YORK WATER STATEMENT NO. 3W

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF MATTHEW E. POFF

Q. State your name and business address.

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

Q. By whom are you employed?

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

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

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

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

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

Q. What is your educational background?

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

Q. Are you a certified public accountant?

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

Q. What has been your other business experience?

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

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

Q. Have you previously testified before a regulatory commission?

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

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

A. In addition to the exhibits identified in York Water Statement No. 3, I am sponsoring the following exhibits prepared by me or under my direction and supervision:

Exhibit Nos. HI-1W and HI-2W relating to the statement of operations for the wastewater division;

Exhibit Nos. H (b)-3W, HII-1W, HII-2W, HII-2-2W, HII-2-3W, HII-2-4W, HII-2-6W, HII-2-7W, HII-3W, HII-4W, HII-5W, HII-7W, HII-8W and HII-9W relating to operating revenues for the wastewater division;

Exhibit Nos. HIII-1W, HIII-2W, HIII-2-1W, HIII-2-2W, HIII-2-3W and HIII-2-9W relating to operating expenses for the wastewater division;

Exhibit No. HV-1-1W and HV-1-3W relating to the original cost measure of value for the wastewater division; and

Exhibit No. HVII-28W relating to rate of return.

Q. Explain Exhibit No. HI-1W.

A. Exhibit No. HI-1W provides a detailed comparative operating statement for wastewater operations for the twelve months ended December 31, 2021, and December 31, 2020. Column 1 of pages 2 through 3 of Exhibit No. HI-1W reflects the Company's detailed operating statement per books for the twelve months ended December 31, 2021, showing operating loss of ($592,064). Column 2 of pages 2 through 3 of Exhibit No. HI-1W reflects the Company's detailed operating statement per books for the twelve months ended December 31, 2020, showing operating loss of ($194,213). Column 3 of pages 2 through 3 of Exhibit No. HI-1W reflects the increases and decreases by account between the operating statement for the twelve months ended December 31, 2021, and the operating statement for the twelve months ended December 31, 2020. Major wastewater account variances (>$20,000) between the detailed operating statement for the twelve months ended December 31, 2021, and the detailed operating statement for the twelve months ended December 31, 2020, are identified in Column 4 of pages 2 through 3 of Exhibit No. HI-1W. Detailed explanations of the causes of the major account variances between the operating statement for the twelve months ended December 31, 2021, and the operating statement for the twelve months ended December 31, 2020, are provided beginning on page 4 of Exhibit No. HI-1W.

Q. Explain Exhibit No. HI-2W.

A. Exhibit No. HI-2W summarizes ratemaking adjustments under existing rates to per book statement of income for the twelve months ended December 31, 2021, and the anticipated statement of income when proposed rates become effective. The loss per books for the twelve months ended December 31, 2021, as shown in Column 1 of Exhibit No. HI-2W is ($448,185). I note that this amount reflects non-operating loss and other income deductions not included in the calculation of net operating loss for ratemaking purposes. Net operating loss, for ratemaking purposes, was ($592,064) for the twelve months ended December 31, 2021, as shown in column 1, page 1 of Exhibit No. HI-2W. Column 4 of Exhibit No. HI-2W shows adjusted net operating loss of ($249,248). The adjustments to net operating income in the amount of $342,816 are shown in Column 3 of Exhibit No. HI-2W. These adjustments are detailed in other exhibits, which will be explained later in my testimony or others' testimony. Column 7 of Exhibit No. HI-2W shows net operating income of $1,900,664 after reflecting adjustments related to the effects of proposed rates. The adjustments to net operating income in the amount of $2,149,912 are shown in

Column 6 of Exhibit No. HI-2W, and these adjustments are detailed in other exhibits, which will be explained later in my testimony or others' testimony.

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

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

Q. Explain Exhibit No. HII-1W.

A. Exhibit No. HII-1W is a comparative statement of volumes received and operating revenues per books by class for the twelve months ended December 31, 2021, and December 31, 2020, and the number of customers by class as of December 31, 2021, and December 31, 2020. Volumes received is based upon metered water usage for those customers who are metered wastewater service customers of York Water. Volumes received are not tracked for customers who billed at flat rates.

Q. Explain Exhibit No. HII-2W.

A. Exhibit No. HII-2W summarizes adjustments to per book operating revenues for the twelve months ended December 31, 2021, that are required for ratemaking purposes. As I will explain later, such adjustments reflect elimination of net accrued operating revenues recorded on the corporate books during the twelve months ended December 31, 2021. The adjustments also annualize the effects of changes in number of customers and the acquisition of the West Manheim Township wastewater collection system, which occurred during the twelve months ended December 31, 2021.

The operating revenues per books, for the twelve months ended December 31, 2021, as shown in Column 1 of Exhibit No. HII-2W, were $2,215,822. Adjustments under existing rates to increase historic test year operating revenues in the amount of $1,816,102 are summarized on page 2 of 2 of Exhibit No. HII-2W and are shown in Column 2, page 1 of 2 of Exhibit No. HII-2W. These adjustments are explained later in Exhibit Nos. HII-2-2W through HII-2-7W. Pro forma operating revenues under existing rates, after adjustment, for twelve months ended December 31, 2021, of $4,031,924 are shown in Column 3 of Exhibit No. HII-2W. The proposed increase in historic test year operating revenues in the amount of $3,043,892 is shown in Column 5 of Exhibit No. HII-2W. The corresponding percentage increase in operating revenues is shown in Column 6.

For historic test year purposes, the increase of $3,043,892 shown on Exhibit No. HII-2W was not produced by the application of proposed rates to historic test year volumes. Since the Company's claim in this case is based upon data for a fully forecasted future test year ending February 29, 2024, annualized and normalized for ratemaking purposes, the increase of $3,043,892, or 75.49%, is the increase calculated based upon pro forma historic test year revenues, expenses, and rate base.

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

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

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

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

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

A. Exhibit No. HII-2-3W annualizes operating revenues for metered residential, commercial, and industrial customers and unmetered residential and commercial/industrial customers by applying base rates effective March 1, 2019, to test year units and consumption. By Order entered in the Company's 2018 base rate case at Docket No. R-2018-3000019, the Commission authorized increased base rates for the Company. These rates along with the rates approved by the Commission as part of the Company's acquisitions since the 2018 base rate case are the currently effective base rates of the Company. Annualization of revenues by customer class at present base rates effective March 1, 2019, in the amount of $881,217 for metered customers and $1,338,051 for unmetered customers are shown in Column 2 on Exhibit No. HII-2-3W. Application of present base rates to the customer units and consumption analysis for the twelve months ended December 31, 2021, is shown on Exhibit No. HII-4W, which I will explain later. Metered operating revenues by customer class billed and recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $881,848 are shown in Column 1 of Exhibit No. HII-2-3W and are subtracted from annualized revenues at metered base rates effective March 1, 2019, to determine the adjustment by customer class to operating revenues shown in Column 3 of Exhibit No. HII-2-3 [$881,217 - $881,848 = $(631)]. Unmetered operating revenues by customer class billed and recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $1,335,720 are shown in Column 1 of Exhibit No. HII-2-3W and are subtracted from annualized revenues at unmetered base rates effective March 1, 2019, to determine the adjustment by customer class to operating revenues shown in Column 3 of Exhibit No. HII-2-3 [$1,338,051 - $1,335,720 = $2,331]. The adjustment by customer class of operating revenues in the amount of $1,700 [$(631) + $2,331) is carried forward to Exhibit No. HII-2, page 3.

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

A. Exhibit No. HII-2-4W annualizes operating revenues for metered residential wastewater customers connected and disconnected during the twelve months ended December 31, 2021. For metered residential customers, the net gain in number of metered residential customers during the twelve months ended December 31, 2021, was 71 (1,164 metered residential wastewater customers as of December 31, 2021, less 1,093 metered residential wastewater customers as of December 31, 2020). Since 71 metered residential wastewater customers were gained throughout the test year, it is assumed the historic test year average number of metered residential wastewater customers is equal to the average of metered residential wastewater customers at the beginning and end of the historic test year, or 1,129 ([1,164 + 1,093] ÷ 2). Annualized revenues for metered residential wastewater customers of $839,799 (refer to Exhibit No. HII-4W) are divided by the historic test year average number of metered residential wastewater customers of 1,129 to calculate the average annual revenue per average metered residential wastewater customer in the amount of $744.17 ($839,799 ÷ 1,129 = $744.17). The adjustment to annualize revenues for the net gain in metered residential wastewater customers during the twelve months ended December 31, 2021, is determined by multiplying the net gain of 71 metered residential wastewater customers by the average annual revenue per average metered residential wastewater customer in the amount of $744.17, and by dividing the product of this calculation by two (71 x $744.17 ÷ 2 = $26,418). The product is divided by two since it is reasonable to assume that customers were gained evenly through the historic test year and that annualized revenues already reflect the gain of one-half of one year's revenue, on average, for the 71 customers. The result of the calculations described above is the amount of $26,418, which is carried forward to Exhibit No. HII-2W, page 2.

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

A. Exhibit No. HII-2-5W annualizes operating revenues for metered commercial wastewater customers connected and disconnected during the twelve months ended December 31, 2021. For metered commercial customers, the net gain in number of metered commercial customers during the twelve months ended December 31, 2021, was 7 (41 metered commercial wastewater customers as of December 31, 2021, less 34 metered commercial wastewater customers as of December 31, 2020). Since 7 metered commercial wastewater customers were gained throughout the test year, it is assumed the historic test year average number of metered commercial wastewater customers is equal to the average of metered commercial wastewater customers at the beginning and end of the historic test year, or 38 ([41 + 34] ÷ 2). Annualized revenues for metered commercial wastewater customers of $39,217 (refer to Exhibit No. HII-4W) are divided by the historic test year average number of metered commercial wastewater customers of 38 to calculate the average annual revenue per average metered commercial wastewater customer in the amount of $1,045.77 ($39,217 ÷ 38 = $1,045.77). The adjustment to annualize revenues for the net gain in metered commercial wastewater customers during the twelve months ended December 31, 2021, is determined by multiplying the net gain of 7 metered commercial wastewater customers by the average annual revenue per average metered commercial wastewater customer in the amount of $1,045.77, and by dividing the product of this calculation by two (7 x $1,045.77 ÷ 2 = $3,660). The product is divided by two since it is reasonable to assume that customers were gained evenly through the historic test year and that annualized revenues already reflect the gain of one-half of one year's revenue, on average, for the 7 customers. The result of the calculations described above is the amount of $3,660, which is carried forward to Exhibit No. HII-2W, page 2.

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

A. Exhibit No. HII-2-6W annualizes operating revenues for metered West Manheim Borough residential wastewater customers acquired by the Company during the twelve months ended December 31, 2021. The addition of West Manheim Borough metered residential customers for the twelve months ended December 31, 2021, occurred on January 3, 2022. There are twelve months of revenue not included in the historic test year. January 2022 actual residential revenue of $139,241 was used to annualize metered West Manheim Borough residential revenue. The adjustment of $1,670,892 was calculated by multiplying the January 2022 actual residential revenue of $139,241 by twelve months ($139,241 x 12 = $1,670,892). The adjustment of $1,670,892 is carried forward to Exhibit No. HII-2W, page 2.

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

A. Exhibit No. HII-2-7W annualizes operating revenues for metered West Manheim Borough commercial wastewater customers acquired by the Company during the twelve months ended December 31, 2021. The addition of West Manheim Borough metered commercial customers for the twelve months ended December 31, 2021, occurred on January 3, 2022. There are twelve months of revenue not included in the historic test year. January 2022 actual commercial revenue of $8,902 was used to annualize metered West Manheim Borough commercial revenue. The adjustment of $106,824 was calculated by multiplying the January 2022 actual commercial revenue of $8,902 by twelve months ($8,902 x 12 = $106,824). The adjustment of $106,824 is carried forward to Exhibit No. HII-2W, page 2.

Q. Explain Exhibit No. HII-4W.

A. Exhibit No. HII-4W provides a detailed customer consumption analysis by customer classification for metered wastewater customers and a detailed customer revenue analysis by customer classification for unmetered wastewater customers.

Pages 2 through 4 of Exhibit No. HII-4W provide the application of present-metered and unmetered base rates to the customer analysis for the twelve months ended December 31,

2021. The application of present-metered and unmetered base rates to the customer analysis for the twelve months ended December 31, 2021, results in annualized revenues at present-metered and unmetered base rates on pages 2 through 4 of Exhibit No. HII-4W of $2,219,268 ($1,901,914 + $315,152 + $2,202).

Q. Explain Exhibit No. HII-5W.

A. Exhibit No. HII-5W provides a detailed explanation of the accounting procedures and methods used to determine accrued revenues and detailed computations of accrued revenues as of December 31, 2021, and December 31, 2020.

In response to the enactment of the Tax Reform Act of 1986, the Company estimates for income tax and financial reporting purposes the amount of income attributable to utility services provided during each accounting period, but after the final meter reading which falls within that accounting period. Since unbilled revenues from the end of one accounting period are included in the first meter reading for the next accounting period, unbilled revenues from one accounting period are offset by unbilled revenues in the succeeding accounting period, with the result that the Company will record for accounting purposes, as either a debit or credit, the negative or positive difference in accrued revenues between the two accounting periods. This difference represents net accrued revenues recorded for the latter accounting period. Operating revenues are presented for ratemaking purposes on an “as billed basis” for the historic and future test years, to eliminate the uncertainties inherent in estimated “unbilled revenues.” Refer to Exhibit No. HII-2-2W, which I explained previously, for an operating revenue adjustment, which eliminates net accrued revenues recorded during the test year from the cost of service.

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

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

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

Q. Explain Exhibit No. HII-7W.

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

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

A. Yes, I am also sponsoring Exhibit Nos. HII-3W, HII-8W, and HII-9W.

Q. Explain Exhibit No. HIII-1W.

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

Q. Explain Exhibit No. HIII-2W.

A. Exhibit No. HIII-2W summarizes adjustments to operating expenses for the twelve months ended December 31, 2021, to annualize and normalize the effect of changes occurring during the twelve months ended December 31, 2021.

Operating expenses per books for the twelve months ended December 31, 2021, in the amount of $2,774,138 are shown in Column 1 of Exhibit No. HIII-2W. Adjustments to operating expenses in the amount of $1,071,565, to annualize and normalize the effect of changes occurring during the twelve months ended December 31, 2021, are shown in Column 3 of Exhibit No. HIII-2W and are detailed in Exhibit Nos. HIII-2-4 of the water portion of the case, and HIII-2-1W through HIII-2-3W, and HIII-2-9W of the wastewater portion of the case. The Company has made no adjustments to operating expenses due to the increase in operating revenues resulting from the proposed increase in rates.

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

A. Exhibit No. HIII-2-1W amortizes over ten years the acquisition costs of the wastewater property and rights of Felton Borough in excess of the original cost of the property when first devoted to public service less the applicable accrued depreciation. Reasonable acquisition costs greater than depreciated original cost are permitted to be included in rate base and amortized over ten years in accordance with Section 1327 of the Public Utility Code. The acquisition adjustment of $294,808 is determined by subtracting the depreciated original cost of wastewater property and rights of $618,871 from acquisition costs of $913,679 ($913,679 - $618,871 = $294,808). The acquisition adjustment of $294,808 is divided by ten years to determine the annual amortization of $29,481 ($294,808 ÷ 10). The annual amortization of the acquisition costs of $29,481 has been carried forward to Exhibit No. HIII-2W, Column 3.

Refer to the testimony of Mr. Hand (York Water Statement No. 1) for a further explanation of this acquisition and why the acquisition costs above depreciated original cost should be reflected in accordance with Section 1327.

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

A. Exhibit No. HIII-2-2W annualizes operating costs for the West Manheim Borough wastewater collection system acquired on January 3, 2022.

York Water assumed the contract between West Manheim Borough and Penn Township for wastewater treatment. The annualized amount of purchased treatment of $1,078,422 was calculated by multiplying the first quarterly invoice received from Penn Township in the amount of $269,606 by four quarters ($269,606 x 4 = $1,078,422). It was determined sludge removal from the pumping stations would be completed every quarter. The annualized amount of sludge removal from the pumping stations of $16,000 was calculated at $4,000 per quarter ($4,000 x 4 = $16,000). The annualized amount of purchased power for the pumping stations of $25,000 was based on a review of the first two invoices received. The annualized amount of communications expense to remotely monitor the pumping stations of $2,000 was based on a review of the annual invoice received. The annualized amount of maintenance for the pumping stations of $24,000 was budgeted based on the initial inspections, age, and operating characteristics of the pumping stations. The adjustments of $1,078,422, $16,000, $25,000, $2,000, and $24,000 have been carried forward to Exhibit No. HIII-2W, Column 3.

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

A. Exhibit No. HIII-2-3W adjusts sludge hauling from Amblebrook for the twelve months ended December 31,2021. The Amblebrook wastewater collection system was in service during the twelve months ended December 31, 2021. The Amblebrook treatment plant was being constructed so all wastewater was collected and hauled. The Amblebrook treatment plant was placed in service in 2022 resulting in a decline in ongoing sludge hauling expense. The Company estimates ongoing sludge hauling with an operational treatment plant will be $25,636 based on one load per week at the current price of $493 per load ($493 x 52 = $25,636). The adjustment of $(82,342) was determined by comparing the actual Amblebrook sludge hauling expense during the twelve months ended December 31, 2021, of $107,978 to the estimated ongoing Amblebrook sludge hauling expense of $25,636 [$25,636 - $107,978 = $(82,342)]. The adjustment of $(82,342) has been carried forward to Exhibit No. HIII-2W, Column 3.

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

A. Exhibit No. HIII-2-9W adjusts purchased power expense for the twelve months ended December 31, 2021, to reflect generation, transmission, and distribution rates effective January 1, 2022, from the Company's electric service providers. Purchased power expense charged to Account Nos. 71530000 and 71550000 during the twelve months ended December 31, 2021, of $10,508 and $41,948, respectively, are subtracted from pro forma purchased power expense of $10,072 and $45,436, respectively, to determine the adjustment to purchased power expense of $(436) and $3,488, respectively. The adjustments to purchased power expense of $(436) and $3,488 has been carried forward to Exhibit No. HIII-2W, Column 3.

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

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

Page 1 of Exhibit No. HV-1-1W is a summary, by year, of the unamortized balance in the amount of $102,208, as of December 31, 2021, of deferred income taxes related to accelerated depreciation, that are deducted from the measure of value. Column 2 lists deferred federal income taxes resulting from accelerated depreciation from 2012 through 2021. The balance in Column 2 is $102,208.

The unamortized balance of deferred income taxes as of December 31, 2021, in the amount of $102,208 has been carried forward to Exhibit No. HV-1W, page 2 and has been deducted from the original cost measure of value.

Page 2 of Exhibit No. HV-1-1 is a summary, by year, of the unamortized balance in the amount of $18,036, as of December 31, 2021, of excess deferred income taxes related to accelerated depreciation, that are deducted from the measure of value. Column 2 lists, by year, excess deferred federal income taxes resulting from accelerated depreciation from 2012 through 2017. The balance in Column 2 is $18,036.

The unamortized balance of excess deferred income taxes as of December 31, 2021, in the amount of $18,036 has been carried forward to Exhibit No. HV-1, page 2 and has been deducted from the original cost measure of value.

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

A. Exhibit No. HV-1-3W is a summary, by year, of the unamortized balance in the amount of $19,943, as of December 31, 2021, of taxes on deposits for construction and customer advances, that are added to the wastewater measure of value. Column 2 lists, by year, taxes on deposits for construction and customer advances from 2018 through 2020. The balance in Column 2 is $19,943.

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

The unamortized balance of taxes on deposits for construction and customer advances as of December 31, 2021, in the amount of $19,943 has been carried forward to Exhibit No. HV-1W, page 2 and has been included in the original cost measure of value.

Q. Explain Exhibit No. HVII-28W.

A. Exhibit No. HVII-28W shows the Company's short-term debt balance, the construction work in progress balance, and the balance of construction work in progress, which is eligible for Allowance for Funds Used During Construction ("AFUDC") for the most recent twenty-four months.

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

A. Yes.

YORK WATER STATEMENT NO. 4W

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

THE YORK WATER COMPANY

DIRECT TESTIMONY OF DANIEL E. COPPERSMITH JR.

Q. State your name and business address.

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

Q. By whom are you employed?

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

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

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

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

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

Q. What is your educational background?

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

Q. Have you previously testified before a regulatory commission?

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

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

A. In addition to the exhibits identified in York Water Statement No. 4, I am sponsoring the following exhibits prepared by me or under my direction and supervision:

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

Exhibit Nos. HV-1W and HV-1-2W relating to the original cost measure of value for the wastewater division.

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

A. Exhibit No. HI-2-1W adjusts the wastewater depreciation accrual from the historic test year level for the twelve months ended December 31, 2021, to the level determined in the depreciation study identified as Exhibit No. HVI-W. The adjustment in the amount of $429,078 is determined by subtracting the booked depreciation accrual for the twelve months ended December 31, 2021, in the amount of $260,777 from the pro forma annual depreciation accrual in the amount of $689,855. The adjustment in the amount of $429,078 has been carried forward to Exhibit No. HI-2W, Column 3.

Q. Who will testify regarding the determination of the pro forma annual wastewater depreciation accrual for the twelve months ending December 31, 2021?

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

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

A. No.

Q. Explain Exhibit No. HV-1W.

A. Exhibit No. HV-1W provides the wastewater original cost measure of value in the amount of $23,967,668 as of December 31, 2021, net operating income available and rate of return under existing rates for the twelve months ended December 31, 2021, net operating income and rate of return under existing rates after adjustments for ratemaking purposes ("pro forma") for the twelve months ended December 31, 2021, and net operating income and rate of return under proposed rates for the twelve months ended December 31, 2021. The original cost measure of value in the amount of $23,967,668 as of December 31, 2021, is shown on page 2 of Exhibit No. HV-1W.

The original cost of utility plant in service per books as of December 31, 2021, is $32,341,581, and the accrued depreciation as of December 31, 2021, is $7,506,092. The depreciated original cost of utility plant in service as of December 31, 2021, is $24,835,489 ($32,341,581 - $7,506,092 = $24,835,489). The details of original cost of utility plant in service and accrued depreciation by account, sub account and vintage are set forth in Exhibit No. HVI-W.

Q. Who will testify with respect to accrued depreciation in the amount of $7,506,092 as of December 31, 2021, related to wastewater utility plant in service?

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

Q. Continue with your explanation of Exhibit No. HV-1W.

A. The unamortized balance, as of December 31, 2021, of deferred Federal income taxes related to accelerated depreciation in the amount of $102,208 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. HV-1-1W, which is explained in Mr. Poff's testimony (see York Water Statement No. 3W).

The unamortized balance, as of December 31, 2021, of excess deferred Federal income taxes related to accelerated depreciation in the amount of $18,036 is deducted from the original cost measure of value, and this amount is set forth in Exhibit No. HV-1-1W, which is explained in Mr. Poff's testimony (see York Water Statement No. 3W).

An amount of $1,062,328 representing contributions in aid of construction less accrued depreciation as of December 31, 2021, is deducted from the original cost measure of value. This amount consists of the original cost of contributions in aid of construction per books as of December 31, 2021, in the amount of $1,101,300 less accrued depreciation as of December 31, 2021, in the amount of $38,972 ($1,101,300 - $38,972 = $1,062,328). The details are shown by account, sub account and vintage in Exhibit No. HVI-W.

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

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

Q. Do the amounts set forth in Exhibit No. HV-1 for Contributions 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, 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 to reflect additional income taxes that were required to be paid with respect to receipt of such Contributions as a result of Section 824 of TRA-86 or the Tax Cuts and Jobs Act of 2017. Contributions received between January 1, 1987, and June 12, 1996, and between January 1, 2018, and December 31, 2020, are reflected in the utility plant accounts and in the accounts for Contributions, 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 received subsequent to June 12, 1996, through December 31, 2017, were not taxed. Under federal tax law provisions currently in effect, Contributions received subsequent to December 31, 2020, are not taxed.

Q. Continue with your explanation of Exhibit No. HV-1.

A. An unamortized utility plant adjustment for the Felton Borough wastewater acquisition in the amount of $294,808 is included in the original cost measure of value. The details are set forth in Exhibit No. HV-1-2W.

Taxes on deposits for construction and customer advances in the amount of $19,943 are included in the original cost measure of value. The details are set forth in Exhibit No. HV-1-3W, which is explained in Mr. Poff's testimony (see York Water Statement No. 3W).

There are no other components of the measure of value for the wastewater portion of the business. The wastewater portion of the business did not have its own materials and supplies inventory, nor did it have its own cash working capital calculation as of December 31, 2021.

Column 1 of page 3 of Exhibit No. HV-1W shows net operating income available for return under existing rates for the twelve months ended December 31, 2021, in the amount of ($592,064) and the rate of return on the original cost measure of value as of December 31, 2021, of (2.47)%. Column 3 of page 3 of Exhibit No. HV-1W shows the adjustments to net operating income in the amount of $342,816. These adjustments have been detailed in other exhibits that Mr. Poff and Mr. Winter address in their testimony (see York Water Statement Nos. 3W and 5W). Column 4 of page 3 of Exhibit No. HV-1W shows pro forma net operating income available for return under existing rates for the twelve months ended December 31, 2021, in the amount of ($249,248) and the rate of return on the original cost of measure of value as of December 31, 2021, of (1.04)%. Adjustments to pro forma net operating income for the twelve months ended December 31, 2021, related to the effect of proposed rates in the amount of $2,149,912 are shown in Column 6 of page 3 of Exhibit No. HV-1W. These adjustments have been detailed in other exhibits that Mr. Poff and Mr. Winter address in their testimony (see York Water Statement Nos. 3W and 5W). Column 7 of page 3 of Exhibit No. HV-1W shows pro forma net operating income available for return for the twelve months ended December 31, 2021, in the amount of $1,900,664 and the rate of return on the original cost measure of value as of December 31, 2021, of 7.93%. The rate of return used for the wastewater portion of the business is identical to that used for the water portion of the business.

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

A. Exhibit No. HV-1-2W provides the calculation of the unamortized utility plant acquisition adjustment relative to the acquisition of Felton Borough wastewater assets as of December 31, 2021, in the amount of $294,808 included in the original cost measure of value.

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

The acquisition adjustment subject to amortization of $294,808 is determined by subtracting the depreciated original cost of waterworks property acquired from Felton Borough in the amount of $618,871 from the Felton Borough acquisition costs of $913,679 ($913,679 - $618,871 = $294,808).

The Company is proposing amortization over a ten-year period in Exhibit No. HIII-2-1W.

Q. Are you sponsoring any other exhibits regarding the original cost measure of value?
A. No.

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

YORK WATER STATEMENT NO. 5W

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. In addition to the exhibits identified in York Water Statement No. 5, I am sponsoring the following exhibits prepared by me or under my direction and supervision:

Exhibit Nos. HIV-15W, HIV-15-1W, and HIV-15-2W relating to taxes other than income taxes for the wastewater division; and

Exhibit Nos. HIV-6W, HIV-17W, HIV-17-2W, HIV-17-3W, HIV-17-3(a)W, HIV-17-4W, HIV-17-5W, and HIV-18W relating to operating income taxes for the wastewater division.

Q. Explain Exhibit No. HIV-6W.

A. Exhibit No. HIV-6W provides a schedule of the adjustments to wastewater taxable net income per books for the twelve months ended December 31, 2021. Adjustments to taxable net income per books for the twelve months ended December 31, 2021, are classified as Expenses Recorded on Books Not Deducted on Return and Deductions Not Charged against Booked Income. Tax adjustments classified as expenses recorded on books not deducted on return include nondeductible vacation pay of $7,317 (for ratemaking purposes, the Company does not include accrued vacation pay in the cost of service) and amortization of acquisition adjustments of $(12,569) which is not deductible for income taxes (acquisition adjustments are reflected on the Company’s income statement as “below the line”). Tax adjustments classified as deductions not charged against book income include tax depreciation in excess of depreciation recorded on books in the amount of $100,297 (the normalization of accelerated tax depreciation expense for ratemaking purposes is explained later in this testimony), tax repair expense in the amount of $136,172 (the Company deducts eligible repair items for tax purposes, but capitalizes repair items for book purposes), and cost of removal deducted currently in the amount of $20,958 (the Company deducts cost of removal for tax purposes, but capitalizes cost of removal for book purposes).

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

Q. Explain Exhibit No. HIV-15W.

A. Exhibit No. HIV-15W summarizes adjustments to operating taxes other than income taxes for the twelve months ended December 31, 2021, for ratemaking purposes and to reflect additional operating taxes other than income taxes resulting from the proposed increase in operating revenues. Operating taxes other than income taxes per books for the twelve months ended December 31, 2021, in the amount of $27,436 are shown in Column 1 of Exhibit No. HIV-15W. Adjustments to operating taxes other than income taxes of $15,180 are made to reflect the calculation of the pro forma level of taxes other than income taxes under existing rates for the twelve months ended December 31, 2021. Such adjustments are shown in Column 3 of Exhibit No. HIV-15W and are detailed in Exhibit Nos. HIV-15-1W, which I will explain later. Adjustments to operating taxes other than income taxes amounting to $20,442 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 6 of Exhibit No. HIV-15W and are detailed in Exhibit No. HIV-15-2W, which I will explain later.

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

A. Exhibit No. HIV-15-1W is an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and Damage Prevention Committee Assessment based on pro forma operating revenues under existing rates for twelve months ended December 31, 2021, and the 2021-2022 assessment factors. The currently-effective combined 2021-2022 assessment rate of 0.671560% for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and Damage Prevention Committee Assessment is applied to pro forma operating revenues at existing rates for twelve months ended December 31, 2021, in the amount of $4,027,063 (See Exhibit No. HII-2W, Column 3) to determine the pro forma combined assessment under existing rates for twelve months ended December 31, 2021, in the amount of $27,044 ($4,027,063 x 0.671560%). The adjustment in the amount of $15,180 is determined by subtracting the test year assessments of $11,864 from the calculated pro forma amount of $27,044 ($27,044 - $11,864 = $15,180). The adjustment in the amount of $15,180 has been carried forward to Exhibit No. HIV-15W, Column 3. The large adjustment reflects the fact that the combined assessment incurred in the historic test year did not reflect revenues from customers added as a result of the West Manheim Borough acquisition.

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

A. Exhibit No. HIV-15-2W presents an adjustment to reflect the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and Damage Prevention Committee Assessment based on pro forma operating revenues under proposed rates for twelve months ended December 31, 2021, and the 2021-2022 assessment factors. The currently-effective combined 2021-2022 assessment rate of 0.671560% for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment is applied to pro forma operating revenues at proposed rates for twelve months ended December 31, 2021, in the amount of $7,070,955 (See

Exhibit No. HII-2W, Column 6) to determine the pro forma combined assessment under proposed rates for twelve months ended December 31, 2021, in the amount of $47,486 ($7,070,955 x 0.671560%). The adjustment in the amount of $20,442 is determined by subtracting the pro forma assessment under existing rates for the twelve months ended December 31, 2021, of $27,044 from the calculated pro forma amount of $47,486 ($47,486 – $27,044 = $20,442). The adjustment in the amount of $20,442 has been carried forward to Exhibit No. HIV-15W, Column 6.

Q. Explain Exhibit No. HIV-17W.

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

Operating income taxes per books for the twelve months ended December 31, 2021, in the amount of ($254,465) are shown in Column 1 of Exhibit No. HIV-17W. Pro forma adjustments to operating income taxes of ($42,538) are shown in Column 3 of Exhibit No. HIV-17W and are detailed on Exhibit Nos. HIV-17-2W through HIV-17-4W. Adjustments to operating income taxes amounting to $873,538 are made to reflect the increased operating income taxes that result from the increase in operating revenues under proposed rates, and these adjustments are shown in Column 6 of Exhibit No. HIV-17W and are detailed in Exhibit No. HIV-17-5W.

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

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

Total pro forma operating income before income taxes and excluding depreciation under existing rates in the amount of $143,604 is determined by subtracting pro forma operating expenses under existing rates in the amount of $3,845,703 (Refer to Exhibit No. HIII-2W, Column 4) and pro forma operating taxes other than income taxes under existing rates in the amount of $42,616 (Refer to Exhibit No. HIV-15W, Column 4) from pro forma operating revenues under existing rates in the amount of $4,031,924 (Refer to Exhibit No. HII-2W, Column 3) [$4,031,924 - $3,845,703 - $42,616 = $143,604]. To arrive at taxable income at present rates, amounts are added for Amortization of Acquisition Adjustments of $29,481, and amounts are then deducted for tax repair expense in the amount of $136,172, cost of removal in the amount of $20,958, state tax depreciation in the amount of $402,637 and pro forma interest expense deduction for ratemaking purposes in the amount of $423,867. Expenses of the Company's Amortization of Acquisition Adjustments of $29,481 are not allowed as a deduction for income tax purposes. Since this amount is included in operating expenses and deducted in arriving at the figure of $143,604, it must be added back in arriving at taxable income. Tax repair expense in the amount of $136,172 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 $20,958 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 $402,637 is detailed on Exhibit No. HIV-17-3W and Exhibit No. HIV-17-3 (a)W. I note that the state tax depreciation is greater than Federal tax depreciation due to the provisions of Act 89 of 2002, which I will explain later with respect to Exhibit No. HIV-17-3 (a)W. Pro forma interest expense deduction for ratemaking purposes in the amount of $423,867 is determined by reflecting the interest charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of $23,967,668 x Weighted Debt Cost Rate of 1.77%).

Pro forma taxable income under existing rates in the amount of $(810,548) is determined by adding the expenses of the Amortization of Acquisition Adjustments of $29,481 and deducting tax repair expense in the amount of $136,172, cost of removal in the amount of $20,958, tax depreciation in the amount of $402,637, and pro forma interest expense in the amount of $423,867 from pro forma net operating income in the amount of $143,604 [$143,604 + $29,481 - $136,172 - $20,958 - $402,637 - $423,867 = $(810,548)].

Pro forma State income tax under existing rates in the amount of $(80,974) is determined by applying the Pennsylvania corporate net income tax rate of 9.99% to pro forma taxable income in the amount of $(810,548) [$(810,548) x 0.0999 = $(80,974)]. Pro forma Federal taxable income under existing rates in the amount of $(721,532) is determined by subtracting pro forma State income tax under existing rates in the amount of $(80,974) and adding back state depreciation in excess of Federal depreciation of $8,043 [Refer to Exhibit No. HIV-17-3 (a)W] from pro forma taxable income in the amount of $(810,548) [$(810,548) – $80,974 + $8,043 = $(721,532)]. Pro forma Federal income tax under existing rates in the amount of $(151,522) 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 $(721,532) [$(721,532) x 0.21 = $(151,522)]. Total pro forma current income taxes under existing rates in the amount of $(232,495) is determined by adding pro forma state income tax under existing rates in the amount of $(80,974) and pro forma Federal income tax under existing rates in the amount of $(151,522) [$(80,974) + $(151,522) = $(232,495)]. The adjustment to income taxes in the amount of $43,412 is determined by subtracting current income taxes recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $(275,907) from total pro forma current income taxes under existing rates in the amount of $(232,495) [$(232,495) – $(275,907) = $43,412]. The adjustment to income taxes at present rates in the amount of $43,412 has been carried forward to Exhibit No. HIV-17W, Column 3.

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

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

For property placed in service beginning with calendar year 2012, 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.

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 $415,552 for property included in the measure of value is shown on Exhibit No. HIV-17-3W, Column 3.

Deferred taxes must be provided with the normalization requirements of Internal Revenue Code Sections 167 and 168. The amount of $415,552 is reduced by $686,421, which is the amount included for ratemaking purposes as depreciation to determine the difference of $(270,870) to be used for calculating the deferred Federal income tax [$415,552 – $686,421 = $(270,870)]. The Federal income tax rate of 21% is applied to the $(270,870) to determine the deferred Federal income tax amount of $(56,883) [$(270,870) x 0.21]. The adjustment to deferred Federal income tax expense in the amount of $(85,444) 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 $28,561 from the calculated deferred Federal income tax amount of $(56,883) [$(56,883) - $28,561 = $(85,444)]. The adjustment to deferred Federal income tax in the amount of $(85,444) has been carried forward to Exhibit No. HIV-17W, Column 3.

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

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

The recovery of a portion of the bonus depreciation of $8,043 is carried forward to Exhibit No. HIV-17-2 as an adjustment to State Tax Depreciation.

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

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

A. Exhibit No. HIV-17-4W 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 2012 through 2016. Tax depreciation for these vintage years subject to normalization requirements of Internal Revenue Code Section 167 and 168 is $29,720. The amount of tax depreciation of $29,720 is less than $88,374, which is the amount included for ratemaking purposes as depreciation on property placed in service during these vintage years. The difference of $(58,654) is to be used for calculating the return of excess previously deferred Federal income tax to be reversed [$29,720 - $88,374 = $(58,654)]. 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 34%. However, the Tax Cuts and Jobs Act of 2017 prohibits flow back of the excess between the 34% rate 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 $(19,942). This was compared to the value of the deferred Federal income taxes at the newly enacted rate of $12,317 determined by multiplying the total tax depreciation subject to deferral of $(58,654) by the newly enacted rate of 21% [$(58,654) x 0.21 = $(12,317)]. The difference between the deferred Federal income taxes at prior rates of $(19,942) and those at the newly enacted rate of $12,317 is the reversal of the excess deferred Federal income taxes of $(7,625) [$(19,942) - $12,317 = $(7,625)]. An adjustment of the excess deferred Federal income taxes in the amount of $(506) is determined by subtracting the reversal of excess deferred Federal income taxes recorded on the corporate books during the twelve months ended December 31, 2021, in the amount of $(7,119), from the calculated pro forma reversal of excess deferred Federal income taxes in the amount of $(7,625) [$(7,625) - $(7,119) = $(506)]. The adjustment of the reversal of deferred Federal income taxes in the amount of $(506) has been carried forward to Exhibit HIV-17, Column 3.

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

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

The total calculated operating revenue increase using historic test year data in the amount of $3,043,892 (Refer to Exhibit No. HII-2W, Column 6) is reduced by the increase in pro forma expense for the Commission's General Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage Prevention Committee Assessment under calculated rates in the amount of $20,442 (Refer to Exhibit No. HIV-15-2W) to arrive at the net increase in taxable income subject to state income tax in the amount of $3,023,450 ($3,043,892 - $20,442 = $3,023,450). The state income tax rate of 9.99% is applied to the net increase in taxable income subject to state income tax in the amount of $3,023,450 to determine the increase of $302,043 in the state income tax as a result of the proposed revenue increase ($3,023,450 x 0.0999 = $302,043). The increase in the amount of $302,043 in the state income tax has been carried forward to Exhibit No. HIV-17W, Column 6.

The proposed revenue increase subject to state income tax of $3,023,450 is reduced further by the increase of $302,043 in state income tax to determine the proposed revenue increase in the amount of $2,721,408 subject to Federal income tax ($3,023,450 - $302,043 = $2,721,408). The presently effective Federal income tax rate of 21% is applied to determine the increase in the amount of $571,496 in the Federal income tax that results from the proposed revenue increase ($2,721,408 x 0.21), and this amount has been carried forward to Exhibit No. HIV-17W, Column 6.

Q. Explain Exhibit No. HIV-18W.

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

Debt interest expense utilized for the income tax calculation reflected on the Company's corporate books for the twelve months ended December 31, 2021, is actual debt expense incurred during that period for the combined water and wastewater company. Debt interest expense utilized for the income tax calculation on pro forma income for the twelve months ended December 31, 2021, is determined by reflecting the interest charges to ratepayers in the cost of capital determination (interest synchronization). Wastewater does not have its own capital structure, but rather that of the Company as a whole.

The original cost measure of value as of December 31, 2021 (Refer to Exhibit No. HV-1W, page 2) of $23,967,668 times the weighted debt cost rate of 1.77% equals the interest expense utilized for income tax calculation on pro forma income for the twelve months ended December 31, 2021, of $423,867 ($23,967,668 x 1.77% = $423,867).

Debt interest expense on pro forma income for the twelve months ended December 31, 2021, in the amount of $423,867 has been carried forward to Exhibit No. HIV-17-2W, which I explained previously.

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

A. Yes.