (Docket R-870769) and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-49, which I will explain later.

Q. Explain Exhibit No. FIII-2-46.

A. Exhibit No. FIII-2-46 annualizes uncollectible accounts expense for the twelve months ending February 29, 2024, in the amount of $273,777 by applying the two-year average percent of uncollectible accounts actually written off less recoveries of 0.52% to pro forma operating revenues under existing rates for the twelve months ending February 29, 2024, of $52,523,311 (Refer to Exhibit No. FII-2) ($52,523,311 x 0.0052). The adjustment to uncollectible accounts in the amount of $1,235 is determined by subtracting projected uncollectible accounts during the twelve months ending February 29, 2024, in the amount of $272,542 (Refer to Exhibit No. FIII-2-31) from the calculated pro forma uncollectible accounts for ratemaking purposes in the amount of $273,777 ($273,777 - $272,542 = $1,235). The adjustment of $1,235 to Account No. 67070000 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-47.

A. Exhibit No. FIII-2-47 annualizes the allocations to wastewater for the twelve months ending February 29, 2024, based on the Company's current allocation methodology and pro forma expense adjustments to the accounts that are allocated. Various expenses that are for both the water and wastewater portions of the business are recorded on the water side of the business. At the end of each accounting period, a portion of those allocable expenses are recorded as a reduction to expense on the water side of the business and an addition to expense on the wastewater side of the business.

The allocable portion of indirect labor, indirect fringe benefits and operating expense to wastewater based on the pro forma balances of the accounts to be allocated for the twelve months ending February 29, 2024, is calculated to be $(491,428). The payroll taxes and fringe benefits on the direct labor recorded on the wastewater side of the business is calculated to be $(121,851). The adjustment of $(11,213) is determined by subtracting the projected allocation to wastewater for the twelve months ended February 29, 2024, of $(602,065) (see Exhibit No. FIII-2-32) by the calculated allocable portion of indirect labor, indirect fringe benefits and operating expense of $(491,428) and calculated payroll taxes and fringe benefits on the direct labor of $(121,851) [$(491,428) + $(121,851) -

$(602,065) = $(11,213)]. The adjustment of allocations to wastewater for the twelve months ending February 29, 2024, of $(11,213) as an adjustment to Account No. 67580005 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-48.

A. Exhibit No. FIII-2-48 annualizes director's fees for the twelve months ending February 29, 2024, based on the Company's projected 2022 complement of directors, schedule of meetings, and the projected fees effective on May 1, 2023. The adjustment to annualize in the amount of $4,816 is determined by subtracting the projected director's fees for the twelve months ending February 29, 2024 (see Exhibit No. FIII-2-33) in the amount of $422,833 from the calculated pro forma director's fees for the twelve months ended February 29, 2024, of $427,649 ($427,649 - $422,833 = $4,816). The annualization adjustment of $4,816 is carried forward to Exhibit No. FIII-2, Column 3. Directors who are also current employees of the Company receive no additional compensation for Board service.

Q. Explain Exhibit No. FIII-2-49.

A. Exhibit No. FIII-2-49 adjusts administrative and general expenses capitalized for the twelve months ending February 29, 2024, in accordance with the Settlement Agreements under Docket Nos. R-870769 and R-963619 based on pro forma indirect labor, employee benefit costs, property insurance, workers' compensation insurance, and pension expense for the twelve months ending February 29, 2024, 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 Company has updated the specified supervisory and general office employees to reflect the current complement of employee positions. Some employee positions described in the Settlement of the Company's 1987 base rate proceeding no longer exist, and many new employee positions have been created. Please refer to my testimony with regard to Exhibit No. FIII-2-10 for a listing of employee positions capitalized and the allocation ratio for each.

The two-year average general and administrative employees' capitalized ratio is 13.38%. This ratio was applied to pro forma payroll of $1,730,286 for the specified administrative and general employees to determine the pro forma capitalized indirect labor for general and administrative employees of $231,499 ($1,730,286 x 0.1338).

The two-year average distribution employees' capitalized ratio is 17.95%. This ratio was applied to pro forma payroll of $750,556 for the specified distribution employees to determine the pro forma capitalized indirect labor for distribution employees of $134,754 ($750,556 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 $252,585 for the specified maintenance and grounds employees to determine the pro forma capitalized indirect labor for maintenance and grounds employees of $14,992 ($252,585 x 0.0594).

As further provided in the settlement of the Company's 1987 base rate proceeding at Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense, workers' compensation insurance expense, and property insurance will be 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 $1,695,708, $160,710, and $1,790,945, respectively, to determine the pro forma capitalized employee benefits, property insurance expense, and pension expense of $162,929, $15,442, and $172,080, respectively.

The capitalized payroll ratio of 9.61% used to capitalize a portion of pension expense is lower than the capitalized ratios used for indirect labor because the calculations are based on different allocation factors as prescribed by the Settlement Agreement. The latter ratio compares total capitalized payroll to total payroll, while the ratios used for indirect labor concern only a portion of the Company's employees.

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 FIII-2-40 (b) of $997,932 to determine capitalized workers' compensation expense of $14,916. The 8.01% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro forma capitalized labor from Exhibit FIII-2-40 (b) of $997,932 to determine capitalized payroll tax expense of $79,945. 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.

Total pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense total $826,556 ($231,499 + $134,754 + $14,992 + $162,929 + $15,442 + $14,916 + $79,945 + $172,080). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes and pension expense in the amount of $17,150 is determined by subtracting projected capitalized indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension expense for the twelve months ending February 29, 2024, of $809,406 (Refer to Exhibit No. FIII-2-34) from calculated pro forma capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense of $826,556 ($826,556 - $809,406). The adjustment to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes, and pension expense in the amount of $17,150 as an adjustment to Account No. 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2, Column 3 and Exhibit No. FIV-15, Column 6.

Q. Explain Exhibit No. FIII-2-50.

A. Exhibit No. FIII-2-50 adjusts amortization of utility plant acquisition adjustments for amortization that will end in 2023. The annual amortization of $3,473 of 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 was established at ten years beginning January 1, 2014 (*i.e.*, the effective date of rates established by Commission Order at Docket No. R-2012-2336379) and ends December 31, 2023. The annual amortization of $3,590 of the acquisition costs of the waterworks property and rights of the York Starview LP in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation was established at ten years beginning January 1, 2014 (*i.e.*, the effective date of rates established by Commission Order at Docket No. R-2012-2336379) and ends December 31, 2023. The total adjustment of $(7,063) is determined by combining the amortization of Section A Water Corporation of $3,473 and York Starview LP of $3,590 ($3,473 + $3,590 = $7,063) which end December 31, 2023. The adjustment for amortization of utility plant acquisition adjustments for the twelve months ending February 29, 2024, of $(7,063) as an adjustment to Account No. 40600001 has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-51.

A. Exhibit No. FIII-2-51 adjusts operating expenses in the amount of $16,887 for additional costs of customer accounting and collecting expenses (excluding uncollectible accounts), purchased power and chemicals resulting from the annualization of the net increase in number of customers served during the twelve months ending February 29, 2024. 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 $236,925 representing pro forma increases from load growth, as calculated on Exhibit Nos. FII-2-34 through FII-2-39, to derive the adjustment of $16,887 ($236,925 x 0.071). The adjustment in the amount of $16,887 for additional costs of customer accounting and collecting, power and chemicals has been carried forward to Exhibit No. FIII-2, Column 3.

Q. Explain Exhibit No. FIII-2-55.

A. Exhibit No. FIII-2-55 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. FII-2) of $68,683,317 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 $358,010 ($68,683,317 x 0.0052). The adjustment to uncollectible accounts expense in the amount of $84,234 is determined by subtracting pro forma uncollectible accounts expense under existing rates of $273,777 (Refer to Exhibit No. FIII-2-46) from pro forma uncollectible accounts expense under proposed rates of $358,010 ($358,010 - $273,777 = $84,234). The adjustment to uncollectible accounts expense of $84,234 to Account No. 67070000 has been carried forward to Exhibit No. FIII-2, Column 6.

Q. Explain Exhibit No. FIII-11.

A. Exhibit No. FIII-11 provides a schedule, by major components, of Contractual Services, Rate Case Expense and Miscellaneous Expense for the projected twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 2 of Exhibit No. FIII-11 provides a schedule of Contractual Services-Auditing for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 3 of Exhibit No. FIII-11 provides a schedule of Contractual Services-Tax for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 4 of Exhibit No. FIII-11 provides a schedule, by major components, of Contractual Services-Other Accounting for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 5 of Exhibit No. FIII-11 provides a schedule of Contractual Services-Legal for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 6 of Exhibit FIII-11 provides a schedule of Contractual Services-Outside Services for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 7 of Exhibit No. FIII-11 provides a schedule, by rate case, of Rate Case Expense for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021. Page 8 of Exhibit No. FIII-11 provides a schedule, by major components, of Miscellaneous Expense for the twelve months ending February 29, 2024, and December 31, 2022, and the twelve months ended December 31, 2021.

Q. Explain Exhibit No. FIII-15.

A. Exhibit No. FIII-15 provides a schedule of pension contributions, SFAS87 pension expense, the amount of SFAS pension expense, which was expensed to O&M, and the amount of SFAS87, which was deferred.

The Company has two defined benefit pension plans (one plan for general and administrative employees, and one plan for union-represented 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 expense and authorized the Company to defer on its books, the difference between cash contributions and SFAS87 expense, per the full settlement agreements in each case.

The Company believes that it is in the best interest of the plans, their participants, and York Water's customers to make cash contributions to the plans to ensure that the plans are fully funded. The Company is recommending a contribution to the plans to fund the service cost, the amortization of the net loss, and the amortization of the prior service cost that will maintain the fully funded status of the plans.

Q. Explain Exhibit No. FIII-16.

A. Exhibit No. FIII-16 provides for no SFAS106 expenses to be included in the cost of service for the twelve months ended February 29, 2024. The "pay-as-you-go" expense of $4,000 representing two death benefits paid to the beneficiaries of Company retirees is reflected as part of the fully projected future test year cost of service on Exhibit No. HIII-2-24.

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

A. Yes, I am also sponsoring Exhibit Nos. FIII-3, FIII-4, FIII-5, FIII-6, FIII-7, FIII-8, FIII-9, FIII-10, FIII-12. FIII-13, FIII-14, FIII-17, FIII-18, FIII-19, FIII-20, FIII-21, FIII-23, FIII-24, FIII-25, FIII-26, FIII-27, and FIII-28.

Q. Explain Exhibit No. FV-1-1.

A. Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized balance 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.

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, in order to be 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 projected unamortized balance of deferred income taxes as of December 31, 2022, in the amount of $24,137,333 has been carried forward to Exhibit FV-1, page 2 and has been deducted from the original cost measure of value.

Page 2 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized balance in the amount of $24,793,862, as of February 29, 2024, 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 February 29, 2024. The balance in Column 2 is $24,793,862.

The projected unamortized balance of deferred income taxes as of February 29, 2024, in the amount of $24,793,862 has been carried forward to Exhibit FV-1, page 3 and has been deducted from the original cost measure of value.

Page 3 of Exhibit No. FV-1-1 is a calculation of the adjustment to the deferred income taxes related to accelerated depreciation as required under Treasury Regulation 1.167(l)-1 of the Internal Revenue Code. Under the regulation, if a future period is used in determining the maximum amount of the reserve to be excluded from the rate base, the amount of the reserve is the amount of the reserve at the beginning of the period and a pro rata portion of the projected increase to the account during the period. The increase in deferred income taxes from February 28, 2023, to February 29, 2024, is $562,739, or a monthly increase of $46,895 as presented in Column 3. The regulation requires the pro rata portion of the increase to be determined by multiplying the increase by a fraction of which the numerator is the number of days remaining in the period and the denominator is the total number of days in the period. Those fractions are presented in Column 4 and the pro rata portion of the increase is presented in Column 5. The deferred income taxes under this regulation are presented in Column 6 as the pro rata portion of the increase added to the deferred income taxes at the beginning of the period. The difference between the deferred income taxes per the corporate books and the deferred income taxes per this regulation is presented in Column 7. The difference as of February 29, 2024, in the amount of $(304,881) has been carried forward to Exhibit FV-1, page 3 and has offset the projected unamortized balance of deferred income taxes as of February 29, 2024, in the amount of $24,793,862 presented on Page 2 of Exhibit No. FV-1-1.

Page 4 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized balance in the amount of $13,463,573, as of December 31, 2022, of excess 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 2017. The balance in Column 2 is $13,463,573.

The projected unamortized balance of excess deferred income taxes as of December 31, 2022, in the amount of $13,463,573 has been carried forward to Exhibit FV-1, page 2 and has been deducted from the original cost measure of value.

Page 5 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized balance in the amount of $13,291,845, as of February 29, 2024, of excess 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 2017. The balance in Column 2 is $13,291,845.

The projected unamortized balance of excess deferred income taxes as of February 29, 2024, in the amount of $13,291,845 has been carried forward to Exhibit FV-1, page 2 and has been deducted from the original cost measure of value.

Page 6 of Exhibit No. FV-1-1 is a calculation of the adjustment to the excess deferred income taxes related to accelerated depreciation as required under Treasury Regulation 1.167(l)-1 of the Internal Revenue Code. Under the regulation, if a future period is used in determining the maximum amount of the reserve to be excluded from the rate base, the amount of the reserve is the amount of the reserve at the beginning of the period and a pro rata portion of the projected decrease to the account during the period. The decrease in excess deferred income taxes from February 28, 2023, to February 29, 2024, is $147,196, or a monthly decrease of $12,266 as presented in Column 3. The regulation requires the pro rata portion of the decrease to be determined by multiplying the decrease by a fraction of which the numerator is the number of days remaining in the period and the denominator is the total number of days in the period. Those fractions are presented in Column 4 and the pro rata portion of the decrease is presented in Column 5. The excess deferred income taxes under this regulation are presented in Column 6 as the pro rata portion of the decrease subtracted from the excess deferred income taxes at the beginning of the period. The difference between the excess deferred income taxes per the corporate books and the excess deferred income taxes per this regulation is presented in Column 7. The difference as of February 29, 2024, in the amount of $79,748 has been carried forward to Exhibit FV-1, page 3 and has been added to the projected unamortized balance of excess deferred income taxes as of February 29, 2024, in the amount of $13,291,845 presented on Page 5 of Exhibit No. FV-1-1.

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

A. Exhibit No. FV-1-10 provides the calculation of the unamortized taxes on deposits for construction and customer advances as of December 31, 2022, in the amount of $1,464,588 and as of February 29, 2024, in the amount of $1,403,563, that are added to the original cost measure of value.

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 paid income taxes on any deposit, Customer Advance, Contribution in Aid of Construction, or other like amounts received from an applicant which would constitute taxable income as defined by the Internal Revenue Service. Such income taxes would 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 would not be charged to the specific depositor of capital. This provision was rescinded under the Infrastructure Investment and Jobs Act of 2021.

The Company paid taxes on deposits for construction and customer advances received during the period under which the deposits for construction and customer advances was taxable of $1,525,613 as of December 31, 2021.

The total income taxes on deposits for construction and customer advances as of December 31, 2021, of $1,525,613 is offset by the reduction of income taxes from the depreciation on the projects paid for with the deposits for construction and customer advances. The depreciation on the projects paid for with the deposits for construction and customer advances of $211,215 for the period ending December 31, 2022, is determined by applying the depreciation rate of 4% to the deposits for construction and customer advances. State income tax deduction in the amount of $21,100 is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to the depreciation on the projects paid for with deposits for construction and customer advances of $21,100 ($211,215 x 0.0999 = $21,100). Federal income tax deduction in the amount of $39,924 is determined by subtracting State income tax deduction in the amount of $21,100 from the depreciation on the projects paid for with deposits for construction and customer advances of $211,215 and applying the presently effective Federal income tax rate of 21% [($211,215 - $21,100) x 0.21 = $39,924]. Total income tax deductions on depreciation on the projects paid for with deposits for construction and customer advances for the period ending December 31, 2022, in the amount of $61,025 is determined by adding state income taxes in the amount of $21,100 and Federal income taxes in the amount of $39,924 [$21,100 + $39,924 = $61,025]. The net taxes on deposits for construction and customer advance as of December 31, 2022, of $1,464,588 is determined by subtracting the income tax deductions on depreciation on the projects paid for with deposits for construction and customer advances for the period ending

December 31, 2022, in the amount of $61,025 from the income taxes on deposits for construction and customer advances as of December 31, 2021, in the amount of $1,525,613 ($1,525,613 - $61,025 = $1,464,588). The net taxes on deposits for construction and customer advance as of December 31, 2022, of $1,464,588 has been carried forward to Exhibit No. FV-1, Page 2.

The total income taxes on deposits for construction and customer advances as of December 31, 2022, of $1,464,588 is offset by the reduction of income taxes from the depreciation on the projects paid for with the deposits for construction and customer advances. The depreciation on the projects paid for with the deposits for construction and customer advances of $211,215 for the period ending February 29, 2024, is determined by applying the depreciation rate of 4% to the deposits for construction and customer advances. State income tax deduction in the amount of $21,100 is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to the depreciation on the projects paid for with deposits for construction and customer advances of $21,100 ($211,215 x 0.0999 = $21,100). Federal income tax deduction in the amount of $39,924 is determined by subtracting State income tax deduction in the amount of $21,100 from the depreciation on the projects paid for with deposits for construction and customer advances of $211,215 and applying the presently effective Federal income tax rate of 21% [($211,215 - $21,100) x 0.21 = $39,924]. Total income tax deductions on depreciation on the projects paid for with deposits for construction and customer advances for the period ending February 29, 2024, in the amount of $61,025 is determined by adding state income taxes in the amount of $21,100 and Federal income taxes in the amount of $39,924 [$21,100 + $39,924 = $61,025]. The net taxes on deposits for construction and customer advance as of February 29, 2024, of $1,403,564 is determined by subtracting the income tax deductions on depreciation on the projects paid for with deposits for construction and customer advances for the period ending February 29, 2024, in the amount of $61,025 from the income taxes on deposits for construction and customer advances as of December 31, 2022, in the amount of $1,464,588 ($1,464,588 - $61,025 = $1,403,563). The net taxes on deposits for construction and customer advance as of February 29, 2024, of $1,403,563 has been carried forward to Exhibit No. FV-1, Page 3.

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

A. Exhibit No. FV-8-1 (g) is the calculation by customer classification 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 service periods (service period lag), the lag from the 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 from metered repumped customers and metered gravity customers are presented on Exhibit No. FV-8-1 (g) 1, which I will explain later. The calculation of the collection period lag is presented in Exhibit No. FV-8-1 (g) 2, which I will explain later. The total lag days have been carried forward to Column 3 of Exhibit No. FV-8-1.

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

A. Exhibit No. FV-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, 2021, of 5.4 is shown on page 1 of Exhibit No. FV-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. FV-8-1 (g) 1.

For each customer classification, 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 lag between the date mid-point of the 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 No. FV-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 billing control coordinator. If the billing control 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 will reread the meter and, assuming the reading confirms the initial reading, check for leaks, check meter operation, and notify 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 auditing controls set up within the Company's 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. FV-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.

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

A. Exhibit No. FV-8-1 (g) 2 is 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 and penalties in the amount of $52,028,072 by the annual average of outstanding monthly accounts receivable balances per books in the amount of $4,721,169 ($52,028,072 ÷ $4,721,169 = 11.0).

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

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

Q. Explain Exhibit No. FVII-5.

A. Exhibit No. FVII-5 provides financial data of the Company for the last five years.

Q. Explain Exhibit No. FVII-6.

A. Exhibit No. FVII-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. I note that under FAS62, the capitalization rate to be applied to projects financed with tax-free debt is the rate of that specific borrowing.

Q. Explain Exhibit No. FVII-7.

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

Q. Explain Exhibit No. FVII-9.

A. Exhibit No. FVII-9 describes long-term debt reacquisition by the Company. There have been no long-term debt re-acquisitions by the Company since 1969.

Q. Explain Exhibit No. FVII-11.

A. Exhibit No. FVII-11 provides information concerning the Company's lines of credit. The Company anticipates having a balance of $2,653,353 of short-term loans as of February 29, 2024, and an average daily balance of ST loans outstanding for the twelve months ended February 29, 2024, of $16,692,225.

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

A. Yes, I am also sponsoring Exhibits FVII-1, FV11-2, FVII-3, FV11-4, FVII-8, FVII-10, FVII-12, FVII-13, FVII-14, FVII-15, FVII-16, FVII-17, FVII-18, FVII-19, FVII-20, FVII-21, FVII-22, FVII-23, FVII-24, FVII-25, FVII-26, FVII-27, FVII-28, FVII-29, FVII-30, FVII-31, and FVII-32.

Q. Explain Exhibit FX-1.

A. Exhibit FX-1 is the Company's comparative balance sheet, per books, as of February 29, 2024, and December 31, 2021. Page 2 of Exhibit FX-1 reflects the projected assets of the Company net of depreciation reserve and reserve for uncollectible accounts in the amount of $538,792,626 as of February 29, 2024, and actual 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. Page 3 of Exhibit FX-1 reflects the projected liabilities and total capitalization of the Company in the amount of $538,792,626 as of February 29, 2024, and actual liabilities and total capitalization of the Company in the amount of $447,207,947 as of December 31, 2021.

Q. Explain Exhibit FX-2.

A. Exhibit FX-2 sets forth the major items of Other Physical Property, Investment in Affiliated Companies, and Other Investments as of February 29, 2024. The Exhibit reflects the projected Other Physical Property of the Company as of February 29, 2024, in the amount of $1,199,858. York Water projects to have no investments in affiliated companies as of February 29, 2024. Other investments include Columbia Water Company common stock owned by the Company in the amount of $59,724.

Q. Explain Exhibit FX-3.

A. Exhibit FX-3 sets forth the amount and a description of Special Cash Deposits held by the Company as of February 29, 2024. As of February 29, 2024, the Company has projected to deposit 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 231.27, 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 February 29, 2024, the Company projects to have 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 FX-4.

A. Exhibit FX-4 details and describes Notes Receivable, Accounts Receivable from Associated Companies, and Other Accounts Receivable as of February 29, 2024. Page 1 of Exhibit FX-4 details projected Notes Receivable as of February 29, 2024, in the amount of $255,481, which consists of notes receivable from water districts. 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 projects no accounts receivable from associated companies as of February 29, 2024. There is no other company projected to be an "associated company" of York Water.

York Water classifies other significant receivables, other than customer accounts, in Account 142, Other Accounts Receivable. A detail of Other Accounts Receivable projected as of February 29, 2024, in the amount of $27,374 is shown on page 2 of Exhibit FX-4.

Q. Explain Exhibit FX-5.

A. York Water uses the reserve method of recording uncollectible accounts for book purposes. Exhibit FX-5 provides the amount of accumulated reserve for uncollectible accounts as of February 29, 2024, and December 31, 2022 and 2021. Exhibit FX-5 also provides the annual accruals, amounts of accounts written off and recoveries of amounts previously written off for the twelve months ended February 29, 2024, and December 31, 2022 and 2021.

Q. Explain Exhibit FX-6.

A. Exhibit FX-6 provides a list of projected prepayments as of February 29, 2024. York Water projected no special prepayments as of February 29, 2024.

Q. Explain Exhibit FX-8.

A. Exhibit FX-8 details and describes projected Other Deferred Assets as of February 29, 2024. As of February 29, 2024, the Company projects to reflect on its balance sheet Unamortized Debt Expense in the amount of $3,097,260. This account includes the unamortized portion of debt expense as of February 29, 2024, associated with the issuance of long-term debt. The balance as of February 29, 2024, includes continued amortization of historic amounts and the new issuance costs. 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 February 29, 2024, the Company projects to reflect on its balance sheet Deferred 2022 Rate Case Expenses in the amount of $714,375. The Company anticipates that Deferred 2022 Rate Case Expenses will be normalized over 48 months on the corporate books. The normalization of 2022 Rate Case Expenses will be credited to this account and charged to Account No. 66680000, Rate Case Expense. (See Exhibit No. HIII-2-1 for the normalization of 2022 rate case expense.)

As of February 29, 2024, the Company projects to reflect on its balance sheet Cash Value of Supplemental Retirement Plan in the amount of $4,832,892. 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-nine 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 Agreement approved by the Commission at Docket No. R-00016236 with the exception of expenses from the deferred savings plan for employees not in the defined benefit pension plan.

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.

As of February 29, 2024, the Company projects to reflect 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.

Q. Explain Exhibit FX-10.

A. Exhibit FX-10 details and describes Other Deferred Credits as of February 29, 2024. As of February 29, 2024, the Company projects to reflect on its corporate books deferred interest rate swap in the amount of $1,403,750. The Company utilizes an interest rate swap agreement to convert its variable rate debt to a fixed rate (a cash flow hedge). As of February 29, 2024, 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 FX-12.

A. Page 2 of Exhibit FX-12 provides an analysis of Retained Earnings as of February 29, 2024, and December 31, 2022, 2021, and 2020. The analysis includes activity for the fourteen months ended February 29, 2024, and for the twelve months ended December 31, 2022, 2021, and 2020.

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

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

Q. Are you sponsoring any other exhibits?

A. Yes, I am also sponsoring Exhibit Nos. F (a)-1, F (a)-6, F (a)-9, F (a)-10, F (a)-11, FVIII-2, FXI-1, FXI-2, FXI-3, and FXI-4.

Q. Does this conclude your future test year and fully projected future test year direct testimony at this time?

A. Yes.

**YORK WATER STATEMENT NO. 104**

**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 (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 (the "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 Pennsylvania Public Utility Commission ("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 exhibits prepared by me or under my direction and supervision:

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

Exhibit Nos. FI-2-1 and FI-2-2 relating to depreciation expense included in the statement of operations for the water division; and

Exhibit Nos. F(c)-1, FV-1, FV-1-2, FV-1-3, FV-1-4, FV-1-5, FV-1-6, FV-1-7, FV-1-8, FV-1-9, FV-2, FV-3, FV-4, FV-5, FV-6, FV-7, FV-8, FV-8-1, FV-8-1(a), FV-8-1(b), FV-8-1(c), FV-8-1(d), FV-8-1(e), FV-8-1(f), FV-8-2, FV-8-3, FV-8-4, FV-9, FV-11, FV-13, FV-14, FV-15, FV-16, FV-16-1, FV-16-2, FV-16-3, and FV-16-4 relating to the original cost measure of value for the water division.

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

A. Exhibit No. F(c)-3 provides a projected summary, by detailed plant account, of the book value of utility property as of February 29, 2024.

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

A. Exhibit No. FI-2-1 adjusts the depreciation accrual from the level determined in the depreciation study identified as Exhibit No. HVI for the twelve months ended December 31, 2021, to the pro forma level determined in the depreciation study identified as Exhibit No. FVI-A for the twelve months ending December 31, 2022. The adjustment in the amount of $769,572 is determined by subtracting the pro forma depreciation accrual for the twelve months ended December 31, 2021, in the amount of $10,052,283 from the pro forma annual depreciation accrual in the amount of $10,821,855. The adjustment in the amount of $769,572 has been carried forward to Exhibit No. FI-2, page 2, Column 3.

Q. Explain Exhibit No. FI-2-2.

A. Exhibit No. FI-2-2 adjusts the depreciation accrual from the level determined in the depreciation study identified as Exhibit No. FVI-A for the twelve months ended December 31, 2022, to the projected level determined in the depreciation study identified as Exhibit No. FVI-B for the twelve months ending February 29, 2024. The adjustment in the amount of $2,139,126 is determined by subtracting the pro forma depreciation accrual for the twelve months ended December 31, 2022, in the amount of $10,821,855 from the projected annual depreciation accrual in the amount of $12,960,981. The adjustment in the amount of $2,139,126 has been carried forward to Exhibit No. FI-2, page 6, Column 3.

Q. Who will testify with respect to the pro forma depreciation expense for the twelve-month periods ended December 31, 2022, and February 29, 2024?

A. John J. Spanos, Vice President, Depreciation and Valuation Studies, Gannett Fleming Valuation and Rate Consultants, Inc. will testify with respect to the annual depreciation accrual (York Water Statement No. 106).

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

A. No.

Q. Explain Exhibit No. FV-1.

A. Exhibit No. FV-1 provides a summary of the components of the original cost measure of value in the amount of $291,591,611 as of December 31, 2022, and $350,621,590 as of February 29, 2024, pro forma net operating income available and rate of return under existing rates for the twelve months ended December 31, 2021, projected net operating income and rate of return under existing rates for the twelve months ending December 31, 2022, and February 29, 2024, net operating income and rate of return under existing rates after adjustments for ratemaking purposes ("pro forma") for the twelve months ending December 31, 2022, and February 29, 2024, and net operating income and rate of return under proposed rates for the twelve months ending February 29, 2024.

A summary of the components of the original cost measure of value in the amount of $291,591,611 as of December 31, 2022, is shown on page 2 of Exhibit No. FV-1.

One component is the projected utility plant in service less projected book accrued depreciation as of December 31, 2022. The projected original cost of utility plant in service as of December 31, 2022, is $464,281,607, and the projected accrued depreciation as of December 31, 2022, is $101,163,178. The projected depreciated original cost of utility plant in service as of December 31, 2022, is $363,118,429 ($464,281,607 - $101,163,178 = $363,118,429). The details of projected original cost of utility plant in service and projected accrued depreciation by account, sub account and vintage are set forth in Exhibit No. FVI-A.

Q. Who will testify with respect to projected accrued depreciation in the amount of $101,163,178 as of December 31, 2022, related to utility plant in service?

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

Q. Will you continue with your explanation of page 2 of Exhibit No. FV-1?

A. The projected unamortized balance as of December 31, 2022, of deferred Federal income taxes related to accelerated depreciation in the amount of $24,137,333 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. FV-1-1, page 1, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

The projected unamortized balance, as of December 31, 2022, of excess deferred Federal income taxes related to accelerated depreciation in the amount of $13,463,573 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. FV-1-

1, page 4, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

An amount of $33,563,117 representing projected contributions in aid of construction less accrued depreciation as of December 31, 2022, is deducted from the original cost measure of value. This amount is comprised of the projected original cost of contributions in aid of construction as of December 31, 2022, in the amount of $41,169,295 less projected accrued depreciation as of December 31, 2022, in the amount of $7,606,178 ($41,169,295 - $7,606,178 = $33,563,117). The details are shown by account, sub account, and vintage in Exhibit No. FVI-A.

An amount of $4,665,300 for customers' advances for construction less projected accrued depreciation as of December 31, 2022, is deducted from the original cost measure of value. This component is comprised of the projected original cost of customers' advances for construction as of December 31, 2022, in the amount of $8,788,375 less projected accrued depreciation as of December 31, 2022, in the amount of $4,123,075 ($8,788,375 - $4,123,075 = $4,665,300). The details are shown by account, sub account, and vintage in Exhibit No. FVI-A.

Q. Who will testify with respect to the projected 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, or 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 page 2 of Exhibit No. FV-1?

A. Projected funds supplied through Customer Advances not expended as of December 31, 2022, in the amount of $1,475,804 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. FV-1-2, which I will explain later.

Projected materials and supplies in the amount of $1,432,014 are included in the original cost measure of value, and the details are set forth in Exhibit No. FV-11, which I will explain later.

An allowance for projected cash working capital in the amount of $2,964,604 is included in the original cost measure of value. The details are shown in Exhibit Nos. FV-8, FV-8-1, FV-8-1 (a), FV-8-1 (b), FV-8-1 (c), FV-8-1 (d), FV-8-1 (e), FV-8-1 (f), FV-8-1 (g), FV-8-1 (g) 1, FV-8-1 (g) 2, FV-8-2, FV-8-3, and FV-8-4, which I will explain later and Mr. Poff addresses in his testimony (see York Water Statement No. 103).

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 ($82,899) which is [$34,230 + $3,473 + $3,590 + $(46,542) + $(47,597) + $(97,938) + $67,886 = ($82,899)] are included in the original cost measure of value. The details are set forth in Exhibit Nos. FV-1-3, FV-1-4, FV-1-5, FV-1-6, FV-1-7, FV-1-8, and FV-1-9, which I will explain later.

Taxes on deposits for construction and customer advances in the amount of $1,464,588 are included in the original cost measure of value. The details are shown in Exhibit No. FV-1-10, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

A summary of the components of the original cost measure of value in the amount of $350,621,590 as of February 29, 2024, is shown on page 3 of Exhibit No. FV-1.

One component is the projected utility plant in service less projected book accrued depreciation as of February 29, 2024. The projected original cost of utility plant in service as of February 29, 2024, is $529,635,105, and the projected accrued depreciation as of February 29, 2024, is $107,427,025. The projected depreciated original cost of utility plant in service as of February 29, 2024, is $422,208,080 ($529,635,105 - $107,427,025 = $422,208,080). The details of projected original cost of utility plant in service and projected accrued depreciation by account, sub account, and vintage are set forth in Exhibit No. FVI-B.

Q. Who will testify with respect to projected accrued depreciation in the amount of $107,427,025 as of February 29, 2024, related to utility plant in service?

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

Q. Will you continue with your explanation of page 3 of Exhibit No. FV-1?

A. The projected unamortized balance as of February 29, 2024, of deferred Federal income taxes related to accelerated depreciation in the amount of $24,488,981 is deducted from the original cost measure of value, and this net amount is set forth in Exhibit No. FV-1-1, pages 2 and 3, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

The projected unamortized balance as of February 29, 2024, of excess deferred Federal income taxes related to accelerated depreciation in the amount of $13,371,592 is deducted from the original cost measure of value, and this net amount is set forth in Exhibit No. FV-1-1, pages 5 and 6, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

An amount of $33,721,565 representing projected contributions in aid of construction less accrued depreciation as of February 29, 2024, is deducted from the original cost measure of value. This amount is comprised of the projected original cost of contributions in aid of construction as of February 29, 2024, in the amount of $41,859,847 less projected accrued depreciation as of February 29, 2024, in the amount of $8,138,282 ($41,859,847 - $8,138,282 = $33,721,565). The details are shown by account, sub account, and vintage in Exhibit No. FVI-B.

An amount of $4,455,584 for customers' advances for construction less projected accrued depreciation as of February 29, 2024, is deducted from the original cost measure of value. This component consists of the projected original cost of customers' advances for construction as of February 29, 2024, in the amount of $8,637,823 less projected accrued depreciation as of February 29, 2024, in the amount of $4,182,239 ($8,637,823 -

$4,182,239 = $4,455,584). The details are shown by account, sub account, and vintage in Exhibit No. FVI-B.

Q. Who will testify with respect to the projected 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.

Q. Will you continue with your explanation of page 3 of Exhibit No. FV-1?

A. Projected funds supplied through Customer Advances not expended as of February 29, 2024, 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. FV-1-2, which I will explain later.

Projected materials and supplies in the amount of $1,520,534 are included in the original cost measure of value, and the details are set forth in Exhibit No. FV-11, which I will explain later.

An allowance for projected cash working capital in the amount of $3,070,957 is included in the original cost measure of value. The details are shown in Exhibit Nos. FV-8, FV-8-1, FV-8-1 (a), FV-8-1 (b), FV-8-1 (c), FV-8-1 (d), FV-8-1 (e), FV-8-1 (f), FV-8-1 (g), FV-8-1 (g) 1, FV-8-1 (g) 2, FV-8-2, FV-8-3, and FV-8-4, which I will explain later and Mr. Poff addresses in his testimony (see York Water Statement No. 103).

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 ($68,018) which is [$27,754 + $0 + $0 + ($37,737) + ($38,593) + ($79,409) + $59,966 = ($68,018)] are included in the original cost measure of value. The details are set forth in Exhibit Nos. FV-1-3, FV-1-4, FV-1-5, FV-1-6, FV-1-7, FV-1-8, and FV-1-9, which I will explain later.

Taxes on deposits for construction and customer advances in the amount of $1,403,563 are included in the original cost measure of value. The details are shown in Exhibit No. FV-1-10, which Mr. Poff addresses in his testimony (see York Water Statement No. 103).

Column 1 of page 4 of Exhibit No. FV-1 shows pro forma net operating income available for return under existing rates for the twelve months ended December 31, 2021, in the amount of $19,556,905 and the rate of return on the original cost measure of value as of February 29, 2024, of 5.58%. Column 3 of page 4 of Exhibit No. FV-1 shows the adjustments to determine projected net operating income for the twelve months ending

December 31, 2022, in the amount of ($1,432,589). These adjustments have been detailed in other exhibits, which Mr. Poff and Mr. Winter address in their testimony (see York Water Statement Nos. 103 and 105). Projected net operating income available for return under existing rates for twelve months ending December 31, 2022, in the amount of $18,124,316 and the rate of return on the original cost measure of value as of February 29, 2024, of 5.17% are shown in Column 4 of page 4 of Exhibit No. FV-1. Column 6 of page 4 of Exhibit No. FV-1 shows the adjustments to determine pro forma net operating income for the twelve months ending December 31, 2022, in the amount of ($51,736). These adjustments have been detailed in other exhibits, which Mr. Poff and Mr. Winter address in their testimony (see York Water Statement Nos. 103 and 105). Pro Forma net operating income available for return under existing rates for twelve months ending December 31, 2022, in the amount of $18,072,580 and the rate of return on the original cost measure of value as of February 29, 2024, of 5.15% are shown in Column 7 of page 4 of Exhibit No. FV-1 and are carried forward to Column 1, page 5 of Exhibit No. FV-1.

Column 3 of page 5 of Exhibit No. FV-1 shows the adjustments to determine pro forma net operating income for the twelve months ending February 29, 2024, in the amount of ($1,379,463). These adjustments have been detailed in other exhibits, which Mr. Poff and Mr. Winter address in their testimony (York Water Statement Nos. 103 and 105). Projected net operating income available for return under existing rates for twelve months ending February 29, 2024, in the amount of $16,693,117 and the rate of return on the original cost measure of value as of February 29, 2024, of 4.76% are shown in Column 4 of page 5 of Exhibit No. FV-1. Pro forma adjustments to net operating income available for return in the amount of ($242,168) are shown in Column 6, page 5 of Exhibit No. FV-

1. These adjustments have been detailed in other exhibits, which Mr. Poff and Mr. Winter address in their testimony (York Water Statement Nos. 103 and 105). Column 7, page 5 of Exhibit No. FV-1 shows pro forma net operating income available for return for the twelve months ending February 29, 2024, under existing rates of $16,450,948 and the rate of return on the original cost measure of value as of February 29, 2024, of 4.69%. The Column 7 figures are carried forward to Column 1, page 6 of Exhibit No. FV-1.

Adjustments to pro forma net operating income available for return for the twelve months ending February 29, 2024, related to the effect of proposed rates in the amount of $11,370,241 are shown in column 3 of page 6 of Exhibit No. FV-1. These adjustments have been detailed in other exhibits which Mr. Poff and Mr. Winter address in their testimony (York Water Statement Nos. 103 and 105). Column 4 of page 6 of Exhibit No. FV-1 shows pro forma net operating income available for return for the twelve months ending February 29, 2024, in the amount of $27,821,190 and the rate of return on the original cost measure of value as of February 29, 2024, of 7.93%.

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

A. Exhibit No. FV-1-2 provides projected thirteen-month average of customers' advances received from developers that, as of December 31, 2022, and February 29, 2024, will not have been spent on construction projects. 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 projected thirteen-month average of customer advances received from developers with respect to revenue-producing projects remaining under construction as of December 31, 2022, and February 29, 2024, in the amount of $3,365,966 is shown in Column 2 of Exhibit No. FV-1-2. The projected thirteen-month average of related construction expenditures as of December 31, 2022, and February 29, 2024, in the amount of $1,890,162 are shown in Column 3 of Exhibit No. FV-1-2. The thirteen-month average of customers' advances in excess of related construction expenditures remaining under construction as of December 31, 2022, and February 29, 2024, in the amount of $1,475,804 ($3,365,966 - $1,890,162) is shown in Column 4 of Exhibit No. FV-1-2. The thirteen-month average of customers' advances in excess of related construction expenditures as of December 31, 2022, and February 29, 2024, in the amount of $1,475,804 has been carried forward to Exhibit No. FV-1, page 2 and has been deducted from the original cost measure of value. The projected thirteen-month average of customer advances from developers remaining under construction, the thirteen-month average of related construction expenditures, and the projected thirteen-month average of advances in excess of construction expenditures remaining under construction for December 31, 2022, and February 29, 2024, are equal to the historic test year actual (Refer to HV-1-2 for detail of thirteen-month average).

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

A. Exhibit No. FV-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, 2022, in the amount of $34,230 and as of February 29, 2024, in the amount of $27,754 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. This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2018-3000019. The amortization period began 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)) and ends February 28, 2029.

The acquisition adjustment subject to amortization of $55,509 is determined by subtracting the depreciated original cost of waterworks property acquired from Margaretta Mobile Home Park in the amount of $46,159 from the Margaretta Mobile Home Park acquisition costs of $101,667 ($101,667 - $46,159 = $55,509). The unamortized Margaretta Mobile Home Park acquisition adjustment as of December 31, 2022, in the amount of $34,230 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, 2022, of $21,278 from the acquisition adjustment subject to amortization of $55,509 ($55,509 - $21,278 = $34,230). Unamortized utility plant acquisition adjustment as of December 31, 2022, in the amount of $34,230 has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The unamortized acquisition adjustment for the period ending February 29, 2024, of $27,754 is determined by taking the unamortized acquisition adjustment as of December

31, 2022, of $34,230 and deducting the monthly amortization in the amount of $463 ($55,509 / 10 years / 12 months) for the fourteen months from January 2023 through February 29, 2024, of $6,476 ($463 x 14) ($34,230 - $6,476 = $27,754). The unamortized utility plant acquisition adjustment as of February 29, 2024, in the amount of $27,754 has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-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, 2022, in the amount of $3,473 and as of February 29, 2024, in the amount of $0 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. This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2012-2336379. The amortization period began 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)) and ends December 31, 2023.

The acquisition adjustment subject to amortization of $34,728 is determined by subtracting the depreciated original cost of waterworks property acquired from Section A Water Corporation in the amount of $135,997 from the Section A Water Corporation acquisition costs of $170,725 ($170,725 - $135,997 = $34,728). The unamortized Section A Water Corporation acquisition adjustment as of December 31, 2022, in the amount of $3,473 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, 2022, of $31,255 from the acquisition adjustment subject to amortization of $34,728 ($34,728 - $31,255 = $3,473). Unamortized utility plant acquisition adjustment as of December 31, 2022, in the amount of $3,473 has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The unamortized acquisition adjustment for the period ending February 29, 2024, of $0 is determined by taking the unamortized acquisition adjustment as of December 31, 2022, of $3,473 and deducting the monthly amortization in the amount of $289 ($34,728 / 10 years / 12 months) for the twelve months from January 1, 2023, through December 31, 2023, of $3,473 ($289 x 12) ($3,473 - $3,473 = $0). The unamortized utility plant acquisition adjustment as of February 29, 2024, in the amount of $0 has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-1-5 provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of York Starview LP as of December 31, 2022, in the amount of $3,590 and as of February 29, 2024, in the amount of $0 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. This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2012-2336379. The amortization period began January 1, 2014 (the effective date of rates under Order No. R-2012-2336379) and ends December 31, 2023.

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 the York Starview LP acquisition costs of $130,437 ($130,437 - $94,540 = $35,897). The unamortized York Starview LP acquisition adjustment as of December 31, 2022, in the amount of $3,590 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, 2022, of $32,307 from the acquisition adjustment subject to amortization of $35,897 ($35,897 - $32,307 = $3,590). Unamortized utility plant acquisition adjustment as of December 31, 2022, in the amount of $3,590 has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The unamortized acquisition adjustment for the period ending February 29, 2024, of $0 is determined by taking the unamortized acquisition adjustment as of December 31, 2022, of $3,590 and deducting the monthly amortization in the amount of $299 ($35,897 / 10 years / 12 months) for the twelve months from January 1, 2023, through December 31, 2023, of $3,590 ($299 x 12) ($3,590 - $3,590 = $0). The unamortized utility plant acquisition adjustment as of February 29, 2024, in the amount of $0 has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-1-6 provides the calculation of the unamortized utility plant negative acquisition adjustment relative to the acquisition of Westwood Mobile Home Park as of December 31, 2022, in the amount of $(46,542) and as of February 29, 2024, in the amount of $(37,737) included in the original cost measure of value.

This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Order No. R-2018-3000019) and ends February 28, 2029.

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, 2022, in the amount of $(46,542) 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, 2022, of $28,932 from the negative acquisition adjustment subject to amortization of $(75,474)

[$(75,474) – $28,932 = $(46,542)]. Unamortized utility plant negative acquisition adjustment as of December 31, 2022, in the amount of $(46,542) has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The negative unamortized acquisition adjustment for the period ending February 29, 2024, of $(37,737) is determined by taking the unamortized negative acquisition adjustment as of December 31, 2022, of $(46,542) and deducting the monthly amortization in the amount of $(629) [$(75,474) / 10 years / 12 months] for the fourteen months from January 1, 2023 through February 29, 2024, of $(8,805) [$(629) x 14] [$(46,542) – $8,805 = $(37,737)]. The unamortized negative utility plant acquisition adjustment as of February 29, 2024, in the amount of $(37,737) has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-1-7 provides the calculation of the unamortized utility plant negative acquisition adjustment relative to the acquisition of Lincoln Estates Mobile Home Park as of December 31, 2022, in the amount of $(47,597) and as of February 29, 2024, in the amount of $(38,593) included in the original cost measure of value.

This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Order No. R-2018-3000019) and ends February 28, 2029.

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, 2022, in the amount of $(47,597) 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, 2022, of $29,588 from the negative acquisition adjustment subject to amortization of $(77,185) [$(77,185) – $29,588 = $(47,597)]. Unamortized negative utility plant acquisition adjustment as of December 31, 2022, in the amount of $(47,597) has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The unamortized negative acquisition adjustment for the period ending February 29, 2024, of $(38,593) is determined by taking the unamortized negative acquisition adjustment as of December 31, 2022, of $(47,597) and deducting the monthly amortization in the amount of $(643) [$(77,185) / 10 years / 12 months] for the fourteen months from January 1, 2023, through February 29, 2024, of $(9,004) [$(643) x 14] [$(47,597) – $9,004 = $(38,593)]. The unamortized negative utility plant acquisition adjustment as of February 29, 2024, in the amount of $(38,593) has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-1-8 provides the calculation of the unamortized utility plant negative acquisition adjustment relative to the acquisition of The Meadows as of December 31, 2022, in the amount of $(97,938) and as of February 29, 2024, in the amount of $(79,409) included in the original cost measure of value.

This amortization was specifically approved by the Commission in accordance with the Settlement Agreement at Docket No. R-2018-3000019. The amortization period began March 1, 2019 (the effective date of rates under Order No. R-2018-3000019) and ends February 28, 2029.

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, 2022, in the amount of $(97,938) 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, 2022, of $60,880 from the negative acquisition adjustment subject to amortization of ($158,818) [$(158,818) – $60,880 = $(97,938)]. Unamortized negative utility plant acquisition adjustment as of December 31, 2022, in the amount of $(97,938) has been carried forward to Exhibit FV-1, page 2 and has been added to the original cost measure of value.

The unamortized negative acquisition adjustment for the period ending February 29, 2024, of $(79,409) is determined by taking the unamortized negative acquisition adjustment as of December 31, 2022, of $(97,938) and deducting the monthly amortization in the amount of $(1,323) [$(158,818) / 10 years / 12 months] for the fourteen months from January 1, 2023, through February 29, 2024, of $(18,529) [$(1,323) x 14] [$(97,938) – $18,529 = $(79,409)]. The unamortized utility plant negative acquisition adjustment as of February 29, 2024, in the amount of $(79,409) has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

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

A. Exhibit No. FV-1-9 provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of the Wrightsville Borough Municipal Authority as of December 31, 2022, in the amount of $67,886 and as of February 29, 2024, in the amount of $59,966 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 Company is seeking approval to amortize the reasonable acquisition costs greater than the depreciated original cost of waterworks property and rights. Please see the testimony of Mr. Hand for details on this acquisition (see York Water Statement No. 1).

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

The unamortized acquisition adjustment for the period ending February 29, 2024, of $59,966 is determined by taking the acquisition adjustment as of December 31, 2022, of $67,886 and deducting the monthly amortization in the amount of $566 ($67,886 / 10 years / 12 months) for the fourteen months from January 1, 2023, through February 29, 2024, of $7,920 ($566 x 14) ($67,886 - $7,920 = $59,966). The unamortized utility plant acquisition adjustment as of February 29, 2024, in the amount of $59,966 has been carried forward to Exhibit FV-1, page 3 and has been added to the original cost measure of value.

Q. Explain Exhibit No. FV-8.

A. Exhibit No. FV-8 is the calculation of the projected cash working capital requirement for the periods ending December 31, 2022, and February 29, 2024, in the amounts of $2,964,604 and $3,070,957 respectively, to be included in the original cost measure of value. The projected cash working capital requirement for December 31, 2022, consists of various amounts that are listed on page 1 of Exhibit No. FV-8. The first amount on page 1 of Exhibit No. FV-8 is $3,440,197 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

$23,846,419 is divided by the number of days in the pro forma test year, 365 ($23,846,419 ÷ 365) to derive the average daily operating expense, including taxes, in the amount of $65,333, 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 52.7 days to arrive at the projected cash working capital requirement in the amount of $3,440,197 ($65,333 x 52.7). The calculation of the net lag of 52.7 days is shown on Exhibit No. FV-8-1, which I will explain later.

The second amount shown on page 1 of Exhibit No. FV-8 is $162,289 and is for projected 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 projected monthly prepayment balances of the Commission, OCA, OSBA, and DPC assessments reflected on the Company's balance sheet for the twelve months ending December 31, 2022. Prepaid Commission, OCA, OSBA, and DPC assessments have been excluded from the Company's lead-lag study. The calculation of the projected thirteen-month average prepayment balance is presented on Exhibit No. FV-8-4, which I will explain later.

The third amount shown on page 1 of Exhibit No. FV-8 is $(263,818) that is a deduction with respect to projected water revenues paid by customers in advance. This represents a thirteen-month average of projected water revenues paid in advance. The calculation of the thirteen-month average is shown on Exhibit No. FV-8-2, which I will explain later.

The fourth amount is $(374,064) that is a deduction with respect to projected interest payments. The calculation of the deduction with respect to projected interest payments is shown on Exhibit No. FV-8-3, which I will explain later.

The total projected cash working capital requirement for the period ending December 31, 2022, in the amount of $2,964,604 [$3,440,197 + $162,289 + ($263,818) + ($374,064)] is carried forward to Exhibit No. FV-1 page 2 and is included in the Company's original cost measure of value.

Page 2 of Exhibit No. FV-8 is the calculation of the projected cash working capital requirement for the period ending February 29, 2024, in the amount of $3,070,957 to be included in the original cost measure of value. The projected cash working capital requirement consists of various amounts that are listed on page 2 of Exhibit No. FV-8. The first amount on page 2 of Exhibit No. FV-8 is $3,623,867 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 $24,826,410 is divided by the number of days in the pro forma test year, 365 ($24,826,410 ÷ 365) to derive the average daily operating expense, including taxes, in the amount of $68,018, 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 53.3 days to arrive at the projected cash working capital requirement in the amount of $3,623,867 ($68,018 x 53.3). The calculation of the net lag of 53.3 days is shown on Exhibit No. FV-8-1, which I will explain later.

The second amount shown on page 2 of Exhibit No. FV-8 is $163,435 and is for projected prepayment of the Commission, OCA, OSBA, and DPC assessments. This represents a thirteen-month average of projected monthly prepayment balances of the Commission, OCA, OSBA, and DPC assessments reflected on the Company's balance sheet for the twelve months ending February 29, 2024. Prepaid Commission, OCA, OSBA, and DPC assessments have been excluded from the Company's lead-lag study. The calculation of the projected thirteen-month average prepayment balance is presented on Exhibit No. FV-8-4, which I will explain later.

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

The fourth amount is $(452,527) that is a deduction with respect to projected interest payments. The calculation of the deduction with respect to projected interest payments is shown on Exhibit No. FV-8-3, which I will explain later.

The total projected cash working capital requirement for the period ending February 29, 2024, in the amount of $3,070,957 [$3,623,867 + $163,435 + ($263,818) + ($452,527)] is carried forward to Exhibit No. FV-1 page 3 and is included in the Company's original cost measure of value.

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

A. Exhibit No. FV-8-1 is the calculation of the net lag relationship between the receipt of operating revenues and the payment of operating expenses, including taxes, for the periods ending December 31, 2022, and February 29, 2024, of 52.7 days and 53.3 days, respectively. The 52.7-day net lag relationship for the period ending December 31, 2022, shown in Column 5 of page 1, 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 0.7 days (53.4 - 0.7 = 52.7). 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 2,773,087,188, shown in Column 4. The estimated number of lag days by class is calculated in Exhibit No. FV-8-1 (g), which Mr. Poff addresses in his testimony (York Water Statement No. 103). The dollar-day amount of 2,773,087,188, shown in Column 4, is divided by total pro forma revenues for the sales of water at existing rates of $51,970,485 shown in Column 2 to produce 53.4 days (2,773,087,188 ÷ $51,970,485 = 53.4).

The weighted average lag days in payment of operating expenses and taxes of 0.7 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 $23,846,419 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 16,746,589, shown in Column 4. The dollar-day amount of 16,746,589, shown in Column 4, is divided by total pro forma operating expenses including taxes, excluding uncollectible accounts and amortized expenses, in the amount of $23,846,419 to produce 0.7 days

(16,746,589 ÷ $23,846,419 = 0.7). The calculation of lag days for payroll expense is presented in footnote (a) of Exhibit No. FV-8-1. The calculation of lag days for power purchased, insurance, and other goods and services and taxes is based on an analysis of invoices paid during twelve months ended December 31, 2021, and is shown on Exhibit Nos. FV-8-1 (a), FV-8-1 (b), and FV-8-1 (c), FV-8-1 (d), FV-8-1 (e), and FV-8-1 (f), which I will explain later. The net lag relationship of 52.7 days between the receipt of operating revenues and the payment of operating expenses has been carried forward to Exhibit No. FV-8.

The 53.3-day net lag relationship for the period ending February 29, 2024, shown in Column 5 of page 3, 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 0.1 days (53.4 – 0.1 = 53.3). The estimated number of lag days by class has been previously explained. The weighted average lag days in receipt of operating revenues of 53.4 days is calculated as follows. The dollar-day amount of 2,804,029,684, shown in Column 4, is divided by total pro forma revenues from sales of water at existing rates of $52,523,324 shown in Column 2 to produce 53.4 days (2,804,029,684 ÷ $52,523,324 = 53.4).

The weighted average lag days in payment of operating expenses and taxes of 0.1 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 $24,826,410 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 2,680,613, shown in Column 4. The dollar-day amount of 2,680,613, shown in Column 4, is divided by total pro forma operating expenses including taxes, excluding uncollectible accounts and amortized expenses, in the amount of $24,826,410 to produce 0.1 days (2,680,613 ÷ $24,826,410 = 0.1). The calculation of lag days for payroll expense is presented in footnote (a) of Exhibit No. FV-8-1. The calculation of lag days for power purchased, insurance and other goods and services and taxes is based on an analysis of invoices paid during twelve months ended December 31, 2021, and is shown on Exhibit No. FV-8-1 (a), FV-8-1 (b) and FV-8-1 (c), FV-8-1 (d), FV-8-1 (e), and FV-8-1 (f), which I will explain later.

The net lag relationship of 53.3 days between the receipt of operating revenues and the payment of operating expenses has been carried forward to Exhibit No. FV-8 page 2.

Q. Explain Exhibit No. FV-8-1(a).

A. Exhibit No. FV-8-1(a) reflects the calculation of the average days lag in payment of purchased power of 26.6 days. The average days lag in payment of purchased power of 26.6 is determined by dividing total dollar days lag in the amount of 26,032,279 by total charges for the accounts included in the Company’s sample of purchased power locations incurred during the twelve months ended December 31, 2021, of $977,098 (26,032,279 ÷ $977,098 = 26.6). The average days lag in payment of purchased power of 26.6 has been carried forward to Exhibit No. FV-8-1 page 1 and FV-8-1 page 3.

Q. Explain Exhibit No. FV-8-1 (b).

A. Exhibit No. FV-8-1 (b) page 1 reflects the calculation of the average days lag in payment of insurance expense of (74.3) days. The average days lag in payment of insurance expense of (74.3) days is determined by dividing total dollar days lag in the amount of (153,603,534) by total invoice amount of $2,068,310 included in insurance expense during the twelve months ended December 31, 2021 [(153,603,534) ÷ $2,068,310 = (74.3)]. The Company's sample of insurance payments includes all insurance payments made during the twelve months ended December 31, 2021. Negative average lag days for insurance expense are determined because insurance payments precede the midpoints of service provided as a result of such payment. The average days lag in payment of insurance expense of (74.3) has been carried forward to Exhibit No. FV-8-1 page 1 and FV-8-1 page 3.

Q. Explain Exhibit No. FV-8-1 (c).

A. Exhibit No. FV-8-1 (c) reflects the calculation of the average days lag in payment of other goods and services of 18.1 days. The average days lag in payment of other goods and services of 18.1 days is determined by dividing total dollar days lag in the amount of 6,880,043 by total invoice amount included in the Company's sample of other goods and services invoices of $379,624 (6,880,043 ÷ $379,624 = 18.1). The Company performed a random sampling of other goods and services payments by selecting approximately every 20th payment made during the twelve months ended December 31, 2021. The average days lag in payment of other goods and services of 18.1 has been carried forward to Exhibit No. FV-8-1 page 1 and FV-8-1 page 3.

Q. Explain Exhibit FV-8-1 (d).

A. Exhibit No. FV-8-1 (d) reflects the calculation of the average days lag in payment of employment taxes of 13.7 days. The average days lag in payment of employment taxes of 13.7 days is determined by dividing total dollar days in the amount of 28,995,197 by total amount included in the Company's sample of employment tax payments of $2,111,897 (28,995,197 ÷ $2,111,897 = 13.7 days). The Company's sample of employment tax payments includes all employment tax payments made during the twelve months ended December 31, 2021. The average days lag in payment of employment taxes of 13.7 has been carried forward to Exhibit No. FV-8-1, page 1 and FV-8-1, page 3.

Q. Explain Exhibit No. FV-8-1 (e).

A. Exhibit No. FV-8-1 (e) reflects the calculation of the average days lag in payment of other taxes of (80.5) days. The average days lag in payment of other taxes of (80.5) days is determined by dividing total dollar days in the amount of (31,034,213) by total amount included in the Company's sample of other tax payments of $385,688 [(31,034,213) ÷ $385,688 = (80.5) days]. The Company's sample of other tax payments includes all other tax payments made during the twelve months ended December 31, 2021. The average days lag in payment of other taxes of (80.5) has been carried forward to Exhibit No. FV-8-1, page 1 and FV-8-1, page 3. Negative average lag days for the payment of other taxes are determined because most other tax payments precede the midpoints of service provided as a result of such payment.

Q. Explain Exhibit No. FV-8-1 (f).

A. Exhibit No. FV-8-1 (f) reflects the calculation of the average days lag in payment of income taxes of 29.6 days. The average days lag in payment of income taxes of 29.6 is determined by dividing total dollar days lag in the amount of 21,497,061 by total invoice amounts included in the Company's sample of income tax payments of $725,035 (21,497,061 ÷ $725,035 = 29.6 days). The Company's sample of income tax payments includes all income tax payments made during the twelve months ended December 31, 2021. The average days lag in payment of income taxes of 29.6 has been carried forward to Exhibit No. FV-8-1, page 1 and FV-8-1, page 3.

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

A. Exhibit No. FV-8-2 shows the calculation of the thirteen-month average of projected builders' deposits and water revenues paid in advance in the amount of $263,818 based upon the actual 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 projected builders' deposits and water revenues in advance of $263,818 has been carried forward to Exhibit No. FV-8 page 1 and FV-8 page 2.

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

A. Exhibit FV-8-3 presents the calculation of the projected payment lag for interest payments for the years ending December 31, 2022, and February 29, 2024, in the amounts of $374,064 and $452,527, respectively. The amount of $374,064 on page 1 of Exhibit No. FV-8-3 is calculated by multiplying the projected average daily interest expense of $13,577 by the net interest payment lag of 27.6 days ($13,577 x 27.6). The average projected daily interest expense in the amount of $13,577 is calculated by dividing the projected interest payments in the amount of $4,955,744 by the number of days in the future test year of 365 ($4,955,744 ÷ 365 = $13,577). The net interest payment lag of 27.6 days is determined by subtracting the weighted average lag days in receipt of operating revenues of 53.3 days from the weighted average lag days for interest payments of 80.9 days (80.9 days – 53.3 days = 27.6 days). The weighted average lag days for interest payments of 80.9 days is determined by dividing weighted projected interest payments of 400,966,209, shown in Column 3, by projected interest payment in the amount of $4,955,744, shown in Column 1 (400,966,209 ÷ $4,955,744 = 80.9). The amount of $374,064 has been carried forward to Exhibit No. FV-8, page 1.

The amount of $452,527 on page 2 of Exhibit No. FV-8-3 is calculated by multiplying the projected average daily interest expense of $15,934 by the net interest payment lag of 28.4 days ($15,934 x 28.4). The average projected daily interest expense in the amount of $15,934 is calculated by dividing the projected interest payments in the amount of $5,815,876 by the number of days in the fully projected future test year of 365 ($5,815,876 ÷ 365 = $15,934). The net interest payment lag of 28.4 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 81.8 days (81.8 days – 53.4 days = 28.4 days). The weighted average lag days for interest payments of 81.8 days is determined by dividing weighted projected interest payments of 475,660,936, shown in Column 3, by projected interest payment in the amount of $5,815,876, shown in Column 1 (475,660,936 ÷ $5,815,876 = 81.8). The amount of $452,527 has been carried forward to Exhibit No. FV-8, page 2.

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

A. Exhibit No. FV-8-4 shows the calculation of the thirteen-month average of projected prepaid Commission, OCA, OSBA, and DPC assessments of $162,289 and $163,435based upon the projected month-end balances of prepaid Commission, OCA, OSBA, and DPC assessments for the thirteen months ending December 31, 2022, and for the thirteen months ending February 29, 2024, respectively. Prepaid Commission, OCA, OSBA, and DPC assessments have been excluded from the Company's lead-lag study. The thirteen-month average of projected prepaid Commission, OCA, OSBA, and DPCA assessments of $162,289 for December 31, 2022, has been carried forward to Exhibit FV-8, page 1, and the thirteen-month average of $163,435 for February 29, 2024, has been carried forward to Exhibit No. FV-8, page 2.

Q. Explain Exhibit No. FV-9.

A. Exhibit No. FV-9 shows that amortized expenses and bad debt expense have been removed from total expenses for the cash working capital calculations for the period ending December 31, 2022, and the period ending February 29, 2024.

Q. Explain Exhibit No. FV-11.

A. Exhibit No. FV-11 shows the calculation of the thirteen-month average, in the amounts of $1,432,014 and $1,520,534, of projected materials and supplies based upon projected month-end balances for the thirteen months ending December 31, 2022, and February 29, 2024, respectively. The 2022-month end balances were projected by applying the 2021 (13-month average) ratio of materials and supplies to utility plant in service, to projected 2022 monthly plant in service balances. 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 $18,616,188, and this amount is divided by 13 to arrive at the thirteen-month average of the materials and supplies balance in the amount of $1,432,014 for the period ending December 31, 2022. The thirteen-month average in the amount of $1,432,014 has been carried forward to Exhibit No. FV-1, page 2 and has been added to the original cost measure of value.

The February 29, 2024 month end balances were projected by applying the 2021 (13-month average) ratio of materials and supplies to utility plant in service, to projected 2023 monthly plant in service balances. The total for the thirteen-month period is $19,766,939, and this amount is divided by 13 to arrive at the thirteen-month average of the materials and supplies balance in the amount of $1,520,534 for the period ending February 29, 2024. The thirteen-month average in the amount of $1,520,534 has been carried forward to Exhibit No. FV-1, page 3 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. F(c)-1, FV-2, FV-3, FV-4, FV-5, FV-6, FV-7, FV-13, FV-14, FV-15, FV-16, FV-16-1, FV-16-2, FV-16-3, and FV-16-4.

Q. Are you sponsoring any other exhibits?

A. No.

Q. Does this conclude your future test year and fully projected future test year direct testimony at this time?

A. Yes.

**YORK WATER STATEMENT NO. 105**

**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. FIV-2, FIV-12, FIV-15, FIV-15-1, FIV-15-2, FIV-15-3, FIV-15-4, FIV-15-5, FIV-15-6, FIV-15-7, FIV-15-8, FIV-15-9, FIV-15-10, FIV-15-11, and FIV-15-12 relating to operating taxes other than income taxes for the water division; and

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

Q. Explain Exhibit No. FIV-15.

A. Exhibit No. FIV-15 summarizes projected and pro forma adjustments to operating taxes other than income taxes for the twelve months ending December 31, 2022, and February 29, 2024, for ratemaking purposes and to reflect additional operating taxes other than income taxes resulting from the proposed increase in operating revenues.

Pro forma operating taxes other than income taxes for the twelve months ended December 31, 2021, in the amount of $1,279,493 are shown in Column 1, Page 2 of Exhibit FIV-15. Adjustments to operating taxes other than income taxes of $54,674 reflect the calculation of the projected level of taxes other than income taxes under existing rates for the twelve months ending December 31, 2022. Such adjustments are shown in Column 3, Page 2 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-1, FIV-15-2, FIV-15-3, FIV-15-4, FIV-15-5, and FIII-2-10. Projected operating taxes other than income taxes for the twelve months ended December 31, 2022, in the amount of $1,334,168 are shown in Column 4, Page 2 of Exhibit FIV-15.

Adjustments to operating taxes other than income taxes of $16,042 reflect the calculation of the Pro Forma level of taxes other than income taxes under existing rates for the twelve months ending December 31, 2022. Such adjustments are shown in Column 6, Page 2 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-6, FIV-15-7, and FIII-2-21. Pro Forma operating taxes other than income taxes for the twelve months ending December 31, 2022, in the amount of $1,350,210 are shown in Column 7, Page 2 of Exhibit No. FIV-15 and are carried forward to Column 1, Page 3 of Exhibit No. FIV-15.

Projected adjustments to operating taxes other than income taxes of $10,607 are shown in Column 3, Page 3 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-18, FIV-15-9, and FIII-2-34. Projected operating taxes other than income taxes for the twelve months ended February 29, 2024, in the amount of $1,360,817 are shown in Column 4, Page 3 of Exhibit FIV-15. Adjustments to operating taxes other than income taxes of $18,178 reflect the calculation of the Pro Forma level of taxes other than income taxes under existing rates for the twelve months ending February 29, 2024. Such adjustments are shown in Column 6, Page 3 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-10, FIV-15-11, and FIII-2-49. Pro forma operating taxes other than income taxes for the twelve months ending February 29, 2024, of $1,378,995 are shown in Column 7, Page 3 of Exhibit No. FIV-15 and are carried forward to Column 1 of Page 4 of Exhibit No. FIV-15.

Adjustments to operating taxes other than income taxes amounting to $108,524 are made to reflect the increased operating taxes other than income taxes that result from the increase in operating revenues under proposed rates. These adjustments are shown in Column 3, Page 4 of Exhibit No. FIV-15 and are detailed in Exhibit No. FIV-15-12. Pro Forma operating taxes other than income taxes under proposed rates for the twelve months ended February 29, 2024, in the amount of $1,487,519 are shown in Column 4, Page 4 of Exhibit FIV-15.

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

A. Exhibit No. FIV-15-1 is an adjustment to reflect FICA payroll taxes on projected payroll for twelve months ending December 31, 2022, 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 projected payroll of $9,368,477 to determine projected HI component of FICA taxes of $135,843 ($9,368,477 x 0.0145 = $135,843). Total projected payroll in the amount of $9,368,477 is reduced by $538,654, which is that portion of projected payroll not subject to old age, survivors, and disability insurance component ("OASDI") of FICA tax to arrive at taxable projected payroll of $8,829,823 ($9,368,477 - $538,654 = $8,829,823). The January 1, 2022 OASDI component of FICA tax rate of 6.2% is applied to the taxable projected payroll of $8,829,823 to determine projected OASDI component of FICA taxes of $547,449 ($8,829,823 x 0.062). The HI component in the amount of $135,843 and the OASDI component in the amount of $547,449 FICA taxes are totaled to determine projected FICA taxes in the amount of $683,292 ($135,843 + $547,449 = $683,292). The adjustment to FICA taxes, in the amount of $55,723, is determined by subtracting the pro forma FICA taxes for twelve months ended December 31, 2021, of $627,569 (Refer to Exhibit No. HIV-15-1) from the calculated projected FICA taxes of $683,292 ($683,292 - $627,569 = $55,723). The FICA adjustment, in the amount of $55,723, has been carried forward to Exhibit No. FIV-15, Page 2, Column 3.

I note that a portion of projected FICA taxes for the twelve months ending December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account 40801302, Miscellaneous Taxes Other Than Income Taxes on Exhibit No. FIII-2-10.

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

A. Exhibit No. FIV-15-2 presents an adjustment to reflect Federal unemployment tax on projected payroll for twelve months ended December 31, 2022, at the tax rate and wage base effective January 1, 2022. Total projected payroll in the amount of $9,368,477 is reduced by $8,451,602, which is that portion of projected payroll that exceeds the 2022 taxable wage base per employee of $7,000, to arrive at taxable projected payroll of $916,875 ($9,368,477 - $8,451,602 = $916,875). The 2022 Federal unemployment tax rate of 0.6% is applied to the taxable projected payroll of $916,875 to determine projected Federal unemployment tax of $5,501. The adjustment to Federal unemployment tax in the amount of $420 is determined by subtracting the pro forma test year Federal unemployment tax of $5,081 from the calculated projected Federal unemployment tax of $5,501 ($5,501 - $5,081 = $420). The Federal unemployment tax adjustment in the amount of $420 has been carried forward to Exhibit No. FIV-15, Column 3.

I note that a portion of projected Federal unemployment tax for the twelve months ended December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 40801302, Miscellaneous Taxes Other Than Income Taxes on Exhibit No. FIII-2-10.

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

A. Exhibit No. FIV-15-3 presents an adjustment to reflect Pennsylvania unemployment tax on projected payroll for twelve months ended December 31, 2022, at the tax rate and wage base effective January 1, 2022. Total projected payroll in the amount of $9,368,477 is reduced by $8,076,242 which is that portion of projected payroll expense that exceeds the 2022 taxable wage base per employee of $10,000, to arrive at taxable projected payroll of $1,292,235 ($9,368,477 - $8,076,242 = $1,292,235). The 2022 Pennsylvania unemployment tax rate of 1.2905% is applied to the taxable projected payroll of $1,292,235 to determine projected Pennsylvania unemployment tax of $16,676. The adjustment to Pennsylvania unemployment tax in the amount of $1,291 is determined by subtracting the pro forma test year Pennsylvania unemployment tax of $15,386 from the calculated projected Pennsylvania unemployment tax of $16,676 ($16,676 - $15,386 = $1,291). The Pennsylvania unemployment tax adjustment, in the amount of $1,291, has been carried forward to Exhibit No. FIV-15, Column 3.

I note that a portion of projected Pennsylvania unemployment tax for the twelve months ended December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 40801302, Miscellaneous Taxes Other Than Income Taxes on Exhibit No. FIII-2-10.

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

A. FIV-15-4 is an adjustment to reflect the Pennsylvania Public Utility Realty Tax for the twelve months ending December 31, 2022, based on the most recent state taxable value, millage rate and transitional credit adjustments. The adjustment in the amount of $1,639 is determined by subtracting the pro forma realty taxes for the twelve months ended December 31, 2021, of $269,141 (Refer to Exhibit No. HIV-15 Page 2) from the calculated projected amount of $267,502 [$269,141 - $267,502 = $1,639]. The adjustment in the amount of $1,639 has been carried forward to Exhibit No. FIV-15, Page 2, Column 3.

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

A. Exhibit No. FIV-15-5 is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Control Assessment, based on projected operating revenues under existing rates for twelve months ending December 31, 2022, 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 Control Assessment is applied to projected operating revenues at existing rates for twelve months ending December 31, 2022, in the amount of $50,446,207. The projected operating revenues at existing rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total projected operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. 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 projected operating revenues at existing rates for combined assessment purposes for the twelve months ended December 31, 2022, in the amount of $50,446,207 to determine the projected combined assessment under existing rates for twelve months ended December 31, 2022, in the amount of $338,777 ($50,446,207 x 0.671560%). The adjustment in the amount of $1,591 is determined by subtracting the pro forma assessments for the twelve months ended December 31, 2021, of $337,186 (Refer to Exhibit No. HIV-15-4) from the calculated projected amount of $338,777 [$338,777 - $337,186 = $1,591]. The adjustment in the amount of $1,591 has been carried forward to Exhibit No. FIV-15, Page 2, Column 3.

Q. Explain Exhibit No. FIV-15-6.

A. Exhibit No. FIV-15-6 is an adjustment to reflect FICA payroll taxes on pro forma payroll for twelve months ending December 31, 2022, at the tax rate and wage bases effective January 1, 2022. The January 1, 2022 HI component of the FICA tax of 1.45% is applied to taxable pro forma payroll of $9,703,337 to determine projected HI component of FICA taxes of $140,698 ($9,703,337 x 0.0145 = $140,698). Total pro forma payroll in the amount of $9,703,337 is reduced by $676,333, which is that portion of pro forma payroll not subject to OASDI of FICA tax to arrive at taxable pro forma payroll of $9,027,004 ($9,027,004 - $676,333 = $9,027,004). The January 1, 2022 OASDI component of FICA tax rate of 6.2% is applied to the taxable pro forma payroll of $9,027,004 to determine pro forma OASDI component of FICA taxes of $559,674 ($9,027,004 x 0.062). The HI component in the amount of $140,698 and the OASDI component in the amount of $559,674 of FICA taxes are totaled to determine projected FICA taxes in the amount of $700,373 ($140,698 + $559,674 = $700,373). The adjustment to FICA taxes in the amount of $17,081 is determined by subtracting the projected FICA taxes for twelve months ending December 31, 2022, of $683,292 (Refer to Exhibit No. FIV-15-1) from the calculated pro forma FICA taxes of $700,373 ($700,373 - $683,292 = $17,081). The FICA adjustment, in the amount of $17,081, has been carried forward to Exhibit No. FIV-15, Page 2, Column 6.

I note that a portion of pro forma FICA taxes for the twelve months ending December 31, 2022, was capitalized and is reflected, as a reduction to operating expenses, in Account 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No. FIII-2-21.

Q. Explain Exhibit No. FIV-15-7.

A. Exhibit No. FIV-15-7 is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Control Assessment based on Pro Forma operating revenues under existing rates for twelve months ending December 31, 2022, 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 Control Assessment is applied to Pro Forma operating revenues at existing rates for twelve months ending December 31, 2022, in the amount of $50,683,132. 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-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. 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, 2022, in the amount of $50,683,132 to determine the pro forma combined assessment under existing rates for twelve months ended December 31, 2022, in the amount of $340,368 ($50,683,132 x 0.671560%). The adjustment in the amount of $1,591 is determined by subtracting the projected year assessments for the twelve months ended December 31, 2022, of $338,777 (Refer to Exhibit No. FIV-15-5) from the calculated pro forma amount of $340,368 ($340,368 - $338,777 = $1,591). The adjustment in the amount of $1,591 has been carried forward to Exhibit No. FIV-15, Page 2, Column 6.

Q. Explain Exhibit No. FIV-15-8.

A. Exhibit No. FIV-15-8 is an adjustment to reflect FICA payroll taxes on projected payroll for twelve months ending February 29, 2024, at the tax rate and wage bases effective January 1, 2022. The January 1, 2022 HI component of the FICA tax of 1.45% is applied to taxable pro forma payroll of $9,854,287 to determine projected HI component of FICA taxes of $142,887 ($9,854,287 x 0.0145 = $142,887). Total projected payroll in the amount of $9,854,287 is reduced by $706,606, which is that portion of projected payroll not subject to OASDI of FICA tax to arrive at taxable projected payroll of $9,147,681

($9,854,287 - $706,606 = $9,147,681). The January 1, 2022 OASDI component of FICA tax rate of 6.2% is applied to the taxable projected payroll of $9,147,681 to determine pro forma OASDI component of FICA taxes of $567,156 ($9,147,681 x 0.062). The HI component in the amount of $142,887 and the OASDI component in the amount of $567,156 of FICA taxes are totaled to determine projected FICA taxes in the amount of $710,043 ($142,887 + $567,156 = $710,043). The adjustment to FICA taxes in the amount of $9,671 is determined by subtracting the Pro Forma FICA taxes for twelve months ending December 31, 2022, of $700,373 (Refer to Exhibit No. FIV-15-6) from the calculated projected FICA taxes of $710,043 ($710,043 - $700,373 = $9,671). The FICA adjustment, in the amount of $9,671, has been carried forward to Exhibit No. FIV-15, Page 3, Column 3.

I note that a portion of projected FICA taxes for the twelve months ending February 29, 2024, was capitalized and is reflected, as a reduction to operating expenses, in Account 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No. FIII-2-34.

Q. Explain Exhibit No. FIV-15-9.

A. Exhibit No. FIV-15-9 is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Control Assessment based on projected operating revenues under existing rates for twelve months ending February 29, 2024, 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 Control Assessment is applied to projected operating revenues at existing rates for twelve months ending February 29, 2024, in the amount of $50,999,033. The projected operating revenues at existing rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total projected operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. 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 projected operating revenues at existing rates for combined assessment purposes for the twelve months ended February 29, 2024, in the amount of $50,999,033 to determine the projected combined assessment under existing rates for twelve months ended February 29, 2024, in the amount of $342,489 ($50,999,033 x 0.671560%). The adjustment in the amount of $2,121 is determined by subtracting the Pro Forma year assessments for the twelve months ending December 31, 2022, of $340,368 (Refer to Exhibit No. FIV-15-7) from the calculated projected amount of $342,489 [$342,489 - $340,368 = $2,121]. The adjustment in the amount of $2,121 has been carried forward to Exhibit No. FIV-15, Page 3, Column 3.

Q. Explain Exhibit No. FIV-15-10.

A. Exhibit No. FIV-15-10 is an adjustment to reflect FICA payroll taxes on Pro Forma payroll for twelve months ending February 29, 2024, at the tax rate and wage bases effective January 1, 2022. The January 1, 2022 HI component of the FICA tax of 1.45% is applied to taxable Pro Forma payroll of $10,181,483 to determine projected HI component of FICA taxes of $147,631 ($10,181,483 x 0.0145 = $147,631). Total Pro Forma payroll in the amount of $10,181,483 is reduced by $801,354, which is that portion of Pro Forma payroll not subject to OASDI of FICA tax to arrive at taxable Pro Forma payroll of $9,380,129 ($10,181,483 - $801,354 = $9,380,129). The January 1, 2018 OASDI component of FICA tax rate of 6.2% is applied to the taxable Pro Forma payroll subject to OASDI of $9,380,129 to determine pro forma OASDI component of FICA taxes of $581,568 ($9,380,129 x 0.062). The HI component in the amount of $147,631 and the OASDI component in the amount of $581,568 of FICA taxes are totaled to determine Pro Forma FICA taxes in the amount of $729,199 ($147,631 + $581,568 = $729,199). The adjustment to FICA taxes, in the amount of $19,156, is determined by subtracting the projected FICA taxes for twelve months ending February 29, 2024, of $710,043 (Refer to Exhibit No. FIV-15-6) from the calculated Pro Forma FICA taxes of $729.199 ($729,199 - $410,043 = $19,156). The FICA adjustment in the amount of $19,156 has been carried forward to Exhibit No. FIV-15, Page 3, Column 6.

I note that a portion of Pro Forma FICA taxes for the twelve months ending February 29, 2024, was capitalized and is reflected, as a reduction to operating expenses, in Account 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No. FIII-2-49.

Q. Explain Exhibit No. FIV-15-11.

A. Exhibit No. FIV-15-11 is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Control Assessment based on Pro Forma operating revenues under existing rates for twelve months ending February 29, 2024, 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 Control Assessment is applied to Pro Forma operating revenues at existing rates for twelve months ending February 29, 2024, in the amount of $51,235,958. 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-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. 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 February 29, 2024, in the amount of $51,235,958 to determine the pro forma combined assessment under existing rates for twelve months ended February 29, 2024, in the amount of $344,080 ($51,235,958 x 0.00671560). The adjustment in the amount of $1,591 is determined by subtracting the projected year assessments for the twelve months ending February 29, 2024, of $342,489 (Refer to Exhibit No. FIV-15-9) from the calculated Pro Forma amount of $344,080 ($344,080 - $342,489 = $1,591). The adjustment in the amount of $1,591 has been carried forward to Exhibit No. FIV-15, Page 3, Column 6.

Q. Explain Exhibit No. FIV-15-12.

A. Exhibit No. FIV-15-12 is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Control Assessment based on Pro Forma operating revenues under proposed rates for twelve months ending February 29, 2024, 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 Control Assessment is applied to Pro Forma operating revenues under proposed rates for twelve months ending February 29, 2024, in the amount of $67,395,964. The pro forma operating revenues at proposed rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at proposed rates on Exhibit No. FII-2, Page 2, Column 4. 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 February 29, 2024, in the amount of $67,395,964 to determine the pro forma combined assessment under proposed rates for twelve months ended February 29, 2024, in the amount of $452,604 ($67,395,964 x 0.00671560). The adjustment in the amount of $108,524 is determined by subtracting the pro forma year assessments for the twelve months ending February 29, 2024, of $344,080 (Refer to Exhibit No. FIV-15-11) from the calculated Pro Forma amount of $452,604 ($452,604 - $344,080 = $108,524). The adjustment in the amount of $108,524 has been carried forward to Exhibit No. FIV-15, Page 4, Column 3.

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

A. Yes, I am also sponsoring Exhibit Nos. FIV-2 and FIV-12.

Q. Explain Exhibit No. FIV-5.

A. Exhibit No. FIV-5 provides a schedule of deferred investment tax credits as of February 29, 2024. 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.

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. FIV-17.

A. Exhibit No. FIV-17 summarizes adjustments to operating income taxes for the twelve months ending February 29, 2024, for ratemaking purposes and to reflect additional operating income taxes resulting from the proposed increase in operating revenues.

Pro forma operating income taxes for the twelve months ended December 31, 2021, in the amount of $714,858 are shown in Column 1 of Page 2 of Exhibit FIV-17. Projected adjustments to operating income taxes of $(541,311) are shown in Column 3 of Page 2 of Exhibit No. FIV-17 and are detailed in Exhibit Nos. FIV-17-1 through FIV-17-4, which I will explain later. Pro forma adjustments to operating income taxes of $(21,021) are shown in Column 6 of Page 2 of Exhibit No. FIV-17 and are detailed in Exhibit No. FIV-17-5, which I will explain later. Pro forma operating income taxes for the twelve months ending December 31, 2022, in the amount of $152,526 are shown in Column 7 of Page 2 of Exhibit No. FIV-17 and are carried forward to Column 1 of Page 3 of Exhibit No. FIV-17. Projected adjustments to operating income taxes of $(904,977) are shown in Column 3 of Page 3 of Exhibit No. FIV-17 and are detailed in Exhibit Nos. FIV-17-6 through FIV-17-9, which I will explain later. Projected operating income taxes for the twelve months ending February 29, 2024, in the amount of $(752,451) are shown in Column 4 of Page 3 of Exhibit No. FIV-17 and are carried forward to Column 1 of Page 4 of Exhibit No. FIV-17. Pro forma adjustments to operating income taxes of $(98,396) are shown in Column 3 of Page 4 of Exhibit No. FIV-17 and are detailed in Exhibit No. FIV-17-10 and Exhibit No. FIV-17-11, which I will explain later. Adjustments to operating income taxes amounting to $4,619,883 are made to reflect the increased operating income taxes that will result from the increase in operating revenues under proposed rates and these adjustments are shown in Column 6 of Page 4 of Exhibit No. FIV-17 and are detailed in Exhibit No. FIV-17-11, which I will explain later.

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

A. Exhibit No. FIV-17-1 is an annualized amortization of Federal investment tax credits for the twelve months ended December 31, 2022. The Tax Reform Act of 1986 repealed the investment tax credit provisions effective December 31, 1985. The investment tax credits for 1986 through 2022 are claimed under the transitional property provisions of TRA-86.

Federal investment tax credits as of December 31, 2022, generated during the period 1972 through 2022 are shown on Column 2 of Exhibit No. FIV-17-1. 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 pro forma annual amortization of Federal investment tax credits in the amount of (39,277) shown in Column 4 of Exhibit No. FIV-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 the ratepayers as a reduction to Federal income taxes ratably over the depreciable life of the property. An adjustment of the annual amortization of Federal investment tax credits in the amount of $(36) is determined by subtracting the pro forma amortization of

Federal investment tax credits for the period ended December 31, 2021, of $(39,242) (Refer to Exhibit No. HIV-17-1) from the calculated pro forma annual amortization of Federal investment tax credits in the amount of $(39,277), shown in Column 4 [$(39,277) - $(39,242) = $(36)]. The adjustment of the annual amortization of Federal investment tax credits in the amount of $(36) has been carried forward to Exhibit FIV-17, Page 2, 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. FIV-17-2.

A. Exhibit No. FIV-17-2 is an adjustment to reflect projected current Federal income tax and projected current Pennsylvania corporate net income tax based on projected taxable income for the twelve months ending December 31, 2022, under existing rates at the currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net income tax rate of 9.99%.

Total projected operating income before income taxes and excluding depreciation under existing rates for the twelve months ending December 31, 2022, in the amount of $29,119,718 is determined by subtracting projected operating expenses under existing rates in the amount of $22,398,210 (Refer to Exhibit No. FIII-2, Page 2 of 22, Column 4) and projected operating taxes other than income taxes under existing rates in the amount of $1,334,168 (Refer to Exhibit No. FIV-15, Page 2 of 4, Column 4) from projected operating revenues under existing rates in the amount of $52,852,095 (Refer to Exhibit No. FII-2, Page 2 of 9, Column 3) ($52,852,095 - $22,398,210 - $1,334,168 = $29,119,718). 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 $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 amounts are then deducted for tax repair expense in the amount of $10,245,182, cost of removal in the amount of $3,189,983, tank painting in the amount of $685,000, deferred rate case expense in the amount of $952,500, state tax depreciation in the amount of $9,655,385, and pro forma interest expense deduction for ratemaking purposes in the amount of $5,156,777.

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 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 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 $29,119,718, they must be added back in arriving at taxable income. Tax repair expense in the amount of $10,245,182 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 $3,189,983 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 $9,655,385 is detailed on Exhibit No. HIV-17-3, and Exhibit No. HIV-17-3 (a). I note that the Federal tax depreciation is less than state 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 $5,156,777 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $291,591,611 x Weighted Debt Cost Rate of 1.77%).

Projected taxable income under existing rates in the amount of $(218,577) 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, Amortization of Rate Case 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 $10,245,182, cost of removal in the amount of $3,189,983, tank painting in the amount of $685,000, deferred rate case expense in the amount of $952,500, state tax depreciation in the amount of $9,655,385, and pro forma interest expense deduction for ratemaking purposes in the amount of $5,156,777 from projected net operating income in the amount of $29,119,718 [$29,119,718 + $2,323 + $8,305 + $1,740 + $1,277 + $238,125 + $(11,746) + 283,064 + $3,081 + $4,928 + $844 + $13,308 + $1,286 - $10,245,182 - $3,189,983 - $685,000 - $952,500 - $9,655,385 - $5,156,777 = $(218,573)].

Projected State income tax under existing rates in the amount of $(21,835) is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to projected taxable income in the amount of $(218,573) [$(218,573) x 0.0999 = $(21,835)]. Projected Federal taxable income under existing rates in the amount of $549,179 is determined by subtracting projected State income tax under existing rates in the amount of $(21,835) and adding back additional allowed State depreciation on bonus property of $745,917 to projected taxable income in the amount of $(218,573) [$(218,573) - $(21,835) + $745,917 = $549,179]. Projected Federal income tax under existing rates in the amount of $115,328 is determined by applying the presently effective Federal income tax rate of 21% to the projected Federal taxable income under existing rates in the amount of $549,179 [$549,179 x 0.21 = $115,328]. Total projected current income taxes under existing rates in the amount of $93,492 is determined by adding projected state income tax under existing rates in the amount of $(21,835) and projected Federal income tax under existing rates in the amount of $115,328 [$(21,835) + $115,328 = $93,492]. The adjustment to income taxes in the amount of $(657,699) is determined by subtracting total pro forma current income taxes under existing rates during the twelve months ended December 31, 2021, in the amount of $751,191 (Refer to Exhibit No. FIV-17) from total projected current income taxes under existing rates in the amount of $93,492 [$93,492 - $751,190 = $(657,699)]. The adjustment to income taxes at present rates in the amount of $(657,699) has been carried forward to Exhibit No. FIV-17, Page 2, Column 3.

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

A. Exhibit No. FIV-17-3 provides information concerning income tax depreciation used to calculate current and deferred Federal Income Taxes for ratemaking purposes. In order to explain Exhibit No. FIV-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 2022, 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 $12,573,236 for property included in the measure of value is shown on Exhibit FIV-17-2, Column 3.

Deferred taxes must be provided with the normalization requirements of Internal Revenue Code Sections 167 and 168. The amount of $12,573,236 is reduced by $9,999,946, which is the amount included for ratemaking purposes as depreciation in order to determine the difference of $2,573,290 to be used for calculating the deferred

Federal income tax ($12,573,236 - $9,999,946 = $2,573,290). The Federal income tax rate of 21% is applied to the difference of $2,573,290 to determine deferred Federal income tax in the amount of $540,391 ($2,573,290 x 0.21). The adjustment to deferred Federal income tax in the amount of $106,821 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 $433,570 from the calculated deferred Federal income tax in the amount of $540,391 [$540,391 - $433,570 = $106,821]. The adjustment to deferred Federal income tax in the amount of $106,821 has been carried forward to Exhibit No. FIV-17, Column 3.

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

A. Exhibit No. FIV-17-3 (a) is the calculation of the state tax decoupling from the Federal Special 30-Percent and 50-Percent Depreciation Allowance in accordance with Pennsylvania 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 Special 50-Percent Depreciation Allowance to make adjustments, which eliminate the effect of the Federal Special 30-Percent and Special 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 basis of property qualified for the additional first year depreciation allowance is reflected in Column 2 of Exhibit No. FIV-17-3 (a). Total Federal tax depreciation is shown in Column 3 of Exhibit No. FIV-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).

The recovery of a portion of the bonus depreciation of $745,917 is carried forward to Exhibit No. FIV-17-2 and FIV-17-5 as an adjustment to State tax depreciation.

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

A. Exhibit No. FIV-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, 2011, and 2013 through 2017. Tax depreciation for these vintage years subject to normalization requirements of Internal Revenue Code Section 167 and 168 is $941,950. The amount of tax depreciation of $941,950 is less than $2,144,522, which is the amount included for ratemaking purposes as depreciation on property placed in service during these vintage years. The difference of $(1,202,572) is to be used for calculating the return of excess previously deferred Federal income tax to be reversed [$941,950 - $2,144,522 = $(1,202,572)]. 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 $(414,449). This was compared to the value of the deferred Federal income taxes at the newly enacted rate of $252,540 determined by multiplying the total tax depreciation subject to deferral of $(1,202,572) by the newly enacted rate of 21% [$(1,202,572) x 0.21 = $(252,540)]. The difference between the deferred Federal income taxes at prior rates of

$(414,449) and those at the newly enacted rate of $252,540 is the reversal of the excess deferred Federal income taxes of $(161,909) [$(414,449) - $252,540 = $(161,909)]. An adjustment of the excess deferred Federal income taxes in the amount of $9,602 is determined by subtracting the reversal of pro forma excess deferred Federal income taxes during the twelve months ended December 31, 2021, in the amount of $(171,511), from the calculated pro forma reversal of excess deferred Federal income taxes in the amount of $(161,909) [$(161,909) - $(171,511) = $9,602]. The adjustment of the reversal of deferred Federal income taxes in the amount of $9,602 has been carried forward to Exhibit HIV-17, Column 3.

Q. Explain Exhibit No. FIV-17-5.

A. Exhibit No. FIV-17-5 is an adjustment to reflect pro forma current Federal income tax and pro forma current Pennsylvania corporate net income tax based on pro forma taxable income for the twelve months ending December 31, 2022, under existing rates at the currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net income tax rate of 9.99%.

Total pro forma operating income before income taxes and excluding depreciation under existing rates for the twelve months ending December 31, 2022, in the amount of $29,046,960 is determined by subtracting pro forma operating expenses under existing rates in the amount of $22,682,887 (Refer to Exhibit No. FIII-2, Page 9 of 9, Column 1) and pro forma operating taxes other than income taxes under existing rates in the amount of $1,350,210 (Refer to Exhibit No. FIV-15, Page 2 of 4, Column 7) from pro forma operating revenues under existing rates in the amount of $53,080,058 (Refer to Exhibit

No. FII-2, Page 4 of 9, Column 3) ($53,080,058 - $22,682,887 - $1,350,210 = $29,046,960). To arrive at taxable income at present rates, amounts are added for 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 Expenses 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 amounts are then deducted for tax repair expense in the amount of $10,245,182, cost of removal in the amount of $3,189,983, tank painting in the amount of $685,000, deferred rate case expense in the amount of $952,500, state tax depreciation in the amount of $9,655,385, and pro forma interest expense deduction for ratemaking purposes in the amount of $5,156,777.

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 Expenses 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 $1,488, 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 $29,046,960, they must be added back in arriving at taxable income. Tax repair expense in the amount of $10,245,182 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 $3,189,983 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Tank painting in the amount of $685,000 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Deferred rate case expense in the amount of $952,500 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 $9,655,385 is detailed on Exhibit No. FIV-17-3 and Exhibit No. FIV-17-3 (a). I note that the Federal tax depreciation is less than state tax depreciation due to the provisions of Act 89 of 2002, which I previously explained with respect to Exhibit No. FIV-17-3 (a). Pro forma interest expense deduction for ratemaking purposes in the amount of $5,156,777 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $291,591,611 x Weighted Debt Cost Rate of 1.77%).

Pro forma taxable income under existing rates in the amount of $(291,330) 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 Expenses 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 $3,087, 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 $10,245,182, cost of removal in the amount of $3,189,983, tank painting in the amount of $685,000, deferred rate case expense in the amount of $952,500, state tax depreciation in the amount of $9,655,385 and pro forma interest expense deduction for ratemaking purposes in the amount of $5,156,777 from pro forma net operating income in the amount of $29,046,960 [$29,046,960 + $2,323 + $8,305 + $1,740 + $1,277 + $238,125 + $(11,746) + $283,064 + $3,081 + $4,928 + $844 + 13,308 + 1,286 - $10,245,182 - $3,189,983 - $685,000 - $952,500 - $9,655,385 - $5,156,777 = (291,330)].

Pro forma State income tax under existing rates in the amount of $(29,104) is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to pro forma taxable income in the amount of $(291,330) [$(291,330) x 0.0999 = $(29,104)]. Pro forma Federal taxable income under existing rates in the amount of $483,690 is determined by subtracting pro forma State income tax under existing rates in the amount of $(29,104) and adding back additional allowed State depreciation on bonus property of $745,917 to pro forma taxable income in the amount of $(291,330) [$(291,330) - $(29,104) + $745,917 = $483,690]. Pro forma Federal income tax under existing rates in the amount of $101,575 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 $483,690 [$483,690 x 0.21 = $101,575]. Total pro forma current income taxes under existing rates in the amount of $72,471 is determined by adding pro forma state income tax under existing rates in the amount of $(29,104) and pro forma Federal income tax under existing rates in the amount of $101,575 [$(29,104) + $101,575 = $72,471]. The adjustment to income taxes in the amount of $(21,021) is determined by subtracting total projected current income taxes under existing rates during the twelve months ending December 31, 2022, in the amount of $93,492 (Refer to Exhibit No. FIV-17-2) from total pro forma current income taxes under existing rates in the amount of $72,471 [$72,471 - $93,492 = $(21,021)]. The adjustment to income taxes at present rates in the amount of $(21,021) has been carried forward to Exhibit No. FIV-17, Page 2, Column 6.

Q. Explain Exhibit No. FIV-17-6.

A. Exhibit No. FIV-17-6 is an annualized amortization of Federal investment tax credits for the twelve months ended February 29, 2024. The Tax Reform Act of 1986 repealed the investment tax credit provisions effective December 31, 1985. The investment tax credits for 1986 through February 29, 2024, are claimed under the transitional property provisions of TRA-86.

Federal investment tax credits as of February 29, 2024, generated during the period 1972 through February 29, 2024, are shown on Column 2 of Exhibit No. FIV-17-9. 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 pro forma annual amortization of Federal investment tax credits in the amount of $(39,126) shown in Column 4 of Exhibit No. FIV-17-6 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 the ratepayers as a reduction to Federal income taxes ratably over the depreciable life of the property. An adjustment of the annual amortization of Federal investment tax credits in the amount of $152 is determined by subtracting the pro forma amortization of Federal investment tax credits for the period ended December 31, 2022, of $(39,277) (see Exhibit No. FIV-17-1) from the calculated pro forma annual amortization of Federal investment tax credits in the amount of $(39,126), shown in Column 4 [$(39,126) - $(39,277) = $152]. The adjustment of the annual amortization of Federal investment tax credits in the amount of $152 has been carried forward to Exhibit FIV-17, Page 3, 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. FIV-17-7.

A. Exhibit No. FIV-17-7 is an adjustment to reflect projected current Federal income tax and projected current Pennsylvania corporate net income tax based on projected taxable income for the twelve months ending February 29, 2024, under existing rates at the currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net income tax rate of 9.99%.

Total projected operating income before income taxes and excluding depreciation under existing rates for the twelve months ending February 29, 2024, in the amount of $28,901,646 is determined by subtracting projected operating expenses under existing rates in the amount of $23,141,818 (Refer to Exhibit No. FIII-2, Page 16 of 22, Column 1) and projected operating taxes other than income taxes under existing rates in the amount of $1,360,817 (Refer to Exhibit No. FIV-15, Page 3 of 4, Column 4) from projected operating revenues under existing rates in the amount of $53,404,281 (Refer to Exhibit No. FII-2, Page 6 of 9, Column 3) ($53,404,281 - $23,141,818 - $1,360,817 = $28,901,646). To arrive at taxable income at present rates, amounts are added for 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 Expenses 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 $4,807, and amounts are then deducted for tax repair expense in the amount of $11,007,201, cost of removal in the amount of $3,206,033, tank painting in the amount of $600,000, state tax depreciation in the amount of $12,113,583, and pro forma interest expense deduction for ratemaking purposes in the amount of $6,202,718.

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 Expenses 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 $4,807 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 $28,901,646, they must be added back in arriving at taxable income. Tax repair expense in the amount of $11,007,201 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 $3,206,033 is capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Tank painting in the amount of $600,000 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. State tax depreciation in the amount of $12,113,583 is detailed on Exhibit No. FIV-17-8 and Exhibit No. FIV-17-8 (a). I note that the state tax depreciation is greater than Federal tax depreciation, which I will explain later with respect to Exhibit No. FIV-17-8 (a). Projected interest expense deduction for ratemaking purposes in the amount of $6,200,718 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $350,621,590 x Weighted Debt Cost Rate of 1.77%).

Projected taxable income under existing rates in the amount of $(3,675,831) 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 Expenses 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 $4,807 and deducting tax repair expense in the amount of $11,007,201, cost of removal in the amount of $3,206,033, tank painting of $600,000, state tax depreciation in the amount of $12,113,583, and pro forma interest expense deduction for ratemaking purposes in the amount of $6,200,718 from projected net operating income in the amount of $28,901,646 ($28,901,646 + $2,323 + $8,305 + $1,740 + $1,277 + $238,125 + $(11,746) + $283,064 + $3,081 + $4,928 + $844 + $13,308 + $4,807 - $11,007,201 - $3,206,033 - $600,000 - $12,113,583 - $6,200,718 = $(3,675,831).

Projected State income tax under existing rates in the amount of $(367,216) is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to projected taxable income in the amount of $(3,675,831) [$(3,675,831 x 0.0999 = $(367,216)]. Projected Federal taxable income under existing rates in the amount of $(2,655,396) is determined by subtracting projected State income tax under existing rates in the amount of $(367,216) and adding back additional allowed state depreciation on bonus property of $653,220 to projected taxable income in the amount of $(3,675,831) [$(3,675,831) - $(367,216) + $653,220 = $(2,655,396)]. Projected Federal income tax under existing rates in the amount of $(557,633) is determined by applying the presently effective Federal income tax rate of 21% to the projected Federal taxable income under existing rates in the amount of $(2,656,396) [$(2,656,396) x 0.21 = $(557,633)]. Total projected current income taxes under existing rates in the amount of $(924,849) is determined by adding projected state income tax under existing rates in the amount of $(367,216) and projected Federal income tax under existing rates in the amount of $(557,633) [$(367,216) + $(557,633) = $(924,849)]. The adjustment to income taxes in the amount of $(997,320) is determined by subtracting total pro forma current income taxes under existing rates during the twelve months ended December 31, 2022, in the amount of $72,471 (Refer to Exhibit No. FIV-17-5) from total projected current income taxes under existing rates in the amount of $(924,849) [$(924,849) - $72,471 = $(997,320)]. The adjustment to income taxes at present rates in the amount of $(997,320) has been carried forward to Exhibit No. FIV-17, Page 3, Column 3.

Q. Explain Exhibit FIV-17-8.

A. Exhibit No. FIV-17-8 provides information concerning income tax depreciation used to calculate current and deferred Federal Income Taxes for ratemaking purposes for the fully projected future test year. A general explanation of the tax depreciation methods used by York Water for various vintages of property is required in order to fully understand Exhibit No. FIV-17-8. That explanation was previously provided with respect to Exhibit No. FIV-17-3.

Tax depreciation by vintage year in the amount of $15,055,181 for property included in the measure of value is shown on Exhibit FIV-17-8, Column 3.

Deferred taxes must be provided with the normalization requirements of Internal Revenue Code Sections 167 and 168. The amount of $15,055,181 is reduced by $12,000,628, which is the amount included for ratemaking purposes as depreciation in order to determine the difference of $3,054,553 to be used for calculating the deferred Federal income tax ($15,055,181 - $12,000,628 = $3,054,553). The Federal income tax rate of 21% is applied to the difference of 3,054,553 to determine deferred Federal income tax in the amount of $641,456 ($3,054,553 x 0.21). The adjustment to deferred Federal income tax in the amount of $101,065 is determined by subtracting deferred pro forma Federal income tax during the twelve months ended December 31, 2022, in the amount of $540,391 from the calculated deferred Federal income tax in the amount of $641,456 [$641,456 - $540,391 = $101,065]. The adjustment to deferred Federal income tax in the amount of $101,065 has been carried forward to Exhibit No. FIV-17, Column 3.

Q. Explain Exhibit No. FIV-17-8 (a).

A. Exhibit No. FIV-17-8 (a) presents the calculation of the state tax decoupling from the Federal Special 30-Percent and 50 Percent Depreciation Allowance for the fully projected future test year 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, which 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 basis of property qualified for the additional first-year depreciation allowance is reflected in Column 2 of Exhibit No. FIV-17-8 (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).

The increase in depreciation of $653,220 is carried forward to Exhibit No. FIV-17-7 and FIV-17-10 as an adjustment to State tax depreciation.

Q. Explain Exhibit No. FIV-17-9.

A. Exhibit No. FIV-17-9 calculates the reversal of excess deferred Federal income taxes related to accelerated depreciation on property for the fully projected future test year. 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 1997, 2011, and 2014 through 2017. Tax depreciation for these vintage years subject to normalization requirements of Internal Revenue Code Section 167 and 168 is $761,692. The amount of tax depreciation of $761,692 is less than $2,039,456, which is the amount included for ratemaking purposes as depreciation on property placed in service during these vintage years. The difference of $(1,277,764) is to be used for calculating the return of excess previously deferred Federal income tax to be reversed [$761,692 - $2,039,456 = $(1,277,764)]. 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 $(439,113). This was compared to the value of the deferred Federal income taxes at the newly enacted rate of $268,330 determined by multiplying the total tax depreciation subject to deferral of $(1,277,764) by the newly enacted rate of 21% [$(1,277,764) x 0.21 = $(268,330)]. The difference between the deferred Federal income taxes at prior rates of $(439,113) and those at the newly enacted rate of $268,330 is the reversal of the excess deferred Federal income taxes of $(170,783) [$(439,113) - $268,330 = $(170,783)]. An adjustment of the excess deferred Federal income taxes in the amount of $(8,874) is determined by subtracting the reversal of pro forma excess deferred Federal income taxes during the twelve months ended December 31, 2022, in the amount of $(161,909), from the calculated pro forma reversal of excess deferred Federal income taxes in the amount of $(170,783) [$(170,783) - $(161,909) = $(8,874)]. The adjustment of the reversal of deferred Federal income taxes in the amount of $(8,874) has been carried forward to Exhibit HIV-17, Column 3.

Q. Explain Exhibit No. FIV-17-10.

A. Exhibit No. FIV-17-10 is an adjustment to reflect pro forma current Federal income tax and pro forma current Pennsylvania corporate net income tax based on pro forma taxable income for the twelve months ending February 29, 2024, under existing rates at the currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net income tax rate of 9.99%.

Total pro forma operating income before income taxes and excluding depreciation under existing rates for the twelve months ending February 29, 2024, in the amount of

$28,561,082 is determined by subtracting pro forma operating expenses under existing rates in the amount of $23,702,383 (Refer to Exhibit No. FIII-2, Page 16 of 16, Column 4) and pro forma operating taxes other than income taxes under existing rates in the amount of $1,378,995 (Refer to Exhibit No. FIV-15, Page 3 of 4, Column 7) from pro forma operating revenues under existing rates in the amount of $53,642,460 (Refer to Exhibit No. FII-2, Page 9 of 9, Column 3) ($53,642,460 - $23,702,383 - $1,378,995 = $28,561,082). To arrive at taxable income at present rates, amounts are added for 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 Expenses 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 $4,807 and amounts are then deducted for tax repair expense in the amount of $11,007,201, cost of removal in the amount of $3,206,033, tank painting in the amount of $600,000, state tax depreciation in the amount of $123,113,583, and pro forma interest expense deduction for ratemaking purposes in the amount of $6,200,718.

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, Amortization 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 $4,807 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 $28,561,082, they must be added back in arriving at taxable income. Tax repair expense in the amount of $11,007,201 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 $3,206,033 is capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. Tank painting in the amount of $600,000 has been capitalized on the corporate books but is taken as a current deduction on the Company's Federal and State income tax returns. State tax depreciation in the amount of $12,113,583 is detailed on Exhibit No. FIV-17-8 and Exhibit No. FIV-17-8 (a). I note that the state tax depreciation is greater than Federal tax depreciation, which I explained previously with respect to Exhibit No. FIV-17-8 (a). Projected interest expense deduction for ratemaking purposes in the amount of $6,200,718 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $350,621,590 x Weighted Debt Cost Rate of 1.77%).

Pro forma taxable income under existing rates in the amount of $(4,016,396) 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 Expenses 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 $4,807 and deducting tax repair expense in the amount of $11,007,201, cost of removal in the amount of $3,206,033, tank painting in the amount of $600,000, state tax depreciation in the amount of $12,113,583, and pro forma interest expense deduction for ratemaking purposes in the amount of $6,200,718 from pro forma net operating income in the amount of $28,561,082 [$28,561,082 + $2,323 + $8,305 + $1,740 + $1,277 + $238,125 + $(11,746) + $283,064 + $3,081 + $4,928 + $844 + $13,308 + $4,807 - $11,007,201 - $3,206,033 - $600,000 - $12,113,583 - $6,200,718 = $(4,016,396)].

Pro forma State income tax under existing rates in the amount of $(401,238) is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to pro forma taxable income in the amount of $(4,016,396) [$(4,016,396 x 0.0999 = $(401,238)]. Pro forma Federal taxable income under existing rates in the amount of $(2,961,938) is determined by subtracting pro forma State income tax under existing rates in the amount of $(401,238) and adding back additional allowed state depreciation on bonus property of $653,220 to pro forma taxable income in the amount of $(4,016,396) [$(4,016,396 - $(401,238) + $653,220 = $(2,961,938)]. Pro forma Federal income tax under existing rates in the amount of $(622,007) 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 $(2,961,938) [$2,961,938 x 0.21 = $(622,007]. Total pro forma current income taxes under existing rates in the amount of $(1,023,245) is determined by adding pro forma state income tax under existing rates in the amount of $(401,238) and pro forma Federal income tax under existing rates in the amount of

$(622,007) [$(401,238) + $(622,007) = $(1,023,245)]. The adjustment to income taxes in the amount of $(98,396) is determined by subtracting total projected current income taxes under existing rates during the twelve months ending February 29, 2024, in the amount of $(924,849) (Refer to Exhibit No. FIV-17-7) from total pro forma current income taxes under existing rates in the amount of $(1,023,245) [$(1,023,245) - $(924,849) = $(98,396)]. The adjustment to income taxes at present rates in the amount of $(98,396) has been carried forward to Exhibit No. FIV-17, Page 4, Column 3.

Q. Please explain Exhibit No. FIV-17-11.

A. Exhibit No. FIV-17-11 is an adjustment to reflect increased Federal income tax and Pennsylvania corporate net income tax based on the proposed revenue increase resulting from proposed rates.

The total proposed increase in sales of water in the amount of $16,160,006 (Refer to Exhibit No. FII-2, page 9, Column 8) is increased by the increase in late charges of $22,876 (Refer to Exhibit No. FII-2-42) and 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 Control Assessment under proposed rates in the amount of $108,524 (Refer to Exhibit No. FIV-15-12) and the increase in pro forma uncollectible accounts expense under proposed rates of $84,234 (Refer to Exhibit No. FIII-2-55) to arrive at the net increase in taxable income subject to Pennsylvania corporate net income tax in the amount of $15,990,124 ($16,160,006 + $22,876 - $108,524 - $84,234 = $15,990,124). The Pennsylvania corporate net income tax rate of 9.99% is applied to the net increase in taxable income subject to state income tax in the amount of $15,990,124 to determine the increase of $1,597,413 in the state income tax as a result of the proposed revenue increase ($15,990,124 x 0.0999). The increase in the amount of $1,597,413 in the state income tax has been carried forward to Exhibit No. FIV-17, Page 4, Column 6.

The proposed revenue increase subject to state income tax of $15,990,124 is reduced further by the increase of $1,597,413 in the state income tax to determine the proposed revenue increase in the amount of $14,392,710 subject to Federal income tax ($15,990,124 - $1,597,413 = $14,392,710). The presently effective Federal income tax rate of 21% is applied to the net increase in taxable income subject to Federal income tax to determine the increase in the amount of $3,022,469 in the Federal income tax that results from the proposed revenue increase ($14,392,710 x 0.21), and this amount has been carried forward to Exhibit No. FIV-17, Page 4, Column 6.

Q. Explain Exhibit No. FIV-18.

A. Exhibit No. FIV-18 provides an explanation of the debt interest expense utilized for the income tax calculation on projected income for the twelve months ending December 31, 2022, and an explanation and the calculation of debt interest expense utilized for the income tax calculation on pro forma income for the twelve months ending December 31, 2022.

Debt interest expense utilized for the income tax calculation on projected and pro forma income for the twelve months ending December 31, 2022, 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, 2022 (Refer to Exhibit No. FV-1, page 2) of $291,591,611 times the weighted debt cost rate of 1.77% equals the interest expense utilized for income tax calculation on projected and pro forma income for the twelve months ending December 31, 2022, of $5,156,777.

Debt interest expense on projected and pro forma income for the twelve months ending December 31, 2022, in the amount of $5,156,777 has been carried forward to Exhibit Nos. FIV-17-2 and FIV-17-5, which I explained previously.

Exhibit No. FIV-18 also provides an explanation of the debt interest expense utilized for the income tax calculation on projected income for the twelve months ending February 29, 2024, and an explanation and the calculation of debt interest expense utilized for the income tax calculation on pro forma income for the twelve months ending February 29, 2024.

Debt interest expense utilized for the income tax calculation on projected and pro forma income for the twelve months ending February 29, 2024, 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 February 29, 2024 (Refer to Exhibit No. FV-1, page 3) of $350,621,590 times the weighted debt cost rate of 1.77% equals the interest expense utilized for income tax calculation on projected and pro forma income for the twelve months ending February 29, 2024, of $6,200,718.

Debt interest expense on projected and pro forma income for the twelve months ending February 29, 2024, in the amount of $6,200,718 has been carried forward to Exhibit Nos. FIV-17-7 and FIV-17-10, which I explained previously.

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

A. Yes, I am also sponsoring Exhibit Nos. FIV-1, FIV-3, FIV-4, FIV-6, FIV-7, FIV-8, FIV-9, FIV-10, FIV-11, FIV-13, FIV-14, and FIV-16.

Q. Does this conclude your future test year and fully projected future test year direct testimony at this time?

A. Yes.